

**UNTO THE RIGHT HONOURABLE THE LORDS OF COUNCIL AND
SESSION**

THE PETITION

of

THE ROYAL BANK OF SCOTLAND plc, a public company, registered in Scotland under the Companies Acts with the registered number SC090312 and with its registered office at 36 St Andrew Square, Edinburgh, EH2 2YB;

and

ADAM & COMPANY PLC, a public company, registered in Scotland under the Companies Acts with the registered number SC083026 and with its registered office at 25 St Andrew Square, Edinburgh, EH2 1AF;

and

NATIONAL WESTMINSTER BANK Plc, a public company, registered in England and Wales under the Companies Acts with the registered number 929027 and with its registered office at 135 Bishopsgate, London, EC2M 3UR.

for

Sanction of a ring-fencing transfer scheme, which is under Part VII of the Financial Services and Markets Act 2000 and under which certain personal and business banking businesses and commercial banking businesses (including deposit taking business) of The Royal Bank of Scotland plc, which is to be renamed NatWest Markets Plc, is to be transferred to (i) Adam & Company PLC, which is to be renamed The Royal Bank of Scotland plc and (ii) National Westminster Bank Plc.

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Introduction

The Petitioners

- 1.1.1 The first petitioner, The Royal Bank of Scotland plc (“**RBS plc**”), is a public company which is limited by shares and is registered in Scotland, under the Companies Acts, with the registered number SC090312 and its registered office at 36 St Andrew Square, Edinburgh.
- 1.1.2 As at the date of this application, RBS plc is a direct subsidiary of The Royal Bank of Scotland Group plc (“**RBSG**”).
- 1.1.3 RBSG is the parent company of a group of companies (“**the RBS Group**”), of which RBS plc is one of the main operating companies and the members of which are referred to in this application as “**Group Companies**”.
- 1.1.4 RBS plc is “*a UK authorised person*”, within the meaning of sections 31 and 105 of the Financial Services and Markets Act 2000 (“**FSMA**”).
- 1.2.1 The second petitioner, Adam & Company PLC (“**Adam**”), is also a public company, which is limited by shares and is registered in Scotland, under the Companies Acts, with the registered number SC083026 and its registered office at 25 St Andrew Square, Edinburgh.
- 1.2.2 Adam is another Group Company and is, at the date of this application, an indirect subsidiary of RBS plc.
- 1.2.3 Adam is also a UK authorised person.
- 1.3.1 The third petitioner is National Westminster Bank Plc (“**NatWest**”), a public company which is limited by shares and is registered in England and Wales, under the Companies Acts, with the registered number 929027 and its registered office at 135 Bishopsgate, London.
- 1.3.2 NatWest is another Group Company and is, at the date of this application, also an indirect subsidiary of RBS plc.
- 1.3.3 NatWest is also a UK authorised person.

This Application, the Scheme and the Ring-Fencing Provisions

- 2.1.1 In this application, the Petitioners seek jointly an order (“**the Sanction Order**”) sanctioning a “*ring-fencing transfer scheme*” (“**the Scheme**”), under Part VII of FSMA (“**Part VII**”).
- 2.1.2 A ring-fencing transfer scheme is described at Statement 34.
- 2.2 The final hearing of this application, at which the Sanction Order is to be sought, is referred to in this application as “**the Sanction Hearing**”.

- 2.3.1 The Scheme is the main legal process for implementing the proposals of the RBS Group to alter its structure, so that it complies with the “*Ring-Fencing Provisions*” of FSMA.
- 2.3.2 The Ring-Fencing Provisions are addressed at Statements 30 to 33.
- 2.4.1 In outline, the overall purpose of the Ring-Fencing Provisions is to separate, by 1st January 2019, the core retail banking services of large United Kingdom (“UK”) banks from their investment and international banking activities.
- 2.4.2 The aim of the Ring-Fencing Provisions is to protect the core retail banking services on which customers rely from risks associated with activities which are carried on outside “*the ring-fence*”.
- 2.5 As set out at Statement 34.9.1, the Scheme is to be made for one of the purposes of a ring-fencing transfer scheme which are set out in section 106B(3) of FSMA, namely the purpose set out in section 106B(3)(b).

The Scheme and Transferring Businesses

- 3.1 In outline, the Scheme provides primarily for the transfer to Adam of certain personal and business banking businesses and commercial banking businesses (including deposit taking business) of RBS plc, together with certain immovable property, which comprises primarily offices and branch premises in England and Wales and in Scotland.
- 3.2 More specifically, the Scheme provides primarily for the transfer to Adam of RBS plc’s Scottish, English and Welsh, personal, business and commercial banking businesses.
- 3.3 In addition, the Scheme provides for the transfer to NatWest of what is referred to in the Scheme as RBS plc’s “*Covered Bonds Business*”, together with what is there referred to as “*the Mentor Business*” and certain immovable property, which comprises primarily offices and branch premises in England and Wales and in Scotland.
- 3.4 Those parts of RBS plc’s operations which are to be transferred under the Scheme, are together referred to there, and in this application, as “**the Transferring Businesses**”.
- 3.5 Those parts of the Transferring Businesses which are to be transferred by the Scheme to Adam are referred to there, and in this application, as “**the Adam Destination Business**”.
- 3.6 Those parts of the Transferring Businesses which are to be transferred by the Scheme to NatWest are referred to there, and in this application, as “**the NatWest Destination Business**”.

- 3.7 Those rights and obligations of RBS plc which are to be transferred under the Scheme are referred to there, and in this application, as “**the Transferring Assets**” and “**the Transferring Liabilities**”.
- 3.8 Those of the Transferring Assets which are to be transferred to Adam are so referred to as “**the Adam Destination Assets**” and those of the Transferring Liabilities which are to be transferred to Adam are so referred to as “**the Adam Destination Liabilities**”.
- 3.9 Those of the Transferring Assets which are to be transferred to NatWest are so referred to as “**the NatWest Destination Assets**” and those of the Transferring Liabilities which are to be transferred to NatWest are so referred to as “**the NatWest Destination Liabilities**”.
- 3.10 Adam and NatWest are referred to in the Scheme, and in this application, as “**Relevant Transferees**”.
- 3.11 That part of RBS plc’s operations which is not to be transferred by the Scheme, is referred to in this application as “**the Excluded Business**”.
- 3.12 The rights, and obligations, of RBS plc which are to be within the Excluded Business are referred to in this application as “**the Excluded Assets**” and “**the Excluded Liabilities**”.
- 3.13 Counterparties under contracts with, as well as customers of, RBS plc, are referred to in the Scheme, and in this application, as “**Counterparties**”.
- 3.14 Those Counterparties of RBS plc who are to be within the Transferring Businesses are referred to in this application as “**Transferring Counterparties**”.
- 3.15 Those Counterparties of RBS plc who are to be within the Excluded Business are referred to in this application as “**the Remaining Counterparties**”.
- 3.16 Some Counterparties of RBS plc will be both Transferring Counterparties and Remaining Counterparties.
- 3.17 The Scheme is set out in full in the Appendix.

Authority to make the Application and Jurisdiction

- 4.1 The Petitioners make this application jointly under Part VII and, in particular, section 107(2)(c) of FSMA.
- 4.2 In addition, the Petitioners make this application, in accordance with sections 107(2A) and (2B) of FSMA, with the consent of the Prudential Regulation Authority (“**the PRA**”).
- 4.3 As set out at Statement 8.4, the PRA is, under FSMA, one of the two

regulators of authorised persons in the UK.

- 4.4.1 This Court has jurisdiction over this application and over the Scheme, under section 107(3)(a) and (b) and section 107(4)(b) of FSMA.
- 4.4.2 As set out in Statement 1, each of RBS plc and Adam has its registered office in Scotland, and NatWest has its registered office in England.
- 4.4.3 As has been accepted in *inter alia* every application made to this Court under Part VII, the reference in section 107(4) of FSMA to “*in Scotland*” is an abbreviated one to a company which is registered in Scotland.

Other Processes

- 5.1 In addition to the Scheme, the proposals of the RBS Group to comply with the Ring-Fencing Provisions (“**the RBS Group Ring-Fencing Proposals**”) include a reorganisation of its corporate structure (“**the Legal Entity Reorganisation**”).
- 5.2 The Legal Entity Reorganisation is described at Statement 37.
- 5.3.1 The RBS Group Ring-Fencing Proposals are also likely to include a second, and far smaller, ring-fencing transfer scheme (“**the Second RFTS**”).
- 5.3.2 In outline, the Second RFTS would provide for the transfer to RBS plc of certain derivatives business of NatWest.
- 5.3.3 The sanction of the Second RFTS would be sought after the Scheme had been sanctioned and had become effective.
- 5.4.1 In order to permit the Legal Entity Reorganisation, RBS plc also intends to make an application to this Court for the confirmation of a reduction of its share capital or other undistributable reserve (“**the RBS plc Reduction**”).
- 5.4.2 That application to confirm the RBS plc Reduction is intended to be made during 2018 and after the Scheme becomes effective, as described at Statement 39.4.
- 5.5.1 For completeness, this Court confirmed, by an order dated 15th June 2017, the cancellation of RBSG’s share premium account and capital redemption reserve (“**the RBSG Reduction**”).
- 5.5.2 That order was registered by the Registrar of Companies on the same day and the RBSG Reduction took effect on that registration.
- 5.6.1 Again for completeness, applications are to be made to the Companies Court by each of the four other principal UK banking groups for an order sanctioning their respective ring-fencing transfer schemes.
- 5.6.2 It is envisaged that those other applications and ring-fencing transfer schemes

will proceed broadly in parallel with this application and the Scheme.

General

- 6.1 In this application, all subsequent references to statutory provisions are to those of FSMA, unless otherwise indicated.
- 6.2 Similarly, all references to Statements, Schedules and Appendices are to those of this application, unless otherwise indicated.
- 6.3.1 In this application, a banking business transfer scheme under Part VII is referred to as “**a banking scheme**” and an insurance business transfer scheme under Part VII is referred to as “**an insurance scheme**”.
- 6.3.2 A banking scheme and an insurance scheme are together referred to in this application as “**a Part VII Scheme**”.
- 6.4 A glossary of the defined terms which are used in this application is included in Schedule IV.
- 6.5 So far as material to this application, and in addition to the Ring-Fencing Provisions, Schedule III sets out those provisions which are referred to in this application, namely those of: (i) FSMA; (ii) the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (“**the RAO**”); and (iii) the Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001 (“**the COBTRA Regulations**”).

RBS plc

Share Capital and Constitutional Matters

- 7.1.1 At the date of this application, the issued ordinary share capital of RBS plc is £6,608,516,810, divided into 6,608,516,810 ordinary shares of £1 each, all of which have been fully paid up.
- 7.1.2 All of those ordinary shares are beneficially owned by RBSG, except for two which are registered in the name of N.C. Head Office Nominees Limited, as nominee for RBSG.
- 7.2 In addition to the ordinary shares, RBS plc has issued 56,400,000 Category II non-cumulative United States dollar preference Shares of US\$0.01 each, all of which have been fully paid up and are beneficially owned by RBSG.
- 7.3 There is nothing in RBS plc’s articles of association which would prevent that company from entering into the Scheme.

Authorisation

- 8.1 RBS plc has been granted permission by the PRA, under Part 4A of FSMA, to carry on, in the UK, business which is regulated under FSMA, including the accepting of deposits, within the meaning of Chapter II of Part II of RAO.
- 8.2 Such a permission is defined in section 55A(5) as a “**Part 4A Permission**”.
- 8.3 RBS plc is, therefore, also “*a PRA-authorised person*”, within the meaning of section 2B(5).
- 8.4 Accordingly, and as regards RBS plc, the PRA is the “*appropriate regulator*” in respect of the Scheme, within the meaning of section 103A(1)(a).
- 8.5 For completeness, the conduct of RBS plc’s operations is also regulated, under FSMA, by the Financial Conduct Authority (“**the FCA**”).
- 8.6.1 The PRA and the FCA are together referred to below as “**the Regulators**”.
- 8.6.2 The Regulators together replaced the Financial Services Authority as regulator under FSMA, with effect from 1st April 2013.

RBS plc’s Operations

Overview and the Franchises

- 9.1 RBS plc is at present one of the main operating Group Companies.
- 9.2.1 The operations of the RBS Group in the UK and elsewhere in the world, including Europe, the United States of America (“**the USA**”) and Asia, comprise the provision of a range of financial services.
- 9.2.2 In outline, those financial services include retail and commercial banking, debt financing, risk management and investment services to major corporations and financial institutions.
- 9.2.3 The operations of the RBS Group comprise three principal business divisions which are referred to as “*Franchises*” and which cover not only RBS plc but also other Group Companies.
- 9.2.4 More specifically in the context of the Scheme, RBS plc carries on some of the business activities of each of the Franchises.
- 9.2.5 Each of the RBS Group’s Franchises is recorded in one of the “*reportable segments*” which are referred to in the RBSG Annual Report and Accounts 2016 (“**the RBSG 2016 Accounts**”).
- 9.3.1 The first of the Franchises is “*the Personal and Business Banking Franchise*”.
- 9.3.2 RBS plc’s business which forms part of this Franchise is referred to in the Scheme, and in this application, as “**the PBB Business**”.

- 9.4.1 The second of the Franchises is the “*Commercial and Private Banking Franchise*”.
- 9.4.2 RBS plc’s business which forms part of this Franchise is referred to in this application, as “**the CPB Business**”.
- 9.5.1 The third of the Franchises is “*NatWest Markets*”.
- 9.5.2 RBS plc’s business which forms part of this Franchise is referred to in the Scheme, and in this application, as the “**NatWest Markets Business**”.
- 9.5.3 The NatWest Markets Business was previously called “*the Corporate & Institutional Banking Franchise*”.
- 9.6.1 For completeness, RBS plc operates its treasury business on the basis of a function which operates across the whole RBS Group, as opposed to having a treasury function for each Franchise.
- 9.6.2 The treasury business is referred to in this application as “**the Treasury Function**”.

The PBB Business

- 10.1 In outline, the PBB Business comprises the provision by RBS plc of current accounts, savings accounts, retail mortgages, debit and credit cards and loans to personal customers or those who are small, or medium sized, enterprises and arranging insurance and investments.
- 10.2 Most of the PBB Business is governed by the law of one of the UK Jurisdictions (“**a UK law**”).
- 10.3.1 In addition, the PBB Business includes RBS plc’s trustee business. That business contains RBS plc’s appointments as executor, trustee or similar offices.
- 10.3.2 All of those offices are referred to in the Scheme, and in this application, as “**the Transferring Offices**”.
- 10.4.1 The PBB Business includes a part of the business (“**the W&G Business**”) which uses the brand “Williams & Glyn” and which is in the process of being reintegrated into the Personal and Business Banking Franchise and the Commercial and Private Banking Franchise.
- 10.4.2 The W&G Business includes RBS plc’s branch network in England and Wales and, for completeness, the very small number of branches which NatWest has in Scotland.
- 10.4.3 Until September 2017, the RBS Group was required to “*divest*” the W&G Business in compliance with a condition which the EU Commission placed on the “*state aid*” which the RBS Group received from the UK Government in 2008 and

2009.

- 10.4.4 On 18th September 2017, the EU Commission accepted the proposal which H.M. Treasury (“**HMT**”) had made to it and which was an alternative to that divestment.

The CPB Business – the Lending Business

- 11.1 The CPB Business includes first of all “*the Lending Business*”.
- 11.2 In outline, the Lending Business includes the provision to commercial, corporate and institutional customers of: (i) lending facilities, which may be bilateral or syndicated and unsecured or secured, including secured project finance; (ii) letters of credit, bank guarantees and performance bonds issued in connection with lending, and other ancillary facilities.
- 11.3 The Lending Business also includes the carrying out by RBS plc of functions which are related to its lending and other provision of credit, such as acting as facility agent and security trustee or security agent.
- 11.4 Most of the facilities provided by the Lending Business are governed by English law or another UK law.
- 11.5 Most of the security interests, quasi-security arrangements and guarantees, which have been granted in favour of RBS plc in respect of certain of those facilities, are governed by a UK law.
- 11.6.1 The security interests for the loans which are syndicated are generally either granted in favour of a security trustee, or a security agent, for all of the lenders or, where local law requires, granted directly to the syndicated lenders.
- 11.6.2 RBS plc is the security trustee, or security agent, in relation to a number of syndicated facilities.
- 11.6.3 In addition, RBS plc is also the security trustee, or security agent, in relation to facilities which are documented as if they were syndicated, even though RBS plc is currently the only lender.
- 11.7.1 The Lending Business also includes what are referred to as “*the Transferring Structured Debt Roles*”.
- 11.7.2 In outline, the Transferring Structured Debt Roles are the functions which RBS plc performs in relation to “*infrastructure secured financings*” and similar transactions by third parties.
- 11.7.3 Those functions include, as well as that of lender, those of adviser, cash manager, arranger and account bank.
- 11.8 The Lending Business also includes parts of the “*Legacy Capital Resolution Business*”, as is described in Statement 14.

The CPB Business – the Other Businesses

- 12.1.1 In addition to the Lending Business, the CPB Business includes “*the Trade Finance Business*”.
- 12.1.2 In outline, the Trade Finance Business comprises the provision of trade finance facilities to Counterparties, including the issue of letters of credit, bank guarantees and similar instruments, which are together referred to in the Scheme as “**Trade Finance Instruments**”.
- 12.1.3 The Trade Finance Instruments are provided in relation to “*trade services*”, “*funded trade*” and “*trade asset management*”.
- 12.2.1 The CPB Business also includes “*the Multi-Option Facilities Business*”.
- 12.2.2 The Multi-Option Facilities Business comprises the provision to Counterparties of multi-option facilities, including lending facilities, trade finance and “*cash and payments products*”.
- 12.2.3 The Multi-Option Facilities Business also includes parts of the Legacy Capital Resolution Business, which are described in Statement 14.
- 12.3.1 The CPB Business also includes “*the Interminable Indemnities Business*”.
- 12.3.2 The Interminable Indemnities Business comprises the provision of indemnities which have no termination date and cover the loss of documents, such as share certificates and bills of lading.
- 12.4.1 The CPB Business and PBB Business also includes “*the Government Schemes Business*”.
- 12.4.2 The Government Schemes Business comprises the provision by RBS plc of lending, and other, facilities to Counterparties in connection with what are called “*Government Schemes*”.
- 12.4.3 In outline, Government Schemes are certain schemes, primarily of the UK government, under which a number of Group Companies, including RBS plc, are offered access to funding, or guarantees, to encourage lending to certain categories of Counterparties.
- 12.5.1 The CPB Business also includes “*the Cash and Payments Business*”.
- 12.5.2 In outline, the Cash and Payments Business comprises the provision by RBS plc of cash services, accounts, deposits and overdrafts, debit, credit and charge cards, payments schemes and digital services.
- 12.5.3 The Cash and Payments Business includes parts of the Legacy Capital Resolution Business, which are described in Statement 14.
- 12.6.1 The CPB Business also includes the Mentor Business, under which RBS plc

provides consultancy services in connection with environmental and health and safety matters.

- 12.6.2 Those Transferring Counterparties who are part of the Mentor Business are referred to in this application as “**the Mentor Customers**”. There are approximately 12,000 Mentor Customers.
- 12.7.1 Each of those businesses which are included in the CPB Business, other than the Mentor Business, may also include the carrying out by RBS plc of functions relating to the provision of credit.
- 12.7.2 Those functions include acting as facility agent, security agent or security trustee or account bank.

The NatWest Markets Business

- 13.1 The NatWest Markets Business comprises the currencies, rates and financing operations of RBS plc.
- 13.2.1 In outline, the NatWest Markets Business includes, *inter alia*, RBS plc entering into contracts for over-the-counter (“**OTC**”) derivatives, including interest rate, foreign exchange and credit derivatives. Those contracts are entered into with, *inter alia*, corporate, institutional, funds, partnerships and individual Counterparties.
- 13.2.2 OTC derivatives are types of bilateral transactions between two parties, as opposed to being executed on an exchange. Derivatives on an exchange are standardised, so they can be easily tradeable.
- 13.2.3 A derivative contract generally involves “*structured*” payments, which means the amount payable under that contract is linked to the performance of an underlying “*reference item*”, such as an interest or foreign currency rate, the value of a pool of securities or the level of an index.
- 13.2.4 In outline, the NatWest Markets Business also includes RBS plc entering into contracts for cleared derivatives.
- 13.2.5 A cleared derivative is one which has been “*centrally*” cleared. That means that a central counterparty (“*a CCP*”) has been contractually interposed between the parties to that derivative. That means, in turn, if one of those parties defaults, the CCP can manage the default in a way to reduce risk to the financial system.
- 13.3.1 The terms of those cleared derivative contracts generally comprise, subject to amendments, one of the versions of the master agreements which are published by the International Swaps and Derivatives Association, Inc. (“**ISDA**” and “**ISDA Master Agreements**”).
- 13.3.2 There are different versions of the ISDA. However, the only versions which apply to the NatWest Markets Business are the 1992 and 2002 published

versions.

- 13.3.3 In outline, the ISDA Master Agreements, as amended, may give rights to the parties, in prescribed circumstances, to terminate those contracts, under an event of default or termination event, or to require further collateral.
- 13.4.1 Those circumstances may include what is referred to in the ISDA Master Agreements as a “*Merger Without Assumption*”.
- 13.4.2 In outline, that term includes a transfer by one party of all, or substantially all, of its assets to another entity that does not also assume liability for the contract for derivatives.
- 13.5.1 Those circumstances may also include what is referred to there as “*a Credit Event Upon Merger*”.
- 13.5.2 In outline, that term includes a transfer of assets to another entity in two sets of circumstances which could trigger that term, depending on whether it is part of the 1992 or the 2002 versions of the ISDA.
- 13.5.3 The first is that the transferee has assumed liability for the contract for derivatives, but that it has a materially weaker credit-worthiness than the transferor. Those circumstances arise in both the 1992 and the 2002 versions.
- 13.5.4 The second set of circumstances is where the transferee has not assumed liability for the contract for derivatives and the transferor has a materially weaker credit-worthiness. That circumstance arises only in the 2002 version.
- 13.6 The implications of these provisions are set out in Statement 49.5.
- 13.7.1 The NatWest Markets Business also includes certain other businesses.
- 13.7.2 In outline, the NatWest Markets Business also includes entering into conventional, and structured, stock-lending and “*repo transactions*”.
- 13.7.3 In outline, a repo transaction is the sale of securities for current delivery and the simultaneous repurchase of those securities at a later date.
- 13.7.4 Again in outline, the NatWest Markets Business also includes contractual arrangements with stock exchanges, clearing houses, central securities depositories, payment settlement systems and overseas banks.
- 13.8 Again in outline, the NatWest Markets Business also includes issuing various kinds of debt securities and deposits (otherwise “*money markets instruments*”), some of which are also structured.
- 13.9 Again in outline, the NatWest Markets Business also includes lending which is recorded in RBS plc’s records as within that Franchise rather than within the Lending Business and which includes trading on the secondary loan and syndication markets.

- 13.10 Again in outline, the NatWest Markets Business also includes RBS plc's "*foreign exchange credit intermediation offering*" and electronic trading, which relates to access to and trading on electronic trading platforms.
- 13.11.1 Again in outline, foreign exchange credit intermediation offering business involves RBS plc acting as a "*prime broker*", or an "*executing dealer*", in relation to foreign exchange transactions.
- 13.11.2 Where RBS plc is the prime broker, a client enters into the transaction as RBS plc's agent with an executing dealer.
- 13.11.3 Where RBS plc is itself the executing dealer, it enters into arrangements with clients acting as agents of other prime brokers.
- 13.12 In addition, the NatWest Markets Business includes RBS plc acting as arranger, or underwriter, in relation to bond issues by third parties.

The Legacy Capital Resolution Business

- 14.1 At the date of this application, the Transferring Businesses also include certain assets, and liabilities, of the business which was previously recorded in, or attributable to, the "*Capital Resolution Segment*" of the RBSG 2016 Accounts ("**the Legacy Capital Resolution Business**").
- 14.2 In outline, the Legacy Capital Resolution Business comprises the sale, or the winding down, by RBS plc of "*non-core assets*" which were intended to be wound down, and which included secured lending.
- 14.3.1 The Legacy Capital Resolution Business also includes the carrying out by RBS plc of functions which were related to the provision of credit in those other businesses.
- 14.4.1 The Legacy Capital Resolution Business will be discontinued as a separate business with effect from on or around 31st December 2017.
- 14.4.2 The assets and liabilities within that business will be redesignated as part of the other businesses within RBS plc and in some cases other Group Companies.

The Treasury Function

- 15.1 Again in addition to the three Franchises, the RBS plc operations also include the Treasury Function.
- 15.2.1 In outline, the Treasury Function deals with the raising of short and long term funds for RBS plc, the hedging of its exposures and the management of liquidity, in each case in order to comply with the regulatory requirements to which it, and the RBS Group on a consolidated basis, are subject.
- 15.2.2 Those requirements are described at Statements 20 and 21.

- 15.3 The fund-raising element of the Treasury Function includes the issue by RBS plc of notes, bonds, certificates and other debt securities.
- 15.4.1 In order to hedge exposures, the Treasury Function also includes entering into OTC derivative contracts and repo transactions, all of which are typically documented under the same master agreements as the derivative contracts in the NatWest Markets Business.
- 15.4.2 The Treasury Function also includes entering into cleared derivatives and cleared repo transactions.
- 15.4.3 The documentation in the NatWest Markets Business governing the relationship between RBS plc and the relevant clearing house also applies to those contracts.
- 15.5.1 In addition, the Treasury Function includes what is referred to in the Scheme, and in this application, as “**the Covered Bond Programme**”. The latter has been admitted to “*the register of covered bonds*” under the Regulated Covered Bonds Regulations 2008.
- 15.5.2 In outline, the Covered Bond Programme is an arrangement, under which a series of debt securities (“**the Covered Bonds**”) have been issued by RBS plc.
- 15.5.3 The Covered Bonds are traded only on the London Stock Exchange and are held in two clearing systems, namely Euroclear and Clearstream.
- 15.5.4 RBS plc is the arranger of the Covered Bond Programme and performs other functions under it (“**the Covered Bond Roles**”). The Covered Bond Roles are described at Statement 15.6.
- 15.5.5 The outstanding series of the Covered Bonds are to be listed in Schedule 4 to the Scheme. However, further Covered Bonds may be issued before the Scheme becomes effective and (if so) will be transferred under it.
- 15.5.6 The Covered Bonds are, in economic terms, “*secured*” by a “*pool of assets*” (otherwise “*collateral*”). That pool comprises a portfolio of mortgages which are held by RBS Covered Bonds Limited Liability Partnership (“**the LLP**”).
- 15.5.7 The LLP currently has three members, NatWest, RBS plc and RBS Covered Bonds (LM) Limited (“**the Liquidation Member**”). RBS currently owns 20% of the share capital in the Liquidation Member.
- 15.5.8 The Liquidation Member carries out certain administrative functions on behalf of the LLP.
- 15.5.9 The portfolio of mortgages, together with the other limited assets of the LLP (being cash and the LLP’s rights under certain agreements), is, in turn, secured in favour of the security trustee for the Covered Bond Programme.

- 15.5.10 The security trustee holds that security on behalf of the holders of the Covered Bonds and other creditors of the LLP.
- 15.5.11 In addition, the LLP has provided a limited guarantee of the payments on the Covered Bonds.
- 15.5.12 All of those mortgages in the portfolio have in fact been sold to the LLP by NatWest, although the Covered Bond Programme also envisages RBS plc being able to do so.
- 15.6.1 RBS plc performs the Covered Bond Roles.
- 15.6.2 The Covered Bond Roles include those of issuer of the Covered Bonds, “*cash manager*”, “*servicer*” and “*seller*” of the mortgages and “*interest rate swap provider*”, “*covered bond swap provider*” and “*designated member*”.
- 15.6.3 RBS plc, as swap provider for the Covered Bond Programme, has entered into interest rate, and certain other, swap agreements with the LLP with respect to the Covered Bonds.
- 15.6.4 Those agreements provide a hedge against certain interest rate risks or currency risks (or both), which may arise due to a variance between the rates of interest payable on the mortgages and the interest rates payable under the Covered Bonds.

The Previous Transfers

- 16.1.1 RBS plc acquired some of its business as the transferee under several previous transfers which were sanctioned, or approved, by this Court (“**the Previous Transfers**”).
- 16.1.2 That business includes certain loans which are within the Lending Business and are not governed by a UK law.
- 16.2.1 The first of the Previous Transfers was the banking scheme (“**the 2011 Part VII Scheme**”), under which RBS plc acquired certain deposit-taking, and associated, business from the London Branch of another Group Company, The Royal Bank of Scotland NV (“**RBS NV**”), which is incorporated in the Netherlands.
- 16.2.2 The 2011 Part VII Scheme was sanctioned by order of this Court dated 23rd September 2011 and became effective on 17th October 2011.
- 16.3.1 The second of the Previous Transfers was the cross-border merger (“**the 2012 CBM**”), which was under the Companies (Cross-Border Mergers) Regulations 2007 and under which the assets and liabilities of RBS II BV were transferred to RBS plc.
- 16.3.2 RBS II BV was another Group Company which was also incorporated in the

Netherlands and had, in turn, acquired most of its assets and liabilities from RBS NV, by means of a demerger process under Dutch law.

- 16.3.3 The 2012 CBM was approved by order of this Court dated 18th June 2012 and became effective on 10th September 2012.
- 16.4 The other Previous Transfers were cross-border mergers, under which the assets and liabilities of Group Companies in respectively Romania and Luxembourg were transferred to RBS plc in 2013 and 2014 respectively.
- 16.5.1 Each of the Previous Transfers include restrictions on RBS plc, which are similar to those which are to be included in the Scheme and are addressed at Statements 51 to 55.
- 16.5.2 Correctly interpreted, those restrictions continue to apply only while the contractual arrangements to which they apply continue to be with RBS plc. Those restrictions are not substantive, in the sense that they do not restrict RBS plc's ability to enter into the Scheme.
- 16.5.3 In addition, it is likely that few of the restrictions which were included in the Previous Transfers continue to have practical application.
- 16.5.4 It is, therefore, not necessary for RBS plc to seek this Court's permission to vary any of the Previous Transfers in order to be able to enter into this Scheme.

RBS plc's Employees and the RBS Pension Schemes

- 17.1 RBS plc is also the main employer in the RBS Group. The RBS Group has approximately 49,966 employees in the UK and approximately 19,329 elsewhere ("**the RBS Group Employees**").
- 17.2 Of the RBS Group Employees, RBS plc employs approximately 46,602 ("**the RBS plc Employees**"), of whom approximately 44,761 are employed in the UK.
- 17.3.1 The RBS Group operates several defined benefit pension schemes, as well as several defined contribution schemes (together, "**the RBS Pension Schemes**").
- 17.3.2 The main RBS Pension Scheme is the Main Section of The Royal Bank of Scotland Group Pension Fund ("**the Main Section**").
- 17.3.3 The Main Section has approximately 213,800 members.
- 17.3.4 RBS plc, Adam and NatWest are all participating employers in the Main Section.
- 17.4.1 As set out in the RBSG 2016 Accounts, the Main Section had a statutory funding deficit at 31st December 2015 of £5,800 million.
- 17.4.2 That deficit was reduced by a contribution of £4,200 million by NatWest into

the Main Section in March 2016.

- 17.5 The implications of the Scheme, and of the RBS Group Ring-Fencing Proposals, for the RBS Pension Schemes are addressed briefly at Statement 75.5.

RBS plc's Financial Position and Creditors

The Financial Position

- 18.1 The latest audited accounts for RBS plc are its annual accounts to 31st December 2016 (“**the RBS plc 2016 Accounts**”).
- 18.2 The RBS plc 2016 Accounts showed that, as at 31st December 2016, RBS plc and its own subsidiaries had, on a consolidated basis, total assets of £797,814 million, total liabilities of £761,995 million, and “**total equity**” (otherwise net assets) of £35,819 million.
- 18.3.1 The liabilities in the RBS plc 2016 Accounts include, first of all, provisions of £1,252 million in respect of liabilities to retail Counterparties for whom RBS plc arranged “*payment protection insurance*” (“**PPI**”).
- 18.3.2 Those liabilities in the RBS plc 2016 Accounts also include £6,752 million in respect of liabilities for various investigations and litigation matters relating to RBS plc’s “*issuance*” and underwriting of residential mortgage backed securities.
- 18.4 The unaudited half year consolidated results for RBS plc to 30th June 2017 were released on 4th August 2017. Those half-year results showed that RBS plc had, at 30th June 2017, total assets of £773,586 million, total liabilities of £736,921 million and consolidated equity of £36,665 million.
- 18.5 Since those half year results, there has been no adverse change, which would be material in the context of the Scheme, in RBS plc’s financial position.
- 18.6 As at the date of this application, RBS plc has the following credit ratings, namely BBB+ from Fitch Ratings Inc. (“**Fitch**”), A3 (for senior unsecured debt) from Moody’s Investors Service (“**Moody’s**”) and BBB+ from Standard & Poor’s Financial Services LLC (“**S&P**”).

RBS plc's Creditors

- 19.1 As at 31st December 2016, the principal categories of RBS plc’s creditors, excluding Group Companies, were customer accounts of £357,537 million, deposits by banks of £38,436 million and derivative positions of £236,349 million.
- 19.2 The most significant provisions in the RBS plc 2016 Accounts for creditors relate to compensation which RBS plc is liable to pay to two categories of

Counterparties.

- 19.3.1 The first category comprises those retail Counterparties for whom RBS plc arranged PPI as referred to at Statement 18.3.1.
- 19.3.2 That liability to pay compensation arises under enforcement processes which have been agreed with the FCA.
- 19.4.1 The second category comprises Counterparties with whom RBS plc entered into contracts in connection with the issue in the USA of “*residential mortgage backed securities*” as referred to at Statement 18.3.2.
- 19.4.2 In outline, that liability arises primarily in connection with proceedings which have been begun in the US courts by the United States Department of Justice.

RBS plc’s Prudential Regulatory Position

The Overall Regulatory Capital and Leverage Regime

- 20.1 As an authorised firm under FSMA, RBS plc is required to comply with the prudential regulatory capital, leverage and liquidity regimes for authorised banks.
- 20.2 Those regimes are now set out primarily in the Capital Requirements Regulation of the European Council and Parliament for credit institutions and investment firms (Regulation (EU) No 575/2013) (“**the CRR**”) and the revised Capital Requirements Directive (Directive 2013/36/EU) (“**the CRD IV Directive**”).
- 20.3 The CRR and the CRD IV Directive are together called by banks and the PRA “**CRD IV**”.
- 20.4 In addition to complying with the CRR, RBS plc is also required to comply with the detailed rules which are set out in the PRA Rulebook, including the PRA’s “*Rulebook for CRR Firms*” which primarily implements the CRD IV Directive in the UK.
- 20.5 Those detailed rules include “*Fundamental Rule 4*” of the PRA’s Rulebook for CRR Firms, namely that “*a firm must at all times maintain adequate financial resources*”.
- 20.6.1 Fundamental Rule 4 is amplified by that part of the Rulebook for CRR Firms, which is entitled “*Internal Capital Adequacy Assessment*” (“**the ICAA**”).
- 20.6.2 Paragraph 2.1 of the ICAA requires that “*a firm must at all times maintain overall financial resources, including own funds and liquidity resources, which are adequate both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due*”.
- 20.7 A bank must also ensure that the processes, strategies and systems which it uses are comprehensive and enable it to identify, and manage, those risks which might affect its ability to meet its liabilities as they fall due and to conduct appropriate

“stress and scenario tests”.

- 20.8 The detailed rules of the regulatory capital and leverage regimes now comprise five elements. They are more conveniently described at Schedule II to this application.
- 20.9 For completeness, the adequacy of a firm’s capital and liquidity resources is monitored by the PRA on a continuous basis.

RBS plc’s Compliance with Regulatory Regimes

- 21.1 RBS plc complies with all of the regulatory capital and leverage requirements to which it is subject.
- 21.2.1 In particular, RBS plc had, at 30th June 2017, a CET1 Ratio of 14.5%, which was above the minimum requirement set out in the CRR and is described further in Schedule II.
- 21.2.2 On 31st December 2016, RBS plc had a CET1 Ratio of 13.1%.
- 21.3 In addition, the RBS Group complies with the liquidity requirements which are imposed by the CRR, as amplified by an EU Commission Delegated Regulation (EU 2015/61) (“**the Liquidity Regulation**”).
- 21.4.1 The Liquidity Regulation requires “*a Banking Group*” to hold liquid assets which are equal to 90% of its projected net cash outflows during a “*stressed scenario*” over a period of 30 days.
- 21.4.2 That percentage is called the “*Liquidity Coverage Ratio*”.
- 21.5 The Liquidity Coverage Ratio is to be increased to 100% from 1st January 2018.
- 21.6.1 RBS plc is not itself required to comply with the Liquidity Regulation on an individual basis.
- 21.6.2 In outline, the PRA has waived in full the application of those requirements to RBS plc on an individual basis.
- 21.6.3 Instead, the PRA supervises the five UK banks within the RBS Group as a single liquidity sub-group (the “**DoLSub**”). Those banks comprise RBS plc, Adam, NatWest, Ulster Bank Limited, and Coutts & Company (“**Coutts**”).
- 21.6.4 That waiver will apply until 31st December 2018, following which RBS plc will be required to comply, on an individual basis, with the Liquidity Coverage Ratio requirements.

Adam

Share Capital and Constitutional and Regulatory Matters

- 22.1 At the date of this application, the issued ordinary share capital of Adam is £19,547,700 divided into 19,547,700 ordinary shares of £1 each, all of which are

- fully paid up and are beneficially owned by NatWest Holdings Limited (“**NWH**”).
- 22.2 NWH is, in turn, a wholly owned subsidiary of RBS plc.
- 22.3 There is nothing in Adam’s articles of association, which would prevent that company entering into the Scheme.
- 22.4 Adam has also been granted a Part 4A Permission.
- 22.5 In addition, Adam is a PRA-authorized person and so the PRA is, as regards Adam, also the appropriate regulator in respect of the Scheme.
- 22.6 The conduct of Adam’s operations is also regulated by the FCA.

Adam’s Operations

- 23.1 Adam’s operations comprise private banking, financial planning and investment management business areas.
- 23.2 The first business area is the private banking business, including offering deposits and loans, both secured and unsecured, credit and debit cards.
- 23.3 The second business area is the financial planning business and, through Adam’s subsidiary Adam & Company Investment Management Limited, the investment management business.
- 23.4 Adam has, at the date of this application, approximately 12,500 customers (“**Adam Customers**”).

Adam’s Financial Position

- 24.1 The latest audited accounts for Adam are its annual accounts to 31st December 2016 (“**the Adam 2016 Accounts**”).
- 24.2 The Adam 2016 Accounts showed that, as at 31st December 2016, Adam had assets of £2,071,458,000, liabilities of £1,988,718,000, and owners’ equity of £82,740,000.
- 24.3 Since the Adam 2016 Accounts, there has been no adverse change, which would be material in the context of the Scheme, in Adam’s financial position.
- 24.4.1 Expected credit ratings have been obtained from Fitch, and S&P. They are A- and BBB+ respectively. Moody’s is also expected to assign a rating to Adam in the near future.
- 24.4.2 Those credit ratings are not materially different from the present ratings of RBS plc.
- 24.4.3 The rating from Fitch is one “*notch*” (that is “*level*”) higher than RBS plc’s current rating and the rating from S&P is the same as RBS plc’s current rating.

Adam’s Compliance with Regulatory Regime

- 25.1 Adam complies with all of the regulatory capital and leverage requirements to which it is subject.
- 25.2 In particular, Adam had, as at 30th June 2017, a CET1 ratio of 18.7%.
- 25.3.1 For completeness, Adam is not itself required to comply with the Liquidity Regulation on an individual basis.
- 25.3.2 That is because of a PRA Waiver. The PRA instead supervises Adam as part of the DoLSub.

NatWest

Share Capital and Constitutional Matters

- 26.1 At the date of this application, the issued ordinary share capital of NatWest is (i) £1,678,177,493, divided into 1,678,177,493 ordinary shares of £1 each, (ii) £140,000,000, divided into 140,000,000 non-cumulative preference shares of £1 each, and (iii) US\$245,729,875, divided into 9,829,195 non-cumulative preference shares of US\$25 each, all of which are fully paid up.
- 26.2 All of the ordinary shares are beneficially owned by NWH, except for two which are registered in the name of N.C. Head Office Nominees Limited, as nominee for NWH.
- 26.3 There is nothing in NatWest's articles of association, which would prevent that company entering into the Scheme.
- 26.4 NatWest has also been granted a Part 4A Permission.
- 26.5 In addition, NatWest is a PRA-authorized person and so the PRA is, as regards NatWest, also the appropriate regulator, in respect of the Scheme.
- 26.6 The conduct of NatWest's operations is also regulated by the FCA.

NatWest's Operations

- 27.1 NatWest's operations comprise several banking business areas.
- 27.2.1 The first business area is the personal and private banking business area.
- 27.2.2 This area includes providing bank accounts, overdrafts, credit cards, mortgages, loans, insurance and investment opportunities to customers.
- 27.3.1 The second business area is the business banking area.
- 27.3.2 The business banking area includes providing business bank accounts, business saving accounts and business loans and finance to customers, including "start-ups" and existing businesses with an annual turnover of up to £2 million.
- 27.4 The third business area is the provision of commercial banking services to a range of small and medium sized enterprises.

27.5 NatWest has, at the date of this application, approximately 12.3 million customers (“**NatWest Customers**”).

NatWest’s Financial Position

28.1 The latest audited accounts for NatWest are its annual accounts to 31st December 2016 (“**the NatWest 2016 Accounts**”).

28.2 The NatWest 2016 Accounts showed that, as at 31st December 2016, NatWest and its own subsidiaries had, on a consolidated basis, total assets of £316,476 million, total liabilities of £300,476 million and owners’ equity of £15,580 million.

28.3 The liabilities in the NatWest 2016 Accounts include provisions of £753 million in respect of liabilities for PPI and of £4,966 million in respect of liabilities for various investigations and litigation matters relating to NatWest’s issuance and underwriting of residential mortgage backed securities.

28.4 The unaudited half year consolidated results for NatWest to 30th June 2017 were released on 4th August 2017. Those half-year results showed that NatWest had, as at 30th June 2017, total assets of £329,588 million, total liabilities of £313,407 million and consolidated equity of £16,181 million.

28.5 Since those half year results, there has been no adverse change, which would be material in the context of the Scheme, in NatWest’s financial position.

28.6 As at the date of this application, NatWest has the following credit ratings, namely BBB+ from Fitch, A3 (for senior unsecured debt) from Moody’s and BBB+ from S&P.

NatWest’s Compliance with Regulatory Regime

29.1 NatWest complies with all of the regulatory capital and leverage requirements to which it is subject.

29.2.1 In particular, NatWest had, as at 30th June 2017, a CET1 ratio of 21.6%.

29.2.2 On 31st December 2016, NatWest had a CET1 ratio of 16.1%.

29.3.1 For completeness, NatWest is not itself required to comply with the Liquidity Regulation on an individual basis.

29.3.2 That is because of a PRA Waiver. The PRA instead supervises NatWest as part of the DoLSub.

Background to the Scheme and Ring-Fencing

The Ring-Fencing Provisions - Overview

30.1 As set out at Statement 2.3, the regulatory and commercial background to the Scheme is the requirement of the RBS Group to comply with the Ring-Fencing

Provisions.

Ring-Fencing Provisions

- 31.1 The Ring-Fencing Provisions are defined in section 106B(8) and are within Part 9B, which was introduced by the Financial Services (Banking Reform) Act 2013.
- 31.2 So defined, the Ring-Fencing Provisions comprise the “*Ring-Fencing Rules*” and the duty which is imposed as a result of section 142G.
- 31.3 The Ring-Fencing Rules are, in turn, defined in section 142H(3) as being the Rules made by the PRA under section 142H.

Section 142G Duty

- 32.1 In outline, section 142G provides that a Ring-Fenced Body which carries on an “**Excluded Activity**” is to be taken to have contravened a requirement, or a prohibition, which is imposed by the appropriate Regulator, namely the PRA.
- 32.2 A Ring-Fenced Body is defined, in turn, in section 142A as a UK institution which carries out one or more “**Core Activities**” in relation to which it has a Part 4A Permission.
- 32.3.1 Core Activities are, in turn, defined in section 142B as the regulated activity of accepting deposits, whether carried on in the UK or elsewhere, unless it is carried on in circumstances specified by HMT.
- 32.3.2 In accordance with the power in sections 142A(2)(b), 142B(2), 142F and 428(3), HMT has made the Financial Services and Markets Act 2000 (Ring-Fenced Bodies and Core Activities) Order 2014 (“**the Core Activities Order**”).
- 32.3.3 The Core Activities Order has been amended by the Financial Services and Markets Act 2000 (Ring-Fenced Bodies, Core Activities, Excluded Activities and Prohibitions) Order 2016 (“**the 2016 Order**”).
- 32.4.1 The regulated activity of dealing in investments as principal, whether carried on in the UK or elsewhere, is specified in section 142D to be an excluded activity, unless it is carried on in circumstances specified by HMT.
- 32.4.2 In accordance with the power in sections 142D, 142E and 142F, HMT has made the Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014 (“**the Excluded Activities Order**”).
- 32.4.3 Article 1(3) of the Excluded Activities Order provides that most of its provisions come into force on 1st January 2019.
- 32.4.4 The Excluded Activities Order has also been amended by the 2016 Order.
- 32.5.1 In outline, the effect of the statutory provisions which have been referred to in this Statement 32 is that, from 1st January 2019, any bank which is a UK authorised person and had, over the three previous years, average “*Core*

Deposits” of more than £25 billion must place the Core Activity of accepting deposits into a Ring-Fenced Body.

32.5.2 Again in outline, Core Deposits are ones held in accounts within the European Economic Area and have been made by individuals and small businesses.

32.5.3 In addition, other “*Core Services*”, which comprise facilities for accepting payments into such deposit accounts, for payments from those accounts and for overdraft facilities in connection with those accounts, must be placed into the Ring-Fenced Body.

The Ring-Fencing Rules

33.1 In outline, the Ring-Fencing Rules are made, under section 142H, by the PRA, as the appropriate Regulator.

33.2 Again in outline, the Ring-Fencing Rules require a Ring-Fenced Body to make arrangements to ensure the effective provision of the services and facilities that it requires for the carrying on of the Core Activities.

33.3 The Ring-Fencing Rules are also to require a Ring-Fenced Body to make provision for what are called “*Group Ring-Fencing Purposes*”.

33.4 Again in outline, section 142H defines Group Ring-Fencing Purposes as ensuring as far as reasonably practicable (i) that the carrying on of the Core Activities is not affected by acts, or omissions, of other members of its group and (ii) that a Ring-Fenced Body is able to take decisions independently and is not dependent on resources which would cease to be available on the insolvency of another member of the group.

A Ring-Fencing Transfer Scheme

34.1 Section 106B(1) defines a ring-fencing transfer scheme.

34.2 So far as material to the Scheme, that definition has three components.

34.3.1 The first is that the scheme is one under which part of the business carried on by a UK authorised person is to be transferred to “*another body*”, as transferee.

34.3.2 That component is set out in section 106B(1)(a).

34.4.1 The second component of the definition of a ring-fencing transfer scheme is that the scheme is to be made for one or more of the purposes mentioned in section 106B(3) (“**the Statutory Purposes**”).

34.4.2 That component is set out in section 106B(1)(b).

34.5.1 The first of the Statutory Purposes is that of enabling a UK authorised person to carry on Core Activities as a Ring-Fenced Body in compliance with the Ring-Fencing Provisions.

- 34.5.2 That Statutory Purpose is referred to in section 106B(3)(a).
- 34.6.1 The second of the Statutory Purposes is that of enabling the transferee to carry on Core Activities as a Ring-Fenced Body in compliance with the Ring-Fencing Provisions.
- 34.6.2 That Statutory Purpose is referred to in section 106B(3)(b).
- 34.7.1 The third of the Statutory Purposes is that of making provision in connection with the implementation of proposals that would involve a body corporate, whose group includes the body corporate to whose business the scheme relates, becoming a Ring-Fenced Body while one or more other members of its group are not Ring-Fenced Bodies.
- 34.7.2 That Statutory Purpose is referred to in section 106B(3)(c).
- 34.8.1 The fourth of the Statutory Purposes is that of 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 other members of the transferee's group are not Ring-Fenced Bodies.
- 34.8.2 That Statutory Purpose is referred to in section 106B(3)(d).
- 34.9.1 The Statutory Purpose for which the Scheme is to be made is the second, namely that in section 106B(3)(b) of enabling each of the transferees to carry on Core Activities as a Ring-Fenced Body in compliance with the Ring-Fencing Provisions.
- 34.9.2 As set out in the description of the Scheme at Statements 39 to 62, the effect of the Scheme is to leave RBS plc alone to carry on Excluded Activities, and to leave each of Adam and NatWest, the two transferees under the Scheme, as a Ring-Fenced Body.
- 34.9.3 For completeness, the word "*purpose*" in Section 106B(3), correctly interpreted, means "*principal purpose*".
- 34.10.1 The third component of the definition of a ring-fencing transfer scheme is that the scheme is not "*an excluded scheme*", as defined in section 106B(4), or an insurance scheme.
- 34.10.2 In outline, an excluded scheme is one which either concerns the business of a building society, or that of a credit union, or involves a compromise or arrangement by a public company under Part 27 of the Companies Act 2006.
- 34.10.3 That third component of the definition of a ring-fencing transfer scheme is set out in section 106B(1)(c).
- 34.11 For completeness, the definition of a ring-fencing transfer scheme, correctly interpreted, permits such a scheme to have more than one transferor and more

than one transferee.

The Regulators' Guidance

- 35.1 In addition, each of the Regulators has published final guidance on the practical application of the Ring-Fencing Provisions.
- 35.2 The PRA has issued “*a PRA Statement of Policy*” which is entitled “*The implementation of ring-fencing; the PRA’s approach to ring-fencing transfer schemes*”.
- 35.3 The FCA has issued its “*Finalised Guidance 16/1: Guidance on the FCA’s approach to the implementation of ring-fencing and ring-fencing schemes*”.

The Ring-Fenced Business of the RBS Group

- 36.1 The RBS Group intends to implement the Ring-Fencing Provisions by the RBS Group Ring-Fencing Proposals, which are to comprise, *inter alia*, the Scheme, the Legal Entity Reorganisation and the Second RFTS.
- 36.2 The RBS Group Ring-Fencing Proposals envisage the RBS Group having what can be called a “*wide ring-fence*”.
- 36.3 The chosen ring-fencing structure means that the ring-fenced part of the RBS Group will include not only Core Activities but also those activities which are conventionally referred to as “*Permitted Activities*” and which involve what are referred to as “*Permitted Products*”.
- 36.4.1 As a result, the RBS Group will be able to allocate all the RBS Group “*UK banking infrastructure*” (such as banking platforms and sort codes) to its ring-fenced bodies.
- 36.4.2 That will, in turn, avoid any disruption that would arise from any requirement for Counterparties to have new sort codes and account details.
- 36.5 Against that background, the ring-fenced business is to comprise almost all of the PBB Business, which has been described at Statement 10, and a substantial part of the CPB Business, which has been described at Statements 11 and 12.
- 36.6.1 Accordingly, as set out in the description of the Scheme at Statements 40 to 44, most of the CPB Business and almost all of the PBB Business is to form the Adam Destination Business.
- 36.6.2 The NatWest Destination Business is to comprise the Mentor Business and the Covered Bonds Business.

The Legal Entity Reorganisation

- 37.1 The Scheme will also proceed in parallel with the Legal Entity Reorganisation.
- 37.2 In outline, the Legal Entity Reorganisation is to involve the creation of four

new sub-groups within the RBS Group.

- 37.3 The first of the sub-groups (“**the Ring-Fenced Sub-Group**”) is to contain all of those Group Companies, primarily Adam and NatWest, which are to carry on Core Activities.
- 37.4 The second of the sub-groups is to contain RBS plc, and those Group Companies which are its own subsidiaries, all of which are to carry on Excluded Activities after the Scheme.
- 37.5.1 The third of the sub-groups is to contain The Royal Bank of Scotland International Limited (“**RBSI**”), and those Group Companies which are its own subsidiaries, as well as certain other Group Companies outside the ring-fence.
- 37.5.2 All the members of that third sub-group are to carry on their respective banking businesses, which include Excluded Activities or activities which are carried on outside of the UK.
- 37.6.1 The fourth sub-group is to include RBS AA Holdings (UK) Limited.
- 37.6.2 That company is to be a holding company that will own assets which are not permitted to be held within the Ring-Fenced Sub-Group but do not belong specifically to the businesses which are within the second sub-group referred to in Statement 37.4.
- 37.7.1 NWH is to become the parent of the Ring-Fenced Sub-Group which is to include those operating Group Companies which are to be the “Ring-Fenced Bodies” of the RBS Group.
- 37.7.2 These Ring-Fenced Bodies are to include, primarily, NatWest, Adam and, in Northern Ireland, Ulster Bank Limited. These Group Companies were transferred to NWH on 1st January 2017.
- 37.7.3 For completeness, the Ring-Fenced Sub-Group will also include Coutts and Ulster Bank Ireland DAC (“**UBI**”).
- 37.7.4 UBI is incorporated, and a licensed bank, in the Republic of Ireland. It is the bank through which the RBS Group conducts retail and commercial banking business in that country.
- 37.7.5 UBI will not itself be a Ring-Fenced Body, as an entity can only be a Ring-Fenced Body if it is incorporated in the UK. However, UBI will be required to comply with the Ring-Fencing Provisions, as it will be part of the Ring-Fenced Sub-Group.
- 37.7.6 The Ring-Fenced Sub-Group will be created by the interposition of NWH as a direct subsidiary of RBSG. NWH is, at the date of this application, a direct subsidiary of RBS plc.

- 37.7.7 NWH will be transferred by RBS plc to RBSG by a dividend in specie, which will be permitted by the RBS plc Reduction. That transfer is anticipated to occur in the summer of 2018.
- 37.7.8 In March 2018, RBSG will, through NWH, inject regulatory capital into Adam in anticipation of the Scheme.
- 37.7.9 For completeness, a reduction of NWH's share premium account was confirmed by the Companies Court on 14th June 2017.
- 37.7.10 The purpose of that reduction was to create a reserve in the books of NWH which would be available for distribution to the shareholder of NWH.
- 37.8 As a further aspect of the RBS Group Ring-Fencing Proposals, RBS plc is to change its name to "*NatWest Markets Plc*" and simultaneously Adam is to change its name to "*The Royal Bank of Scotland plc*".
- 37.9.1 In addition, the RBS Group Ring-Fencing Proposals are to include the transfer, or termination, of most guarantees to third parties, intra-group guarantees and credit lines and capital support arrangements.
- 37.9.2 These arrangements are between the banks which are to be outside the ring-fence (and are to carry on the Excluded Activities) and the Ring-Fenced Sub-Group.
- 37.10 As regards the Ring-Fenced Sub-Group, those guarantees, credit lines and capital support arrangements will be replaced by ones from other members of that sub-group.
- 37.11.1 In addition, the RBS Group Ring-Fencing Proposals are to provide that, at the same time as the Scheme becomes effective, those RBS plc Employees in Great Britain who are designated for the Ring-Fenced Sub-Group are to become employees of NatWest.
- 37.11.2 NatWest will be the main employer of the Ring-Fenced Sub-Group and employ the largest number of RBS Group Employees.
- 37.12.1 RBSG, RBS plc, NWH, Adam and NatWest will also enter into, outside of the Scheme, a "*Framework Agreement*".
- 37.12.2 In outline, the Framework Agreement will, *inter alia*, regulate the transfer of certain RBS plc Employees and certain other RBS Group Employees to NatWest and will also outline the principles for the "*Inter Creditor Agreement*" which is referred to at Statement 58.6.
- 37.13 Diagrams showing, in simplified form, the structures of the RBS Group before, and after, the Legal Entity Reorganisation are set out in Schedule V.

Diligence

- 38.1 RBS plc has undertaken an extensive legal due diligence exercise in an attempt to

identify how the Scheme might adversely affect Transferring Counterparties and Remaining Counterparties and how any such effects could be mitigated.

38.2 That legal due diligence exercise was, in turn, based very closely on that which preceded each of the Previous Transfers.

The Scheme

Overview

39.1 The Scheme is set out in the Appendix. An outline of the main terms of the Scheme, and of its legal effect, are set out in this Statement and in Statements 40 to 62.

39.2 The overall structure and content of the Scheme are similar to those for a banking scheme.

39.3.1 However, the Scheme necessarily differs from any banking scheme.

39.3.2 The Scheme is not only compulsory and novel, but is also massive in scale and economic significance.

39.4 The Scheme will become effective at what is referred to as “**the Effective Time**”.

39.5 If the Scheme is sanctioned at the Sanction Hearing on 22nd March 2018, the Effective Time will be 00.01 hours on 30th April 2018 or such later date as RBS plc, Adam and NatWest may agree in writing with each of the Regulators.

39.6 The Scheme will lapse if it does not become effective on, or before, 31st December 2018, or such later date and time, or both, as the Court may allow on the application of RBS plc, Adam and NatWest.

39.7 The period between the Sanction Hearing and the Effective Time is thought sufficient to enable necessary changes to the computer systems of the RBS Group to be made and the appropriate communications to be drafted and issued.

39.8 The operation of computer systems is crucial to the Scheme and, in particular, the present timetable for its implementation.

39.9.1 The Scheme is to be governed by Scots law.

39.9.2 RBS plc, Adam and NatWest submit to the jurisdiction of this Court in respect of the Scheme.

39.10 For completeness, the Scheme is not subject to any legal condition.

The Transferring Businesses, the Transferring Assets and the Transferring Liabilities

40.1 As said at Statements 3.5 and 3.6, the Transferring Businesses are to comprise the Adam Destination Business and the NatWest Destination Business.

- 40.2 The consideration for the Adam Destination Business, including the owned and leased office, and branch, premises which form part of the latter and are referred to in the Scheme as “**the Adam Destination Properties**”, will be its book value, unless otherwise agreed in writing between RBS plc and Adam before the Sanction Hearing.
- 40.3.1 The consideration for the NatWest Destination Business, except the owned and leased office, and branch, premises which form part of the latter and are referred to in the Scheme as “**the NatWest Destination Properties**”, will also be its book value, unless otherwise agreed in writing between RBS plc and NatWest before the Sanction Hearing.
- 40.3.2 The consideration for the NatWest Destination Properties will also be their book value, with the exception of five significant NatWest Destination Properties. The latter will be transferred at fair value, unless otherwise agreed in writing between RBS plc and NatWest before the Sanction Hearing in respect of any of the NatWest Destination Properties.
- 40.4 The Transferring Assets are to comprise the Adam Destination Assets and the NatWest Destination Assets.
- 40.5 The Transferring Liabilities are to comprise the Adam Destination Liabilities and the NatWest Destination Liabilities.
- 40.6.1 The Scheme defines “**Assets**” in the widest terms, as comprising rights and interests of every description and in every capacity.
- 40.6.2 The Scheme defines “**Liabilities**” again in the widest terms, as comprising liabilities and obligations of all kinds, whether present, future, contingent or ascertained and whether incurred jointly or as surety and before or after the Effective Time.
- 40.7.1 The Scheme also includes a definition of an “**Arrangement**”, again in the widest terms, as comprising any contract, offer, invitation or commitment, in each case to which RBS plc is a party.
- 40.7.2 Those Arrangements which are to be transferred under the Scheme to Adam are referred to as “**Adam Destination Arrangements**” and those to NatWest as “**NatWest Destination Arrangements**”.
- 40.7.3 The Adam Destination Arrangements and the NatWest Destination Arrangements are together referred to as “**Transferring Arrangements**”.
- 40.7.4 Those Arrangements which are not to be transferred under the Scheme are referred to as “**Excluded Arrangements**”.
- 40.8 A diagram showing the structure of the Transferring Businesses is contained at Schedule VI.

The Adam Destination Business

- 41.1 In outline, the Adam Destination Business is to comprise the component parts of the CPB Business and of the PBB Business, except in each case for specified Excluded Assets and Excluded Liabilities, the principal categories of which are described at Statement 45.
- 41.2 More specifically, the Adam Destination Business is to comprise the following, namely:
- (i) (a) the Lending Business and (b) those of the Transferring Structured Debt Roles on any financing which relate to lending, and acting as adviser or cash manager and are referred to in the Scheme as “**the Transferring Structured Debt Roles**”;
 - (ii) the Trade Finance Business;
 - (iii) the Multi-Option Facilities Business;
 - (iv) the Interminable Indemnities Business;
 - (v) the Government Schemes Business;
 - (vi) the Cash and Payments Business;
 - (vii) the PBB Business (including any Transferring Offices); and
 - (viii) any other Core Activity which is carried out by RBS plc.
- 41.3.1 The Adam Destination Business is also to include those ancillary functions which relate to the role of acting as facility agent, or account bank. Any such function is referred to in the Scheme, and in this application, as “**a Transferring Agency**”.
- 41.3.2 However, the Adam Destination Business is not to include those ancillary functions which relate to the role of acting as security trustee or security agent. Any such function is referred to in the Scheme, and in Statement 45.6.1, as “**an Excluded Agency**”.
- 41.4 In some of the facilities in the Lending Business, RBS plc is both the lending bank and the “*hedging bank*” which enters into derivative contracts with the Counterparty and/or the “*account bank*” with which certain bank accounts are held.
- 41.5 The Adam Destination Business is also to include the relevant parts of the Legacy Capital Resolution Business.
- 41.6.1 For completeness, the Adam Destination Business is also to include certain

Transferring Arrangements between RBS plc and certain “*Relevant Financial Institutions*”.

41.6.2 Those Transferring Arrangements are intended to be transferred by Adam to RBSI after the Effective Time, and with the consent of the Counterparties.

41.6.3 Other such Arrangements will have been so transferred prior to the Effective Time.

The Adam Destination Assets and Adam Destination Liabilities

42.1 The Adam Destination Assets are to comprise all of the Assets of the Adam Destination Business, namely all rights of every kind, but excluding again Excluded Assets.

42.2 The Adam Destination Liabilities are to comprise all of the Liabilities of the Adam Destination Business, namely all liabilities of every kind, but excluding again Excluded Liabilities.

42.3 The Adam Destination Assets and the Adam Destination Liabilities are described in outline in this Statement.

42.4 The Excluded Assets and the Excluded Liabilities are described in outline in Statement 45.

42.5.1 The Adam Destination Assets are, first of all, to comprise all of the rights of RBS plc in connection with the Adam Destination Arrangements.

42.5.2 The Adam Destination Arrangements are, in turn, to comprise all the Arrangements in the Adam Destination Business.

42.6.1 In particular, the Adam Destination Arrangements are to include all “**Rights in Security**” which relate to the Adam Destination Business and of which RBS plc has the benefit.

42.6.2 Rights in Security are given an extended meaning in the Scheme, including security, quasi-security, guarantees and other rights having a similar economic effect.

42.7.1 The Adam Destination Arrangements are to include all “**Encumbrances**” which relate to the Adam Destination Business and to which RBS plc is subject.

42.7.2 Encumbrances are defined in the same wide terms as Rights in Security.

42.8 The Adam Destination Assets are also to include “**the Adam Destination Goodwill**”, namely the goodwill of RBS plc in relation to the Adam Destination Business.

42.9.1 The Adam Destination Assets are also to include “**the Adam Destination Records**”.

- 42.9.2 The Adam Destination Records are to comprise the records, however stored, of RBS plc which relate wholly, or primarily, to the Adam Destination Business, but excluding “**the Statutory Records**” and records relating wholly, or primarily, to taxation.
- 42.9.3 The Statutory Records are those records which RBS plc is required to retain by any statutory provision or “*corporate governance requirement*”.
- 42.10 The Adam Destination Assets are also to include the Adam Destination Properties, which are listed in Schedule 2 to the Scheme.
- 42.11.1 The Adam Destination Assets are also to include “**the Adam Destination Claims**”.
- 42.11.2 The Adam Destination Claims are to comprise all claims which relate to the Adam Destination Assets and the Adam Destination Liabilities, but excluding any claim which relates to taxation, other than any claim to the extent that it relates to the transfer of taxation reliefs.
- 42.12.1 In outline, the Adam Destination Liabilities are to comprise all of RBS plc’s liabilities, of every kind, which arise in connection with the Adam Destination Business and to the extent that they arise before, or relate to a period before, the Effective Time.
- 42.12.2 The Adam Destination Liabilities are to include all Liabilities arising under, or in connection with, the Adam Destination Arrangements.

The NatWest Destination Business

- 43.1.1 The NatWest Destination Business is first of all to include the Covered Bonds Business.
- 43.1.2 The Covered Bonds Business is to include “**the Transferring Covered Bond Roles**”, namely the Covered Bond Roles, other than the Excluded Covered Bond Roles which are described at Statement 45.7.
- 43.1.3 For completeness, Series 4 of the Covered Bonds will have been repaid in March 2018 before the Effective Time.
- 43.2 The NatWest Destination Business is also to comprise the Mentor Business, but excluding those specified Excluded Assets and Excluded Liabilities which are described at Statement 45.

The NatWest Destination Assets and the NatWest Destination Liabilities

- 44.1 The NatWest Destination Assets are to comprise all of the Assets of the NatWest Destination Business, but again excluding Excluded Assets.
- 44.2.1 The NatWest Destination Assets are, first of all, to comprise all of the rights of RBS plc in connection with the NatWest Destination Arrangements.

- 44.2.2 The NatWest Destination Arrangements are, in turn, to comprise all the Arrangements in the NatWest Destination Business.
- 44.3 The NatWest Destination Assets are to include the NatWest Destination Properties, which are listed in Schedule 3 to the Scheme.
- 44.4.1 The NatWest Destination Assets are also to include “**the NatWest Destination Records**”.
- 44.4.2 The NatWest Destination Records are to comprise the records, however stored, of RBS plc which relate wholly, or primarily, to the NatWest Destination Business, but excluding the Statutory Records and records relating wholly, or primarily, to tax.
- 44.5 The NatWest Destination Assets are also to include “**the NatWest Destination Goodwill**”, namely the goodwill attributable to the NatWest Destination Business.
- 44.6.1 The NatWest Destination Assets are also to include “**the NatWest Destination Claims**”.
- 44.6.2 The NatWest Destination Claims are to include all claims which relate to the NatWest Destination Assets and the NatWest Destination Liabilities.
- 44.6.3 However, the NatWest Destination Claims are to exclude any claim which relates to taxation, other than any claim to the extent that it relates to the transfer of taxation reliefs.
- 44.7.1 The NatWest Destination Liabilities are to comprise all of the Liabilities of the NatWest Destination Business, but again excluding Excluded Liabilities.
- 44.7.2 The NatWest Destination Liabilities are to include all Liabilities arising under, or in connection with, the NatWest Destination Arrangements.

The Excluded Assets and Excluded Liabilities

- 45.1.1 The Transferring Assets and the Transferring Liabilities are not to include the Excluded Assets and Excluded Liabilities, the principal categories of which are described in this Statement.
- 45.1.2 The Excluded Assets and the Excluded Liabilities are set out in full in Schedule 1 to the Scheme.
- 45.2.1 The Excluded Assets and the Excluded Liabilities are to include, as regards the Lending Business, “**the Excluded Lending Business**”.
- 45.2.2 The Excluded Lending Business is to include the Assets and Liabilities which are to be included on the data stick provided to the Court and labelled “*Excluded Lending Business Data Stick*”.

- 45.2.3 The Excluded Lending Business Data Stick comprises, in outline, Assets and Liabilities which it has been agreed will be excluded from transfer under the Scheme, including “*the WBS securitisation portfolio*” and other Arrangements with “*Relevant Financial Institutions*”.
- 45.3.1 The Excluded Assets and Excluded Liabilities are also to include, as regards the Trade Finance Business, “**the Excluded Trade Finance Business**”.
- 45.3.2 The Excluded Trade Finance Business is to comprise the Assets and Liabilities which are to be included on the data stick provided to the Court and labelled “*Excluded Trade Finance Business Data Stick*”.
- 45.3.3 The Excluded Trade Finance Business Data Stick comprises, in outline, Assets and Liabilities which it has been agreed will be excluded from transfer under the Scheme and which are designated for consensual transfer to RBSI.
- 45.4.1 The Excluded Assets and Excluded Liabilities are also to include, as regards the Legacy Capital Resolution Business, the “**Excluded Legacy Capital Resolution Business**”.
- 45.4.2 The Excluded Legacy Capital Resolution Business is to comprise the Assets and Liabilities which are to be included on the data stick provided to the Court and labelled “*Excluded Capital Resolution Business Data Stick*”.
- 45.4.3 The Excluded Capital Resolution Business Data Stick comprises, in outline, Assets and Liabilities which it has been agreed will be excluded from transfer under the Scheme, including lending to French local authorities and United States energy entities and film finance leases and deposits.
- 45.5.1 The Excluded Assets and the Excluded Liabilities are also to include, as regards the Government Schemes Business, “**the Excluded Government Schemes Business Assets**” and “**the Excluded Government Schemes Business Liabilities**”.
- 45.5.2 The Excluded Government Schemes Business Assets and the Excluded Government Schemes Business Liabilities are to comprise primarily any Assets or Liabilities arising under any Arrangement between RBS plc and the Bank of England in connection with the “*Funding for Lending*” Scheme.
- 45.5.3 The Excluded Government Schemes Business Assets and Excluded Government Schemes Business Liabilities are also to include any Assets, and Liabilities, arising under any “*Excluded Addenda*”.
- 45.5.4 In outline, Excluded Addenda are Arrangements under any Government Scheme which is connected with any Excluded Asset or any Excluded Liability.

- 45.6.1 The Excluded Assets and the Excluded Liabilities are also to include the Excluded Agency.
- 45.6.2 In outline, an Excluded Agency is any role where RBS plc is acting as security agent, or security trustee, for any secured party (including only RBS plc or a Group Company).
- 45.7.1 The Excluded Assets and the Excluded Liabilities are also to include, as regards the Covered Bonds Business, “**the Excluded Covered Bond Roles**”.
- 45.7.2 The Excluded Covered Bond Roles are to include, in outline, RBS plc’s functions, which have been described at Statement 15.5, as arranger or underwriter of, dealer in, or holder of Covered Bonds.
- 45.7.3 The Excluded Assets and Excluded Liabilities are also to include the shares which RBS plc holds in the Liquidation Member under the Covered Bond Programme.
- 45.7.4 For completeness, certain other Covered Bond Roles will be terminated by RBS plc and NatWest by ordinary contract and outside of the Scheme.
- 45.7.5 The Excluded Assets and the Excluded Liabilities are also to include, as regards the Adam Destination Business, “**the Excluded Structured Debt Roles**” and Assets and Liabilities of RBS plc under those roles.
- 45.7.6 In outline, the Excluded Structured Debt Roles are those which involve RBS plc holding, or dealing, in debt securities, or any role which could not be performed independently of holding, or dealing in, those securities.
- 45.8.1 The Excluded Assets and Excluded Liabilities are also to include the Excluded Proceedings.
- 45.8.2 The Excluded Proceedings are to comprise those which are to be included on the data stick provided to the Court and labelled “*Excluded Proceedings Data Stick*”.
- 45.8.3 The Excluded Proceedings Data Stick comprises, in outline, proceedings which are related to the Transferring Businesses and which it has been agreed will be excluded from the Scheme.
- 45.9 The Excluded Assets and Excluded Liabilities are also to include the Arrangements relating to RBS plc’s membership of payment schemes, card schemes and other schemes, including those listed in Schedule 5 to the Scheme.
- 45.10 The Excluded Assets and Excluded Liabilities are also to include those arising under “**Intra-Group Arrangements**”, namely any Arrangement to which the only parties are Group Companies.

- 45.11.1 The Excluded Assets and Excluded Liabilities are also to include “**Excluded Intellectual Property**”.
- 45.11.2 In outline, the Excluded Intellectual Property is to include trade marks and names including “*RBS*” and “*NatWest*”, other intellectual property rights of RBS plc and any Arrangements for their use.
- 45.11.3 The Excluded Assets and Excluded Liabilities are also to include any Arrangements which, in outline, relate to the provision of goods, services, software, or maintenance or licensing of any of the trade marks or domain names which are not owned, or registered, by any Group Company and which are used in connection with any “*co-badged*” debit, credit or charge cards.
- 45.11.4 Co-badged cards are those which include a third party trade mark for use on the card, such as a charity trade mark.
- 45.11.5 The Excluded Assets and Excluded Liabilities are also to include any Arrangements which are in connection with the servicing, or maintenance, of computers and IT networks.
- 45.12 The Excluded Assets are also to include any Assets which are owned by third parties but are located at the Adam Destination Properties or the NatWest Destination Properties.
- 45.13.1 The Excluded Assets are also to include “**Excluded Fixed Assets**”.
- 45.13.2 Those Excluded Fixed Assets are to include all fixed equipment, all moveable Assets and computer and IT infrastructure, including servers, telephony systems, platforms and hardware.
- 45.13.3 Those Excluded Fixed Assets are not to include any cash of the Adam Destination Business and the NatWest Destination Business, which is to transfer under the Scheme.
- 45.14 The Excluded Assets and Excluded Liabilities are also to include, in outline, (i) any facility in respect of which RBS plc has granted a sub-participation, or similar arrangement, unless the funded sub-participation, or similar arrangement, is also to be transferred pursuant to the Scheme, and (ii) any sub-participation, or similar arrangement, unless the relevant facility is also transferred.
- 45.15 The Excluded Assets and Excluded Liabilities are also to include, in outline, syndicated lending under which RBS plc has agreed to issue letters of credit, or bank guarantees, on behalf of members of a syndicate which are not Group Companies.
- 45.16 The Excluded Assets and Excluded Liabilities are also to include, again in outline, those which are in respect of an Arrangement with a person which has

entered into a formal insolvency process outside the UK.

- 45.17 The Excluded Assets and Excluded Liabilities are also to include shares in Group Companies which are owned by RBS plc and any shares or securities which are owned by RBS plc and which are, or are capable of being, traded on the London Stock Exchange.
- 45.18 The Excluded Assets are also to comprise the Statutory Records.
- 45.19 The Excluded Assets and Excluded Liabilities are also to include, in outline, those which are owed to, or by, a tax authority, except for those reliefs which, in outline, relate to losses and transfer under statute to Adam or NatWest.
- 45.20 The Excluded Assets and Excluded Liabilities are also to include, again in outline, those which arise under any contract with any of the RBS plc Employees.
- 45.21.1 The Excluded Assets and Excluded Liabilities are also to include, out of caution, those which are part of the NatWest Markets Business, and “*the Treasury Business*” which is defined in the Scheme as, in outline, those transactions which could be recorded as part of the Treasury Function.
- 45.21.2 The Excluded Assets and Excluded Liabilities are also to include the “*Excluded RBSI Managed Business*”. In outline, that business is defined in the Scheme as business of RBS plc which is managed by RBSI.
- 45.22.1 The Excluded Assets and Excluded Liabilities are also to include, the Excluded Western European Business.
- 45.22.2 In outline, the Excluded Western European Business is business which is recorded in, and designated as such in, the Commercial Banking Segment, or the PBB Segment and which is of two kinds.
- 45.22.3 The first kind of business comprises trade services, and similar services, where the Counterparty of such business is incorporated, and administers the facility, in a “*Western European Jurisdiction*”.
- 45.22.4 The second kind of business forms part of the Lending Business, where the Counterparty of such business is incorporated, and administers the lending, in a “*Western European Jurisdiction*”.
- 45.22.5 “*Western European Jurisdiction*” consists of fourteen jurisdictions. Germany, France and The Netherlands are the three most significant jurisdictions by business and client volume.
- 45.23.1 The Excluded Assets and Excluded Liabilities are also to comprise any Assets or Liabilities which RBS plc and the Relevant Transferee have agreed in writing prior to the Effective Time are to be excluded from transfer under the

Scheme.

- 45.23.2 It is not intended that there be any such Excluded Assets and Excluded Liabilities.
- 45.23.3 That provision is to be included in the Scheme out of conventional caution.
- 45.24.1 The Excluded Assets and Excluded Liabilities are also to comprise any “**Prohibited Asset**” or “**Prohibited Liability**”, or related Arrangement.
- 45.24.2 A Prohibited Asset, or a Prohibited Liability, is, in outline, one which relates to an Excluded Activity.
- 45.24.3 Certain Prohibited Assets and Prohibited Liabilities are to be included on the data stick provided to the Court and labelled “*Prohibited Assets and Prohibited Liabilities*”.
- 45.24.4 The Prohibited Assets and Prohibited Liabilities Data Stick comprises Prohibited Assets and Prohibited Liabilities of RBS plc which are to be consensually transferred to RBSI, or otherwise terminated but will not have been so transferred, or terminated, by the Effective Time. Those Assets and Liabilities will temporarily be held by Adam until their transfer to RBSI or termination.
- 45.24.5 These Assets and Liabilities include real estate funds lending, strategic funds lending and other Arrangements with strategic funds Counterparties.

The Residual Assets and the Residual Liabilities

- 46.1 Most of the Transferring Assets and the Transferring Liabilities will transfer to Adam, or NatWest, with effect from the Effective Time.
- 46.2 Those Transferring Assets and Transferring Liabilities are referred to in the Scheme as “**the Initial Adam Destination Assets**”, “**the Initial Adam Destination Liabilities**”, “**the Initial NatWest Destination Assets**” and “**the Initial NatWest Destination Liabilities**”.
- 46.3 As regards other Transferring Assets and Transferring Liabilities, it may not be legally possible, or commercially appropriate, for them to be transferred with effect from the Effective Time.
- 46.4 Those Transferring Assets and Transferring Liabilities are referred to in the Scheme as “**Residual Assets**” and “**Residual Liabilities**”.
- 46.5 Each of the Residual Assets and Residual Liabilities will transfer, under the Scheme, only on what is referred to as a “**Subsequent Transfer Date**”, as set out in Statement 46.11.
- 46.6.1 The first category of Residual Assets and Residual Liabilities is to comprise those Transferring Assets and Transferring Liabilities, whose transfer from the

Effective Time the Court declines to order.

- 46.6.2 That category of Residual Assets and Residual Liabilities would in practice comprise Transferring Assets and Transferring Liabilities, whose transfer required a third party's consent and in respect of which the Court did not make an order under section 112(2) overriding that requirement.
- 46.6.3 It is reasonably believed that there will in fact be no Residual Assets and Residual Liabilities in that first category.
- 46.6.4 The first category of Residual Assets and Residual Liabilities is, therefore, to be included in the Scheme out of conventional caution.
- 46.7 The second category of Residual Assets and Residual Liabilities is to comprise those Transferring Assets and Transferring Liabilities, which are not governed by a UK law and the intended transfer of which under the Scheme would not be recognised by their governing law as fully effective to transfer ownership, at least not without some further legal process, such as registration of the transfer.
- 46.8.1 The third category of Residual Assets and Residual Liabilities is to comprise those Transferring Assets and Transferring Liabilities, which RBS plc and Adam, or NatWest, agree in writing are not to be transferred with effect from the Effective Time.
- 46.8.2 It is reasonably believed that, to the extent that RBS plc and Adam or NatWest enter into any such agreement, it will relate only to a limited number of Transferring Assets or Transferring Liabilities.
- 46.8.3 That category is, therefore, to be included in the Scheme out of conventional caution.
- 46.9.1 The fourth category of Residual Assets and Residual Liabilities is to comprise those Transferring Assets and Transferring Liabilities, for which Adam or NatWest does not have regulatory permission or consent.
- 46.9.2 It is reasonably believed that, to the extent there are any Transferring Assets and Transferring Liabilities in that fourth category, it will only be a limited number.
- 46.9.3 That category is again to be included in the Scheme out of conventional caution.
- 46.10 The final category of Residual Asset is to comprise any Asset, such as a right to a dividend, which is derived from a Residual Asset and arises before the Subsequent Transfer Date for that Residual Asset.
- 46.11 In outline, the Subsequent Transfer Date, on which a Residual Asset and a Residual Liability will be transferred under the Scheme, will be that on which

the legal impediment to transfer has been overcome.

- 46.12 The date on which a Transferring Asset, or a Transferring Liability, transfers, whether it is the Effective Time or a Subsequent Transfer Date, is referred to in the Scheme as “**the Relevant Date**”.
- 46.13 Until the applicable Subsequent Transfer Date, RBS plc will either hold the Residual Assets on trust for Adam or NatWest, where the governing law so permits, or will be under a contractual duty to account for those Residual Assets to Adam or NatWest.
- 46.14 In particular, Residual Assets will not be held on trust to the extent that the creation of such a trust would, among other things, not be recognised by the governing law, or would cause a breach of any Arrangement or the Ring-Fencing Provisions.

Other Transfers by, and Amendment of, the Scheme

- 47.1.1 With effect from the Relevant Date for any Transferring Asset, or Transferring Liability, all proceedings of any kind before any court, or tribunal, in respect of which RBS plc is the claimant, pursuer or other party, and which are pending at the Relevant Date and which relate solely to that Transferring Asset, or that Transferring Liability, will, be continued by, or against, the Relevant Transferee.
- 47.1.2 That transfer will not apply to the Excluded Proceedings and to any proceedings in respect of which RBS plc and the Relevant Transferee otherwise agree in writing prior to the Relevant Date.
- 47.2 With effect from the Effective Time, there will also be transferred to the Relevant Transferee all the transferrable rights, and transferrable obligations, of RBS plc in respect of all personal data which is comprised in the Transferring Businesses and in respect of which RBS plc is the data controller immediately prior to the Effective Time.
- 47.3.1 RBS plc, Adam and NatWest may also consent for, and on behalf of, all other persons to any modification of, or addition to, the Scheme, or to any condition or provision which, prior to its sanction, the Court may agree or impose.
- 47.3.2 This power is to be subject to each of the Regulators having been given reasonable prior notice.
- 47.4.1 At any time after its sanction, RBS plc, Adam and NatWest may apply to the Court to amend the terms of the Scheme.
- 47.4.2 That right is to be subject to section 107(2A) and to the PRA and the FCA being notified of the proposed amendment and having the right to be heard at the hearing at which it is to be considered.

The Effect of the Scheme

The General Effect

- 48.1 Subject to the exceptions which are addressed at Statements 50 to 62, the general effect of the Scheme is to be that each Transferring Asset and Transferring Liability, will, from the Relevant Date, have effect, as if they had always been held by, or made with, the Relevant Transferee, instead of RBS plc.
- 48.2 In particular, the general effect of the Scheme is to be that the Relevant Transferee and the Transferring Counterparty will, with effect from the Relevant Date, have the same rights, and be subject to the same obligations, as RBS plc and the Transferring Counterparty had, and were under, before the transfer.
- 48.3 For completeness, those Assets and Liabilities are to include rights, and obligations, of payment, whether of principal, or interest or any other sum.
- 48.4.1 The transfer of the Transferring Assets and the Transferring Liabilities necessarily involves certain amendments to them in order for that transfer to be effective.
- 48.4.2 As is conventional, many of those necessary amendments are also set out expressly in the Scheme.
- 48.5.1 In particular, the Transferring Assets will continue both to have the benefit of Rights in Security and to be subject to Encumbrances.
- 48.5.2 One example is a “*stapled account and loan*”.
- 48.5.3 In such an Arrangement, the credit balance on a Counterparty’s account is subject to a charge to secure a loan which RBS plc has made to that Counterparty.
- 48.6 The Transferring Liabilities will also continue to be subject to any Encumbrances, such as a charge in favour of a third party over a deposit with RBS plc.
- 48.7 In addition, any instruction given to RBS plc by Counterparties in respect of any Transferring Asset, or any Transferring Liability, will remain as effective as one given to the Relevant Transferee.

Amplifying the General Effect

- 49.1.1 In addition, and in order to amplify its general effect, the Scheme is to provide expressly that the transfer, under the Scheme, of the Transferring Businesses is, in outline, (i) not to constitute a breach of, invalidate, or discharge any legal relationship; and (ii) not to give rise to any right to terminate, or modify, any

legal relationship in any way.

- 49.1.2 These provisions of the Scheme are, in turn, to be subject to the exceptions which are set out at Statements 50 to 62.
- 49.2.1 It is, therefore, sought to include in the Sanction Order an express direction, under sections 112(2)(a), 112(2A) and 112(2B) in respect of the Transferring Assets and Transferring Liabilities.
- 49.2.2 The direction is to be that their transfer to the Relevant Transferee shall be valid on all persons having any right in any of the Transferring Assets and Transferring Liabilities, notwithstanding any restriction which would otherwise exist, under an Arrangement or otherwise, on their transfer.
- 49.3 As regards section 112A, no right to modify, or terminate, a Transferring Asset, or a Transferring Liability, may be exercised in consequence of its transfer under the Scheme, except in so far as any direction is made to that effect by this Court in accordance with the Scheme.
- 49.4.1 Some of the Arrangements which are in the NatWest Markets Business may give rights to terminate the Arrangement, or require further collateral under it, in the event that a credit rating downgrade of RBS plc occurs.
- 49.4.2 The implementation of ring-fencing might mean that such a credit rating downgrade occurs, as described at Statement 71.3.
- 49.4.3 In those circumstances, the Remaining Counterparties under those contracts would have the right to terminate them, or require RBS plc to provide further collateral.
- 49.4.4 Section 112A would apply to those rights unless, and to the extent that, the Sanction Order otherwise directed.
- 49.4.5 The Scheme seeks to preserve those rights of the Remaining Counterparties, which are referred to there as “*Enforceable Rights*”.
- 49.4.6 Accordingly, it is sought that the Sanction Order includes a direction preserving Enforceable Rights.
- 49.5.1 For completeness, the rights which are described at Statements 13.4 and 13.5 and would arise on a Merger Without Assumption, or a Credit Event Upon Merger, are not Enforceable Rights to which that direction is to apply.
- 49.5.2 The direction is not also to apply to those rights because RBS plc reasonably believes that the transfer, under the Scheme, of the Transferring Businesses would not constitute either a Merger Without Assumption, or a Credit Event Upon Merger, under the Arrangements which are to remain in the Excluded Business.

49.5.3 Accordingly, no such rights for Remaining Counterparties are expected to become exercisable.

49.6 Other than as set out at Statement 67.6.3, no Remaining Counterparty is likely to be adversely affected by the transfer by the Scheme of the Transferring Businesses out of RBS plc.

The Exceptions to the General Effect

50.1 The other exceptions to the general effect of the Scheme, in relation to the Transferring Assets and the Transferring Liabilities, are the amendments to them which are addressed at Statements 51 to 62 (“**the Amendments**”).

50.2 In outline, most of the Amendments are intended to avoid the risk of the Scheme adversely affecting the position of any of the Transferring Counterparties.

50.3 The other Amendments are necessary for the Scheme to be fully, and effectively, carried out.

The Amendments

Overview

51.1 This Statement describes how the Amendments are to amend, and in some cases restrict, rights of the Relevant Transferee under some of the Transferring Assets and Transferring Liabilities.

51.2 The Amendments take the form of direct amendments to the contractual terms of a Transferring Asset, or a Transferring Liability, or of an undertaking by the Relevant Transferee.

51.3 The Amendments are in addition to those amendments which are inherent in the transfer from RBS plc to the Relevant Transferee.

51.4 In outline, the majority of the Amendments are intended to avoid the Scheme adversely affecting any of the Transferring Counterparties.

51.5.1 The first to fourth Amendments restrict rights which Adam, or RBS plc, would, or at least might, have in consequence of the Scheme.

51.5.2 Those Amendments are conventional in a banking scheme which includes business similar to the Transferring Business.

51.6 The fifth to ninth Amendments are necessary for the Scheme to be fully and effectively carried out.

51.7 Similarly, the tenth Amendment is necessary to assist the RBS Group in being compliant with the Ring-Fencing Rules.

The First Amendment – Contractual Rights of Set-off

- 52.1 The first Amendment concerns contractual rights of set-off, which Adam would otherwise have in consequence of the Scheme and which are referred to in the Scheme as “*Set-Off Rights*”.
- 52.2 The Set-Off Rights would otherwise have been available against a Transferring Counterparty, who was a creditor of RBS plc under an Arrangement.
- 52.3.1 The practical effect of the first Amendment is that the Set-Off Rights will be restricted, with effect from the Effective Time.
- 52.3.2 Adam will have no right to set off amounts which it is owed by, or it owes to, a Transferring Counterparty under an Adam Destination Arrangement against amounts which the Transferring Counterparty owes to Adam, or is owed by Adam, under what is referred to in the Scheme as an “*Existing Adam Product Arrangement*” between Adam and the Transferring Counterparty.
- 52.4 Those restrictions on the Set-Off Rights will last for three months following the Effective Time, and are subject to two exceptions.
- 52.5 The first exception is where RBS plc, or Adam, already has the right at the Effective Time.
- 52.6 The second exception is where the Set-Off Rights are later acquired by Adam, otherwise than solely in consequence of the Scheme.
- 52.7.1 Those restrictions on Set-Off Rights are intended to prevent the Scheme, for the three month period, adversely affecting a Transferring Counterparty, whose position will, in commercial terms, be the same both before, and after, the Scheme.
- 52.7.2 A Transferring Counterparty who might be affected by these Set-Off Rights will be entitled, from the Sanction Hearing until three months following the Effective Time, to withdraw an existing deposit with Adam or a deposit transferred from RBS plc.
- 52.7.3 That withdrawal would be without loss of any accrued interest and without incurring any charge that would otherwise apply in consequence of that withdrawal.

The Second Amendment – All Monies Rights and Consolidation Rights

- 53.1 The second Amendment concerns Rights in Security, which Adam would, or might, otherwise have in consequence of the Scheme, to secure all the Liabilities which are owed to it by a Transferring Counterparty.
- 53.2 Those Rights in Security are referred to in the Scheme as “*All Monies Rights*” and “*Consolidation Rights*”.
- 53.3.1 Those Rights in Security which are transferred under the Scheme will be

restricted with effect from the Relevant Date.

- 53.3.2 Those Rights in Security will not secure Liabilities which the Transferring Counterparty already owes to Adam at the Relevant Date under an Existing Adam Product Arrangement.
- 53.4 Equally, Rights in Security which Adam already has at the Relevant Date will not secure Liabilities of the Transferring Counterparty under an Adam Destination Arrangement.
- 53.5.1 Those restrictions are also subject to two exceptions.
- 53.5.2 The first exception is where the Rights in Security which Adam already has at the Relevant Date are not extended in consequence of the Scheme.
- 53.5.3 The second exception is where the Rights in Security are later extended otherwise than in consequence of the Scheme.
- 53.6 In practice, the exceptions will apply when the Rights in Security of RBS plc or Adam are stated, at the Relevant Date, to secure all Liabilities which a Transferring Counterparty owes to any Group Company.
- 53.7 Those restrictions on the Rights in Security are intended to prevent the Scheme adversely affecting a Transferring Counterparty, whose position will, in commercial terms, be the same both before, and after, the Scheme.

The Third Amendment – Cross Default Rights

- 54.1.1 The third Amendment concerns other rights which Adam would, or might, otherwise have in consequence of the Scheme.
- 54.1.2 Those rights are referred to in the Scheme as “*Cross Default Rights*”.
- 54.2.1 Those rights will be restricted with effect from the Relevant Date.
- 54.2.2 In outline, Adam will have no right to exercise any of those rights which might otherwise be exercisable solely in consequence of the Scheme.
- 54.3 Those restrictions are subject to what are, in substance, the same two exceptions as those to which the Set-Off Rights are subject.

The Fourth Amendment – Disruption/ Adjustment Rights

- 55.1 The fourth Amendment concerns rights which RBS plc might otherwise have after the Effective Time under the terms of certain of the Excluded Arrangements, and which might adversely affect the interests of the Remaining Counterparties.
- 55.2 As said at Statement 13, certain of those Excluded Arrangements are ones under which the payment obligations are linked to the performance of one, or more, underlying assets and in respect of which the obligor may have entered

into hedging arrangements.

- 55.3.1 The terms of those Excluded Arrangements give RBS plc, or its agent, rights, in certain circumstances, to alter its rights and obligations to its benefit and to the disadvantage of the Remaining Counterparties.
- 55.3.2 Those rights are referred to in the Scheme and this application as “**Disruption/Adjustment Rights**”.
- 55.3.3 The circumstances in which Disruption/Adjustment Rights might arise include the obligor being unable to maintain the necessary hedge, or being unable to perform any obligation by reason of its maintaining the hedge or the increased cost of the hedge.
- 55.3.4 Those circumstances are referred to in the Scheme as “*Disruption/Adjustment Events*”.
- 55.4 It has been suggested that Disruption/Adjustment Events might occur in respect of the Excluded Business as a consequence of the Scheme.
- 55.5 In order to prevent any possible disadvantage of that kind to those Remaining Counterparties, the rights of RBS plc will be expressly limited by the fourth Amendment.
- 55.6 If a Disruption/Adjustment Right were to arise in respect of any Excluded Arrangement solely in consequence of the Scheme, RBS plc would be unable to exercise that Disruption/Adjustment Right.

The Fifth Amendment – Trade Finance Counter Indemnities

- 56.1.1 The fifth Amendment is to apply where a trade finance counter indemnity which has been entered into by RBS plc is to form part of the Initial Adam Destination Assets and where it relates to both a trade finance instrument which is an Adam Destination Arrangement and a trade finance instrument which is a Residual Asset or an Excluded Arrangement.
- 56.1.2 Such a trade finance counter indemnity is referred to in the Scheme and this application as “**a Shared Trade Finance Counter Indemnity**”.
- 56.2 Each Shared Trade Finance Counter Indemnity will be amended to the effect that Adam will become a party to that Shared Trade Finance Counter Indemnity, to the extent it relates to an Adam Destination Arrangement, and RBS plc will also be a party to the extent it relates to a Residual Asset or an Excluded Arrangement.
- 56.3.1 The fifth Amendment is also to apply where a trade finance counter indemnity is to form part of the Initial Adam Destination Assets and where it relates only to a trade finance instrument which is a Residual Asset.

- 56.3.2 Each such trade finance counter indemnity will be amended to the effect that RBS plc will be able to claim against Adam for any claim by a beneficiary against RBS plc under a trade finance instrument which is a Residual Asset.

The Sixth Amendment – Government Schemes

- 57.1 The sixth Amendment is to apply to Government Schemes which relate to both Adam Destination Arrangements and Excluded Arrangements.
- 57.2 These Government Schemes are referred to in the Scheme and this application as “**Shared Government Schemes**”.
- 57.3 Each Shared Government Scheme shall be amended to the effect that Adam will become a party to that Shared Government Scheme, to the extent it relates to an Adam Destination Arrangement, and RBS plc will also be a party, to the extent it relates to Excluded Arrangements.

The Seventh Amendment – Shared Security

- 58.1 The seventh Amendment is to apply to those Rights in Security at the Effective Time which secure both (i) Transferring Assets and future Assets of Adam, or both and (ii) Excluded Assets or future Assets of RBS plc or existing, or future, Assets of NatWest.
- 58.2 Such Rights in Security are referred to in the Scheme, and this application, as “**Shared Security**”.
- 58.3 Each Shared Security which is to secure both Adam Destination Assets and Excluded Assets or, as applicable, Assets of NatWest is to transfer to Adam, with effect from the Effective Time.
- 58.4 Adam will thereafter hold the Shared Security in trust for itself and RBS plc, or NatWest, and as security for both (i) the Adam Destination Assets or future Assets of Adam and (ii) the Excluded Assets, or future Assets of RBS plc or, as applicable, existing, or future, Assets of NatWest.
- 58.5.1 The Shared Security should not adversely affect the rights, or position in practice, of the Transferring Counterparties who have granted them.
- 58.5.2 In fact, the Shared Security will preserve the original position for a Counterparty which has granted the same security over the same assets for the same liabilities.
- 58.6 For completeness and as described at Statement 37.12.2, Adam, RBS plc and NatWest will enter into, in addition to the Scheme, an “*Inter Creditor Agreement*”, which will regulate their respective rights to the Shared Security and their enforcement.

The Eighth Amendment – Stapled Arrangements

- 59.1 The eighth Amendment is to apply to Arrangements which are legally distinct but are so intrinsically connected they are conventionally said to be “*stapled*”, such as those described in Statement 41.4.
- 59.2 With effect from the Effective Time, those Arrangements will be amended to the effect that Adam will be a party to those Arrangements, to the extent they relate to Transferring Assets, and RBS plc will remain a party to those Arrangements, to the extent they relate to Excluded Arrangements.

The Ninth Amendment – Covered Bond Programme

- 60.1 The ninth Amendment is to comprise certain amendments, which are to be made under the Covered Bond Programme and are set out in full at Schedule 4 to the Scheme.
- 60.2 In outline, those amendments are to provide that NatWest will take on the role of *Issuer*, as well as the roles of *Cash Manager*, *Seller*, *Servicer*, *Interest Swap Provider*, *Covered Bond Swap Provider* and *Designated Member* (each as described in the definition of “*Transferring Covered Bond Roles*” in the Scheme).

The Tenth Amendment – Disapplication of Third Party Netting Arrangements

- 61.1.1 The final Amendment is to concern the disapplication of “*customer netting*” Arrangements, or rights which a Counterparty has to set off Liabilities which it owes to members of the Ring-Fenced Sub-Group against liabilities which it is owed by any other Group Company which is not a member of the Ring-Fenced Sub-Group.
- 61.1.2 Those rights may arise under Transferring Arrangements and Excluded Arrangements.
- 61.1.3 Those Arrangements and rights are ones which would infringe rule 14 of the PRA Rulebook: CRR Firms and Non-Authorised Persons: Ring-fenced Bodies Instrument 2016.
- 61.2 The effect of that amendment will be that such customer rights will no longer apply from 1st January 2019.
- 61.3 For completeness, that amendment will not affect the right to set off any sums which are owed to any member of the Ring-Fenced Sub-Group against sums which are owed by any other member of the Ring-Fenced Sub-Group.

The FSCS

- 62.1 Where a Transferring Counterparty has, prior to the Effective Time one, or

more, deposits which are part of the Adam Destination Business (“**the Transferring Deposits**”) and one, or more, existing deposits with Adam (“**Existing Adam Deposits**”), they would potentially be adversely affected by the Scheme.

- 62.2 The potential adverse effect would arise under the Financial Services Compensation Scheme (“**the FSCS**”).
- 62.3.1 First of all, the compensation payable, under the FSCS, to depositors is ordinarily limited to £85,000 for each financial institution.
- 62.3.2 At the Effective Time, Transferring Counterparties who have Transferring Deposits and Existing Adam Deposits may experience a decrease in the amount of FSCS protection, as they will only benefit from FSCS protection of up to £85,000.
- 62.4 Secondly, RBS plc and Adam are separate institutions for the purposes of the FSCS and those limits, although both are within the RBS Group.
- 62.5 That potential adverse effect will be dealt with not by a term of the Scheme but, as is more convenient and is conventional, for a banking scheme in this Court, by a separate undertaking by Adam to this Court (“**the Withdrawal Undertaking**”).
- 62.6 The Withdrawal Undertaking will provide that Adam will permit the withdrawal by such a Transferring Counterparty of all, or part, of the Transferring Deposit, or the Existing Adam Deposit, without loss of any accrued interest and without incurring any charge that would otherwise apply in consequence of that withdrawal.
- 62.7 That right under the Withdrawal Undertaking will be exercisable at any time from 22nd March 2018, the proposed date of the Sanction Hearing, until the date which is three months after the Effective Time.
- 62.8 That right under the Withdrawal Undertaking will not be exercisable where Adam has after the Effective Time a right in security, or a right of set-off, over the Transferring Deposit or the Existing Adam Deposit in either case which exists immediately prior to the Effective Time.
- 62.9 For completeness, the NatWest Destination Business does not include any deposits.

The Ancillary Ring-Fencing Arrangements

- 63.1 In order to comply with the Ring-Fencing Provisions, NatWest will enter into agreements with Adam, the rest of the Ring-Fenced Sub-Group and the other Group Companies for the provision to them of central functions and support service.

- 63.2 As said at Statement 37.11.2, NatWest is also to become the main employer of the Ring-Fenced Sub-Group and employ the largest number of RBS Group Employees, including those RBS plc Employees in Great Britain who are designated for the Ring-Fenced Sub-Group.
- 63.3 As said at Statement 37.12.1, RBSG, RBS plc, Adam, NatWest and NWH will enter into a Framework Agreement.

The Scottish Bank Note Issue

- 64.1 Although it is not technically part of the Scheme, the RBS Group Ring-Fencing Proposals will also include the transfer from RBS plc to Adam of the facility to issue Scottish bank notes, as well as the liabilities under existing Scottish bank notes.
- 64.2 That will be achieved under the Banking Act 2009, which was amended by the Bank of England and the Financial Services Act 2016, with effect from 6th July 2016.
- 64.3.1 As so amended, section 215 of the Banking Act 2009 provides, in effect, that HMT may, by regulations and with the consent of the Bank of England, designate a bank as authorised to issue bank notes in a part of the UK in place of another bank in the same group.
- 64.3.2 The date on which the designation in relation to Scotland is to take effect may be announced by being published in advance in *The Edinburgh Gazette*.
- 64.4 It is envisaged that the designation by HMT of Adam in place of RBS plc will take effect on the same day as the Effective Time.

The PRA and the FCA

- 65.1 Section 107(2A) provides that an application relating to a ring-fencing transfer scheme may be made only with the consent of the PRA.
- 65.2 Section 107(2B) provides that, in deciding whether to give consent under Section 107(2A), the PRA must have regard to the report which must be prepared under section 109A on the ring-fencing transfer scheme and which is addressed at Statements 66 to 68.
- 65.3 The PRA has, in a letter to RBS plc dated 31st October 2017, given its consent to the application being made.
- 65.4 It is expected that the PRA and the FCA will more actively participate in this process than has been usual, especially in this Court for a banking scheme.
- 65.5 As set out at Statement 72.5, each of the Regulators has been consulted in advance on the communications exercise which is to be undertaken in relation

to the Scheme and this application.

The Scheme Reports

Section 109A

- 66.1 Section 109A(1) provides, in effect, that an application for sanction of a ring-fencing transfer scheme must be accompanied by a report on the scheme which is called “*a scheme report*”.
- 66.2.1 Section 109A(2) provides, in effect, that a scheme report may be made only by a person who appears to the PRA to have the skills necessary and is approved by the PRA.
- 66.2.2 Such a person has been called “*the Skilled Person*” by the PRA and banks, including the RBS Group.
- 66.3 Section 109A(3) provides that a scheme report must be in a form which has been approved by the PRA.
- 66.4 Section 109A(4) provides that a scheme report must state 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 to achieve whichever of the purposes mentioned in section 106B(3) is relevant to the Scheme.
- 66.5.1 Correctly interpreted in its context in section 109A(3), “*likely*” has its primary meaning of “*more probable than not*”.
- 66.5.2 The alternative meaning is that of a “*realistic prospect*”.
- 66.6 In addition, and correctly interpreted in their context in section 109A(3), the words “*reasonably necessary*” mean something between highly desirable and essential.
- 66.7 More generally, it is implicit in section 109A that a scheme report must state the opinion of the Skilled Person on those matters, to which section 109A(3) specifically refers.
- 66.8 Those matters have been called “*the Statutory Question*” by the PRA and banks, including the RBS Group.
- 66.9 Section 109A(5) provides, in effect, that the PRA must consult with the FCA before approving the Skilled Person and the form of the scheme report.
- 66.10 The requirement for a scheme report is a significant difference between a ring-fencing transfer scheme and a banking scheme.

The Skilled Person and the Scheme Report

- 67.1.1 Oliver Grundy, a Fellow of The Institute of Chartered Accountants in England and

Wales, has been appointed as the Skilled Person for the Scheme, with the approval of the PRA, which is set out in the letter to RBS plc and is dated 21st July 2016.

- 67.1.2 That letter refers expressly to the PRA having first consulted with the FCA.
- 67.2 Mr Grundy is a senior partner of Deloitte LLP, which firm was until 2015 the auditors of the RBS Group.
- 67.3 Mr Grundy has prepared a scheme report on the Scheme (“**the Scheme Report**”).
- 67.4.1 The form of the Scheme Report has also been approved by the PRA, as set out in the letter dated 31st October 2017.
- 67.4.2 That letter refers expressly to the PRA having first consulted with the FCA.
- 67.5.1 In particular, the Scheme Report includes a detailed answer to the Statutory Question.
- 67.5.2 In doing so, the Scheme Report has implicitly adopted the interpretation of the Statutory Question which is set out at Statement 66.
- 67.6.1 The overall answer to the Statutory Question is set out in Section 2 of the Scheme Report.
- 67.6.2 That answer is, in summary, “*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)*”.
- 67.6.3 In outline, the one matter in respect of which the Scheme Report has concluded that an adverse effect is likely concerns those Remaining Counterparties who may be adversely affected by a weakening in the credit rating of RBS plc. Those Remaining Counterparties include those who hold debt securities, or “*money markets*” deposits and those who have entered into derivative Arrangements.
- 67.7.1 The conclusion regarding the communications exercise which is proposed in relation to the Scheme and which is described at Statement 72 is set out at paragraph 15.8 of the Scheme Report.
- 67.7.2 That conclusion is, in substance, that Mr Grundy is satisfied that the proposed communications are clear, fair and not misleading and that the proposed communications exercise will be provided in a timely manner and inform persons of the process for objecting to the Scheme.

Supplementary Scheme Report

- 68.1 Although it is not required by section 109A, it is envisaged that, shortly before the

Sanction Hearing, Mr Grundy will prepare a supplementary report (“**the Supplementary Scheme Report**”).

- 68.2 It is envisaged that the Supplementary Scheme Report will contain more recent financial, and other relevant information on the RBS Group, including in particular RBS plc, Adam and NatWest.
- 68.3 It is further envisaged that the Supplementary Scheme Report will confirm that the conclusion of the Scheme Report, particularly on the Statutory Question, remains valid.
- 68.4 Finally, it is envisaged that the Supplementary Scheme Report will address objections which have been received to the Scheme, including, in particular, those which comply with the requirements of Section 110(5) and are described at Statement 73.

Adam’s Financial Position and Certificate of its Adequate Financial Resources

- 69.1 Sections 111(1) and (2)(ab), and paragraphs 9B(1)(b) and 9C of Part 2B of Schedule 12, require that, before this Court may make an order sanctioning the Scheme, the Court must be satisfied that “**the relevant authority**” has certified that, taking the Scheme into account, Adam possesses, or will possess before the Scheme takes effect, “**adequate financial resources**”.
- 69.2.1 Paragraph 9C(2)(a) of Part 2B of Schedule 12 provides that, in the case of a PRA-authorized person, the relevant authority is the PRA.
- 69.2.2 As said at Statement 22.5, Adam is a PRA-authorized person.
- 69.3 It is reasonably anticipated that the PRA will give that certificate in the course of this process.
- 69.4.1 That certificate will confirm that Adam will, at the Effective Time, have adequate financial resources.
- 69.4.2 Moreover, it is reasonably believed that Adam will, at the Effective Time, be sufficiently capitalised to enable it to meet its business plans and to maintain an adequate level of cover for its capital requirements.
- 69.5 As said at Statement 37.7.6, significant additional regulatory capital will be injected into Adam shortly before the Effective Time.
- 69.6 In addition, and as said at Statement 24.4.2, it is reasonably anticipated that all of Adam’s credit ratings will be materially similar to, or better than, the present ratings of RBS plc.
- 69.7 It is, therefore, sufficiently clear that the financial position of Adam is such that the interests of those Transferring Counterparties who are to be transferred to Adam will not be adversely affected by being transferred to it.

NatWest's Financial Position and Certificate of its Adequate Financial Resources

- 70.1 Similarly, it is also reasonably anticipated that, in the course of this process, the PRA will give, in respect of NatWest, the certificate which is required under sections 111(1) and (2)(ab), and paragraphs 9B(1)(b) and 9C of Part 2B of Schedule 12.
- 70.2.1 That certificate will confirm that NatWest will, at the Effective Time, have adequate financial resources.
- 70.2.2 Moreover, it is reasonably believed that NatWest will, at the Effective Time, be sufficiently capitalised to enable it to meet its business plans and to maintain an adequate level of cover for its capital requirements.
- 70.3 In addition, it is reasonably anticipated that the Scheme will not result in any reduction (otherwise downgrading), far less any significant reduction, in the credit ratings which NatWest has and which are set out at Statement 28.5.
- 70.4 It is, therefore, sufficiently clear that the financial position of NatWest is such that the interests of those Transferring Counterparties who are to be transferred to NatWest will not be adversely affected by being transferred to it.

The Post-Scheme Financial Position of RBS plc

- 71.1 In addition, the Scheme should not, so far as can be reasonably ascertained and so far as they can reasonably be identified, adversely affect the interests of the Remaining Counterparties other than those Remaining Counterparties who are referred to in Statement 67.6, in the context of the Scheme Report's answer to the Statutory Question.
- 71.2 In addition, RBS plc will, at the Effective Time, continue to be sufficiently capitalised to enable it to meet its business plans and to maintain an adequate level of cover for its regulatory capital and leverage requirements.
- 71.3 In addition, it is reasonably anticipated that any reduction in the credit ratings of RBS plc, which are set out at Statement 18.6, will be linked to the necessary implementation of the RBS Group Ring-Fencing Proposals and not to the Scheme in itself.

The Communications Exercise

- 72.1 The COBTRA Regulations do not apply to a ring-fencing transfer scheme as they do to a banking scheme and, albeit on different terms, to an insurance scheme.

- 72.2 Accordingly, there is no statutory requirement to publish a notice in respect of the Scheme, to make available a copy of a statement setting out its full terms of the Scheme or even to serve a copy of the Petition on the PRA.
- 72.3 However, this application is sought to be served formally on the PRA, as if the Regulations applied, and also on the FCA.
- 72.4.1 In the absence of the COBTRA Regulations, the final guidance which each of the Regulators has published and which is mentioned at Statement 35 includes the expectation of that Regulator on the communications exercise which would be undertaken to sufficiently publicise a ring-fencing transfer scheme.
- 72.4.2 In that context, paragraph 3.13 of the PRA's Statement of Policy provides that "*a key concern*" for the PRA is to satisfy itself that persons, other than the transferor, have adequate information and a reasonable time within which to determine whether or not they are adversely affected and, if adversely affected, whether to make representations to the court.
- 72.4.3 Paragraphs 1.25 to 1.30 of the FCA's Finalised Guidance provide, more fully, that there is an expectation that the firms communicate with persons likely to be adversely affected including by publications in gazettes or national newspapers.
- 72.4.4 Those persons may be wider than the customers of the transferor or the transferee and are referred to in the FCA's Finalised Guidance as "*consumers*".
- 72.4.5 Such communications are intended to inform those consumers how they are likely to be adversely affected so that they may consider exercising their statutory right to make representations about, or object to, the Scheme in the court.
- 72.4.6 Paragraph 1.26 of the FCA's Finalised Guidance provides that there is an expectation that the transferor and transferee also communicate individually to adversely affected consumers.
- 72.4.7 The paragraphs of the FCA's Finalised Guidance which are referred to in this Statement are also included in Schedule III.
- 72.5.1 Accordingly, RBS plc, Adam and NatWest have informed the Regulators that they will take the steps which are set out in this Statement to publicise this application, and the Scheme, as widely as is reasonably practicable.
- 72.5.2 In particular, they will take the steps which are set out in this Statement to bring this application and the Scheme to the attention of the following persons, namely:
- (i) Transferring Counterparties;

- (ii) Remaining Counterparties;
- (iii) Adam Customers;
- (iv) NatWest Customers; and
- (v) other persons whose interests may be directly affected by the Scheme.

- 72.5.3 Neither of the Regulators has objected to these steps as being inadequate.
- 72.6.1 RBS plc, NatWest and Adam will each publish a notice of the Scheme and of this application (“**the Notice**”), as would be required by paragraph 5(2) if the COBTRA Regulations did apply.
- 72.6.2 The Notice will state that this application has been made and that it will be published in *The London Gazette*, *The Edinburgh Gazette* and *The Belfast Gazette* and in five national newspapers in the United Kingdom, namely the *Financial Times* (including the international editions), *The Scotsman*, *The Daily Record*, *The Daily Mail* (Scottish and English editions), and *The Sun* (Scottish and English editions).
- 72.6.3 That level of advertisement would be more than required by the COBTRA Regulations.
- 72.7.1 The Notice has also been seen in advance by the PRA.
- 72.7.2 The PRA has not objected to the Notice.
- 72.7.3 The Notice has also been seen in advance by the FCA.
- 72.8.1 The Notice will contain the address (together with the RBSG webpage which is referred to at Statement 72.13.2) from which a copy of the following documents will be available free of charge, to any person who requests it, namely – (i) this application, (ii) the full terms of the Scheme, (iii) the summary of the Scheme which is referred to in Statement 72.12, (iv) the Withdrawal Undertaking, (v) the Scheme Report, (vi) the summary of the Scheme Report, and (vii) any Supplementary Scheme Report, when available.
- 72.8.2 That is more than would be required by paragraph 5(4) of the COBTRA Regulations.
- 72.9.1 The Notice is to refer, as is now conventional, to the practice of this Court to consider any informal objection to this application, whether in writing or in person.
- 72.9.2 The Notice is also to refer to the statutory right to be heard provided the provisions of section 110(5) have been complied with as stated at Statement 73.
- 72.10.1 In addition, multiple versions of a booklet (“**the Booklet**”) will be prepared which will describe the Scheme and the Petition, including the procedure for objecting to the Scheme.

- 72.10.2 There will be different versions of the Booklet for the Transferring Counterparties, the Remaining Counterparties and the Adam Customers.
- 72.10.3 For completeness, each of the Booklets will refer clearly to relevant Amendments.
- 72.10.4 The Adam Customers will also receive a more detailed brochure which is to describe in greater detail the RBS Group Ring-Fencing Proposals and their implications for the Adam Customers.
- 72.10.5 In addition, there will be distinct Covering Letters (“**the Covering Letters**”), not only for the Remaining Counterparties and the Adam Customers, but also for categories of the Transferring Counterparties.
- 72.10.6 The appropriate version of the Booklet and one of the Covering Letters will be sent to those of the Transferring Counterparties, the Remaining Counterparties and the Adam Customers for whom it is reasonably practical for RBS plc or Adam to obtain a current name and address from its computer systems.
- 72.10.7 In addition, there will be distinct Covering Letters for landlords of Adam Destination Properties and NatWest Destination Properties.
- 72.10.8 For completeness, the size of the NatWest Destination Business is so small in terms of NatWest’s operations as a whole that the NatWest Customers are scarcely affected by the Scheme, far less adversely affected by it.
- 72.10.9 That conclusion is confirmed at paragraph 6.5 of the Scheme Report.
- 72.10.10 Accordingly, NatWest does not intend to send a copy of the Booklet to the NatWest Customers or otherwise to notify them individually of the Scheme. Instead, the NatWest Customers will be sufficiently informed of the Scheme by the other steps which are set out in this Statement.
- 72.10.11 The approximate direct costs of sending the Booklet to the NatWest Customers is reasonably estimated at £4.5 million.
- 72.10.12 Any future Counterparties who open a new account between the hearing for the First Order and the Sanction Hearing will receive a notification of what is proposed under the Scheme.
- 72.10.13 Those future Counterparties will also receive subsequent communications relating to the Scheme.
- 72.10.14 Such individual notification of this application of the Scheme would not be required in the COBTRA Regulations for a banking scheme. However, such notification would be required by them for an insurance scheme, subject to the court’s power of waiver.
- 72.11 In addition to the publication of the Notice and sending the Booklets and the Covering Letters, RBS plc, Adam and NatWest will also take the further steps

which are set out in this Statement.

- 72.12 First of all, RBS plc has prepared a summary of the Scheme (“**the Scheme Summary**”).
- 72.13.1 Secondly, RBSG has established a webpage (“**the Main Webpage**”) in connection with the Scheme. Adam and RBS plc, in the form of the NatWest Markets Business, have established webpages which automatically link to the Main Webpage (“**the Other Webpages**”).
- 72.13.2 The Main Webpage will include a copy of each of the following, namely: (i) the Notice; (ii) the Scheme; (iii) the Scheme Summary; (iv) the Scheme Report; (v) the summary of the Scheme Report; (vi) the Withdrawal Undertaking, (vii) this application and (viii), when available, any Supplementary Scheme Report.
- 72.13.3 The Main Webpage and its contents will also be referred to in the Notice and the Main Webpage or the Other Webpages will also be referred to in the Booklets and Covering Letters.
- 72.13.4 In addition, copies of the Scheme, the Scheme Summary, the Scheme Report, a summary of the Scheme Report and the Supplementary Scheme Report will be given, free of charge, to any person who requests it.
- 72.14.1 Thirdly, RBS plc will also issue a “*Regulatory News Service*” announcement (“**a RNS**”) on the London Stock Exchange in respect of the Scheme and the Covered Bonds.
- 72.14.2 RBS plc will also send a copy of the Notice to each of the clearing systems in which the Covered Bonds are held, with a request to notify its account holders through its own procedures.
- 72.15.1 RBS plc will also put detailed arrangements in place to deal with any objections to, or even queries on, the Scheme, which are made by telephone.
- 72.15.2 In particular, every objector will receive a reply, which will explain the processes for objecting by means of answers or under section 110(5).
- 72.15.3 The treatment of informal objections to the Scheme is addressed further at Statement 73.

The Deadline for Section 110 Objections

- 73.1 Sections 110(4) and (5) apply only to a ring-fencing transfer scheme.
- 73.2 Section 110(4)(c) provides, in effect, that any person, including an employee of the transferor or the transferee who alleges that he would be adversely affected by the carrying out of the ring-fencing transfer scheme, is entitled to be heard.
- 73.3 Section 110(5) provides that such a person is not entitled to be heard unless before the Sanction Hearing he has lodged with the court a written statement of the

representations which he wishes the court to consider and served a copy of the statement on the PRA and the transferor.

- 73.4 Section 110(5) envisages the practice of the Companies Court for objections to a Part VII Scheme and attempts to limit objections in order to avoid uncertainty, or even delay, at the Sanction Hearing.
- 73.5 In any case, sections 110(4) and (5) create, by necessary implication, a statutory right to object to a ring-fencing transfer scheme, other than by lodging Answers to the application for its sanction.
- 73.6 As said at Statement 72.9, the practice of this Court is, in any event, to consider any informal objection, whether in writing, or in person, to an application for sanction of a Part VII Scheme.
- 73.7 In any case, it is implied in section 110(5) that the court has the power to specify a time and date by which the statement must be lodged (“**the Section 110 Deadline**”).
- 73.8.1 It is suggested that the appropriate Section 110 Deadline is 5pm on the day which is 27 days before the Sanction Hearing.
- 73.8.2 That deadline is fair to the Petitioners and any person seeking to be heard.
- 73.8.3 In addition, that Section 110 Deadline is broadly consistent with that for which the Companies Court made a direction dated 26th May 2017 in those ring-fencing transfer schemes which it is to be asked to sanction and which have been referred to at Statements 5.6.1 and 5.6.2.
- 73.9 It is appropriate in the procedure and practice of this Court for that Section 110 Deadline to be specified in the first order which is made in this application (“**the First Order**”).
- 73.10 It is also appropriate for the First Order to direct that the Notice, the Booklets, the Covering Letters and all other publicity for this application and the Scheme, such as the Main Webpage, give notice of that Section 110 Deadline.
- 73.11.1 It is also appropriate for the First Order to direct that the Notice and that other publicity give notification of the further requirement to serve a copy of the statement on the PRA and RBS plc, as the transferor.
- 73.11.2 It is envisaged that the copy of the statement will be served on RBS plc by post at its registered office, although the copy could also be left at that address.
- 73.11.3 For completeness, RBS plc will also include on the Main Webpage, and in the Notice, a link to the portal address which the PRA is to establish in connection with the Scheme. That portal would provide further methods of serving a Section 110 Objection on the PRA.

- 73.12.1 For completeness, sections 110 (4) and (5), correctly interpreted, do not, in any way, affect the procedure of this Court under which the formal method of objecting to this kind of application is by lodging answers to it.
- 73.12.2 That interpretation of Sections 110(4) and (5) was the basis of the direction which is referred to at Statement 73.8.3.

Sanction of the Scheme

The Scheme's Compliance with the Express Statutory Requirements

- 74.1 In all these circumstances, the Petitioners seek a Sanction Order.
- 74.2 The Scheme is a ring-fencing transfer scheme within the meaning of section 106B(1).
- 74.3 First of all, the Scheme is one under which part of the business carried on by a UK authorised person, namely RBS plc, is to be transferred to “**other bodies**”, as transferees, namely Adam and NatWest, all within section 106B(1)(a).
- 74.4.1 Secondly, the Scheme is, as required by section 106B(1)(b), to be made for one of the purposes which are mentioned in section 106B(3).
- 74.4.2 The purpose is that of enabling the transferees, namely Adam and NatWest, to carry on Core Activities as Ring-Fenced Bodies within the Ring-Fencing Provisions.
- 74.4.3 That is the purpose referred to in section 106B(3)(b).
- 74.5 Thirdly, the Scheme is, as required by section 106B(1)(c), not “*an excluded scheme*”, as defined in section 106B(4), or an insurance business transfer scheme, as defined in section 105(1).
- 74.6 Fourthly, the PRA has given its consent to the application being made, as required by section 107(2B).

The Appropriateness of Sanctioning the Scheme

- 75.1 In addition, it is appropriate, in all the circumstances, that this Court sanctions the Scheme, in accordance with section 111(3).
- 75.2 The communications exercise which has been described at Statement 72 and will have been undertaken in relation to the Scheme and this application will sufficiently publicise those processes, including in particular the Amendments and the right to object under section 110(5).
- 75.3 In particular, the Scheme should not adversely affect any right or reasonable interest, of any of the following persons, so far as can reasonably be ascertained and in so far as they can reasonably be identified, namely:

- (i) Transferring Counterparties;
- (ii) Remaining Counterparties, other than to the limited extent set out at Statement 67.6;
- (iii) Adam Customers;
- (iv) NatWest Customers; and
- (v) other persons whose interests may be directly affected by the Scheme.

- 75.4 In addition, the Scheme should not, so far as can reasonably be ascertained, adversely affect any right, or reasonable interest, of any other person.
- 75.5 In particular, the Scheme should not adversely affect any right, or reasonable interest, of the RBS Group Employees, including the RBS plc Employees, or of the RBS Pension Schemes, including in particular the Main Section.
- 75.6 In addition, the Scheme Report answers the Statutory Question in the negative.
- 75.7.1 Since the Scheme should not, so far as can reasonably be ascertained, adversely affect any right, or reasonable interest, of any other person, other than to the limited extent which is set out at Statement 67.7, it is sought that the order sanctioning the Scheme also includes specific provisions under sections 112(2)(a), 112(2)(c) and 112(2A).
- 75.7.2 Those provisions are for the transfer under the Scheme of the Assets, and Liabilities, of RBS plc, notwithstanding that those Assets and those Liabilities would, or might, not otherwise be capable of being transferred.
- 75.8 For completeness, no circumstances exist to justify any order under section 112A, except as regards the Enforceable Rights, as set out at Statement 49.4.5.

The Reporter

- 76.1 The appointment of a Reporter to the process is also sought. In accordance with practice, and to enable the Reporter to begin his work as soon as possible, the appointment and remit are sought in the First Order.
- 76.2 Mr M.B. Livingston, solicitor, Edinburgh is suggested as an appropriate Reporter.
- 76.3 Mr Livingston has particular experience of banking business transfer schemes and insurance business transfer schemes, both in this Court and in the Companies Court.
- 76.4 In particular, Mr Livingston acted as Reporter for each of the Previous Transfers and for the RBSG Reduction.

76.5 Mr Livingston is willing, and able, to act as Reporter on terms acceptable to the parties.

The Period of Notice

77.1 As set out in Statement 72.6, it is sought to advertise this application outside Europe, namely in the international edition of the Financial Times.

77.2 The period of notice for lodging Answers is therefore one of 42 days from the last date on which the application is intimated, served and advertised.

77.3 That period is broadly equivalent to the period which is referred to in the FCA's published guidance.

General

78 This application is made under: (a) FSMA, and in particular its Part VII, and Part II of Schedule 12 to it; and (b) the relevant Rules of Court.

MAY IT THEREFORE please your Lordships:

- (i) to order intimation on the Walls, in common form, of this Petition for the sanction of a ring-fencing transfer scheme ("**the Scheme**"), which is under Part VII of the Financial Services and Markets Act 2000 ("**FSMA**") and under which certain personal and business banking businesses and commercial banking businesses (including deposit-taking business) of The Royal Bank of Scotland plc ("**RBS plc**") are to be transferred to Adam & Company PLC ("**Adam**") or National Westminster Bank Plc ("**NatWest**");
- (ii) to order that this application be advertised once in each of *The Edinburgh Gazette*, *The London Gazette* and *The Belfast Gazette*, and in each of the following newspapers, namely the *Financial Times* (including the international editions), *The Scotsman*, *The Daily Record*, *The Daily Mail* (Scottish and English editions), and *The Sun* (Scottish and English editions);
- (iii) to order service, in common form, of a copy of each of this Petition, the Scheme and the Notice (as defined in Statement 72.6.1) on The Prudential Regulation Authority ("**the PRA**") and The Financial Conduct Authority, both of which are designed in Schedule I to this Petition;
- (iv) to authorise all parties claiming an interest in this application to lodge Answers to this petition within 42 days after that intimation, service and advertisement;
- (v) to direct, under sections 110(4) and (5) of FSMA, that any person claiming to be adversely affected by the carrying out of the Scheme and wishing to be heard, in person or in writing on this application and on the Scheme, (a) lodge,

by post or in person, with this Court a written statement of the representations which he wishes this Court to consider no later than 5pm on the day which is 27 days before the hearing of this application at which the order to sanction the Scheme is to be sought and (b) before that time, serve a copy of that statement on the PRA, and on RBS plc;

- (vi) to direct that each of the advertisements which are referred to in paragraph (ii) of this prayer, and all other notifications of, and communications for the Scheme and this application, give notice of that deadline for lodging that statement and that further requirement for serving that statement on the PRA and RBS plc; and
- (vii) to appoint Mr M.B. Livingston, solicitor, of Quartermile One, 15 Lauriston Place, Edinburgh EH3 9EP as reporter for the process; and to remit the process to the reporter to report on the facts and circumstances set out in this petition and the regularity of the proceedings;

and upon resuming consideration of this petition, with or without Answers,

- (viii) to pronounce an order, under section 111 of FSMA, sanctioning the Scheme;
- (ix) to pronounce an order, under section 112(1)(a) of FSMA, transferring to Adam or NatWest, with effect from the time on which the Scheme takes effect (“**the Effective Time**”), that part of the undertaking, property and liabilities to which the Scheme applies and which is defined in the Scheme as the “**Transferring Businesses**”;
- (x) to pronounce an order, under section 112(1)(a) of FSMA, transferring to, Adam or NatWest, with effect from the “**Effective Time**” (as defined in the Scheme), all rights, benefits, liabilities and obligations of RBS plc under, or in connection with, the “**Transferring Assets**” and the “**Transferring Liabilities**” (as defined in the Scheme), which order shall not become effective in respect of any “**Residual Assets**” and “**Residual Liabilities**” of RBS plc (as defined in the Scheme) until the relevant “**Subsequent Transfer Date**” (as defined in the Scheme);
- (xi) to pronounce an order, under sections 112(2)(a), 112(2)(c), 112(2A) and 112(2B) of FSMA, that the transfer shall be valid and binding on all persons having an interest or right in any of the Transferring Assets or the Transferring Liabilities (or both), notwithstanding any restriction on transferring, or otherwise dealing with, the same, and that that transfer shall take effect as if: (a) there were no requirement to obtain the consent of any person; and (b) there were no contravention or interference with any such interest or right;
- (xii) to pronounce an order, under section 112A(2) of FSMA, that any “*Enforceable Rights*” (as defined in the Scheme) which arise in consequence of the Scheme

becoming effective will be enforceable in accordance with their respective terms;

- (xiii) to pronounce an order, under section 112(1)(c) of FSMA, for the continuation by, or against, Adam or NatWest of “**Proceedings**”, (as defined in the Scheme and so excluding what are there defined as “**Excluded Proceedings**”) pending by, or against, RBS plc on the Effective Time, as provided for in the Scheme, except that that order shall not become effective in the case of any Proceedings which relate solely to Residual Assets or Residual Liabilities (or both) until the relevant Subsequent Transfer Date, and provided that, in relation to any such Proceedings, RBS plc and Adam or NatWest do not agree otherwise before the Effective Time or Subsequent Transfer Date (as applicable);
- (xiv) to allow RBS plc, Adam and NatWest to apply, under section 112(1)(d) of FSMA, for any orders in relation to such incidental, consequential and supplementary matters as are necessary to secure that the Scheme shall be fully and effectively carried out;
- (xv) to order Adam and NatWest, under section 112(10) of FSMA, to deposit two certified copies of the order to be pronounced, under section 111 of FSMA, with the PRA within 10 days of the making of that order;
- (xvi) to order advertisement of the order pronounced under section 111 of FSMA in each of *The Edinburgh Gazette*, *The London Gazette* and *The Belfast Gazette*, and in each of the following newspapers, namely the *Financial Times* (including the international editions), *The Scotsman*, *The Daily Record*, *The Daily Mail* (Scottish and English editions), and *The Sun* (Scottish and English editions); and
- (xvii) to discern (whether *ad interim* or otherwise); or to do further or otherwise in the premises as your Lordships consider appropriate.

ACCORDING TO JUSTICE ETC.

SCHEDULE I

Schedule for Service

Service in Common Form is sought upon:

- The Prudential Regulation Authority, Bank of England, Threadneedle Street, London, EC2R 8AH; and
- The Financial Conduct Authority, 25 The North Colonnade, London, E14 5HS.

SCHEDULE II

Detail of the Regulatory Capital and Leverage Regime

The Detailed Regulatory Capital and Leverage Requirements - Five Elements

1 The detailed regulatory capital and leverage requirements for a bank now comprise five elements.

The First Element - The Pillar 1 Requirements

2.1 The first element is what is conventionally called “*the Pillar 1 Requirements*”, which are set out in Article 92 of the CRR.

2.2 A key part of those requirements is the bank’s “*common equity tier 1 capital*” (“**CET1 Capital**”), which represents a bank’s core regulatory capital and reserves.

2.3 In outline, CET1 Capital comprises ordinary share capital, any associated share premium account and certain other reserves (including retained profits), after deduction of certain other items, including goodwill and other intangible items.

2.4.1 The ratio of a bank’s CET1 Capital to what is called its “*total risk exposure amount*” is called the “*common equity tier 1 capital ratio*” (“**the CET1 Ratio**”).

2.4.2 The calculation of the total risk exposure includes primarily the value of “*risk-weighted assets*” of the bank (“**RWAs**”).

2.5.1 Again in outline, RWAs comprise a bank’s total assets, weighted according to the risks to which the assets might be subject.

2.5.2 That weighting adjusts the value of each asset for risk by multiplying it by a factor.

2.5.3 Assets with a low risk, such as government securities, are multiplied by a low factor and assets with a high risk, such as unquoted equity investments, are multiplied by a high factor.

2.6 Since 1st January 2015, the minimum CET1 Ratio which is required by Article 92(1) of the CRR has been 4.5%, expressed as a percentage of RWAs.

2.7 A banking group’s CET1 Ratio is required to be published annually as part of what are conventionally called “*Pillar 3 Disclosures*”.

2.8 The CET1 Ratio is generally recognised by financial analysts as the most important, publicly available measure of the financial strength of a bank.

2.9 In addition to imposing the minimum CET1 Ratio, the Pillar 1 Requirements also include an obligation to hold an overall minimum amount of “*Tier 1 Capital*” and a minimum amount of “*Capital*”, which includes also “*Tier 2 Capital*”.

- 2.10 Tier 1 Capital comprises both CET1 Capital and what is called “*Additional Tier 1 Capital*”.
- 2.11 In outline, Additional Tier 1 Capital comprises certain capital instruments which are perpetual and meet detailed requirements, especially for “*loss absorbency*”.
- 2.12 In outline, Tier 2 Capital comprises certain other capital instruments, which are mostly dated and meet certain detailed requirements, especially for loss absorbency.
- 2.13.1 A bank is required to hold total Capital which is equal to 8% of its RWAs (“**the Total Capital Ratio**”).
- 2.13.2 The Total Capital Ratio must comprise Tier 1 Capital, which is equal to at least 6% of its RWAs (“**the T1 Ratio**”), with the remaining permitted to comprise Tier 2 Capital.
- 2.13.3 Of that Tier 1 Capital, Additional Tier 1 Capital can be up to 1.5% of the bank’s RWAs and CET1 Capital must be equal to at least 4.5% of the RWAs.

The Second Element - The Pillar 2a Requirements

- 3.1 The second element of the detailed regulatory structure comprises what is conventionally called “*the Pillar 2a Requirements*”.
- 3.2 In outline, the Pillar 2a Requirements are set out in Article 104 of the CRR Directive and the PRA Rulebook (as defined in the Scheme), particularly Rules 3.1 and 3.2 of the ICAA.
- 3.3 Those requirements together require a bank to maintain additional capital for risks which are specific to it and which are not sufficiently addressed by the Pillar 1 Requirements.
- 3.4 The PRA confirms the Pillar 2a Requirements of a bank by issuing “*Individual Capital Guidance*” to it.
- 3.5 There currently is no requirement to disclose the Pillar 2a Requirements.
- 3.6.1 At least 56% of those requirements must comprise CET1 Capital and at least 75% must comprise Tier 1 Capital.
- 3.6.2 The PRA published a consultation paper in July 2017 (“*Pillar 2A capital requirements and disclosure*”) in which it proposes, amongst other things (i) to replace the “*Individual Capital Guidance*” with a “*firm specific*” Pillar 2A capital requirement; and (ii) to set a general expectation that firms should disclose the Total Capital Requirement (Pillar 1 and Pillar 2) which applies to them at the highest level of consolidation in the UK, in each case, from 1st January 2018.

The Third Element - the CRD IV Buffers

- 4.1 In addition to the Pillar 1 Requirement and the Pillar 2a Requirement, the third element of the detailed regulatory structure comprises the additional “capital buffers” for banks and/or Banking Groups (as applicable) (together, “**the CRD IV Buffers**”) which are imposed by Chapter 4 of the CRD IV Directive and by the “*Capital Buffers*” section of the PRA Rulebook.
- 4.2 In particular, the CRD IV Buffers include those which are together called “*the Combined Buffer*” and which are, individually, “*the Capital Conservation Buffer*”, “*the Counter-Cyclical Buffer*”, “*the Systemic Risk Buffer*” and “*the Global Systemically Important Institutions Buffer*”.
- 4.3 The Combined Buffer will be implemented in stages over the three years up to 1st January 2019, with the exception of the Systemic Risk Buffer which is expected to apply in full from mid-2019.
- 4.4.1 A key feature of the Combined Buffer is the restrictions which it imposes on certain payments by a bank in order to restore the CET1 Capital.
- 4.4.2 Those payments include cash dividends and cash bonuses to employees.
- 4.5.1 In outline, the restrictions apply when the capital falls below the aggregate of the Pillar 1 and Pillar 2a Requirements and the requirements of the Combined Buffer.
- 4.5.2 In that case, the aggregate payments are restricted to “*a maximum distributable amount*” (“**the MDA**”).
- 4.6 In outline, the MDA is calculated as the amount of the after-tax profits for the relevant period which has not been included in the CET1 Capital and which are multiplied by a factor, ranging from 0 to 0.6, depending on the shortfall of the CET1 Capital against the Combined Buffer.
- 4.7.1 From 1st January 2017, the Capital Conservation Buffer has been 1.25% of the RWAs of the bank.
- 4.7.2 The Capital Conservation Buffer will increase by a further 0.625 % on 1st January 2018 and 2019 until it is 2.5 % of RWAs.
- 4.8.1 In outline, the Counter-Cyclical Buffer is a buffer of a variable amount which is based on rates to be applied by national regulators to a bank’s geographic exposure. The rate for exposures in the UK is set by the Financial Policy Committee of the Bank of England according to its determination of whether there is excessive credit growth.
- 4.8.2 In June 2017, the Financial Policy Committee of the Bank of England announced a UK Counter-Cyclical Buffer of 0.5% of relevant RWAs applicable

from June 2018. The Financial Policy Committee of the Bank of England also forecast an increase to 1% of relevant RWAs to be announced in November 2017, with binding effect from November 2018.

- 4.9.1 Again in outline, the Systemic Risk Buffer will apply from mid-January 2019 and can be used to mitigate risks of disruption to the financial system of a member state which are not covered by the requirements of the CRR.
- 4.9.2 The Systemic Risk Buffer will be required to be met from CET1 Capital and applies to the Ring-Fenced Sub-Group. The Systemic Risk Buffer will not apply to RBS plc, as it will not form part of a Ring-Fenced Sub-Group.
- 4.10.1 Again in outline, the Global Systemically Important Institutions Buffer is being phased in until 1st January 2019 and applies to Banking Groups which are of such importance that they are subject to more intensive regulation.
- 4.10.2 The Global Systemically Important Institutions Buffer is also required to be met from only CET1 Capital and will be between 1 and 3.5% of RWAs.
- 4.11.1 The Global Systemically Important Institutions Buffer has been set at 1% for the RBS Group.
- 4.11.2 However, that rate is being phased in until 1st January 2019 and the RBS Group is not required to hold that rate until that date.
- 4.12 For completeness, a Banking Group which is subject to both the Systemic Risk Buffer and the Global Systemically Important Institutions Buffer is required to comply with the higher of them.

The Fourth Element - The PRA Buffer

- 5.1 The fourth element of the detailed regulatory structure is what is conventionally called “*the Pillar 2b Requirements*” or “*the PRA Buffer*”.
- 5.2 The PRA Buffer is an additional capital requirement which the PRA can impose in connection with risks which the PRA does not think are sufficiently covered by the Pillar 1 Requirements, the Pillar 2a Requirements and the CRD IV Buffers. The PRA Buffer is applicable to the RBS Group at a consolidated level.
- 5.3 Those risks include ones arising from changes in economic conditions or ones arising from the management of the Banking Group.
- 5.4 A PRA Buffer may not be disclosed without the consent of the PRA, unless required by law.

The Fifth Element - the Minimum Leverage Requirements

- 6.1 The fifth element of the detailed regulatory structure under CRD IV, as transposed in the UK, is “*the minimum leverage ratio requirements*” for financial institutions.
- 6.2 Those requirements are first of all “*a minimum leverage requirement*” of 3.25% which applies to major UK banks, including the RBS Group, at a consolidated level.
- 6.3 The “leverage ratio” is the ratio of Tier 1 Capital to “leverage exposures”.
- 6.4.1 In outline, “leverage exposures” are the sum of “the exposure values” of certain assets and off-balance sheet items, subject to certain deductions and provided that in certain circumstances banks may exclude from the calculation of the total exposure measure those assets constituting claims on central banks, where they are matched by deposits accepted by the firm that are denominated in the same currency and of identical or longer maturity.
- 6.4.2 Exposure values are, in turn, determined in accordance with applicable accounting policies and, *inter alia*, CRD IV.
- 6.5 RBS Group’s leverage exposures were £683,300 million as at 31st December 2016.
- 6.6 Those requirements also include “*an additional leverage ratio buffer*” which applies to those Banking Groups which are required to maintain a Global Systemically Important Institutions Buffer and which is calibrated at 35% of a Banking Group’s Global Systemically Important Institutions Buffer.
- 6.7 Those requirements also include “*a countercyclical leverage ratio buffer*” which is calibrated at 35% of a bank’s (or a Banking Group’s) Counter-Cyclical Buffer.

The Proposals for More Stringent Regulatory Requirements

- 7.1 Further changes to the regulatory regime have been proposed which will, when implemented, make the requirements even more stringent.
- 7.2 In outline, a Banking Group, such as the RBS Group, will also be required to comply with “*a minimum requirement for own funds and eligible liabilities*” (“**MREL**”).
- 7.3 From 1st January 2019, the MREL for a global systemically important Banking Group will be the higher of 16% of RWAs and 6% of leverage exposures.
- 7.4 From 1st January 2022, the MREL for such a Banking Group will be the higher of (i) twice the Pillar 1 Requirements and the Pillar 2a Requirements and (ii) the higher of twice the applicable leverage ratio requirement and 6.75% of its

leverage exposures.

7.5

In addition, individual MREs will be set for all relevant institutions within the RBS Group, including RBS plc.

SCHEDULE III
Statutory Provisions

FINANCIAL SERVICES AND MARKETS ACT 2000

Part 1A The Regulators

2B The PRA's general objective

(5) In this Act “PRA-authorised person” means an authorised person who has permission—

- (a) given under Part 4A, or
- (b) resulting from any other provision of this Act,

to carry on regulated activities that consist of or include one or more PRA-regulated activities (see section 22A).

[...]

Part III Authorisation and Exemption

31 Authorised persons

(1) The following persons are authorised for the purposes of this Act—

- (a) a person who has a Part 4A permission to carry on one or more regulated activities;
[...]

(2) In this Act “authorised person” means a person who is authorised for the purposes of this Act.

Part 4A Permission to carry on Regulated Activities

55A Application for permission

(5) A permission given by the appropriate regulator under this Part or having effect as if so given is referred to in this Act as “a Part 4A permission”.

Part VII Control of Business Transfers

103A Meaning of “the appropriate regulator”

(1) In this Part “the appropriate regulator” means—

- (a) in relation to a ring-fencing transfer scheme or a scheme (other than a ring-fencing transfer scheme) in respect of which the transferor concerned is a PRA-authorised

person, the PRA;

(b) in any other case, the FCA.

(2) In this Part, “the transferor concerned”—

(a) in the case of an insurance business transfer scheme, is to be read in accordance with section 105(2);

(b) in the case of a banking business transfer scheme, is to be read in accordance with section 106(2);

(c) in the case of a reclaim fund business transfer scheme, means the reclaim fund to whose business the scheme relates;

(d) in the case of a ring-fencing transfer scheme, means the body to whose business the scheme relates.

106B Ring-fencing transfer scheme

(1) A scheme is a ring-fencing transfer scheme if it—

(a) is one under which the whole or part of the business carried on—

(i) by a UK authorised person, or

(ii) by a qualifying body,

is to be transferred to another body (“the transferee”),

(b) is to be made for one or more of the purposes mentioned in subsection (3), and

(c) is not an excluded scheme or an insurance business transfer scheme.

[...]

(3) The purposes 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 proposals that would involve a body corporate whose group includes the body corporate to whose business the scheme relates becoming a ring-fenced body while one or more other members of its group are not ring-fenced bodies;

(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 other members of the transferee's group are not ring-fenced bodies.

(4) A scheme is an excluded scheme for the purposes of this section if—

- (a) the body to whose business the scheme relates is a building society or credit union, or
- (b) the scheme is a compromise or arrangement to which Part 27 of the Companies Act 2006 (mergers and divisions of public companies) applies.

[...]

(8) “The ring-fencing provisions” means ring-fencing rules and the duty imposed as a result of section 142G.

107 Application for order sanctioning transfer scheme

(2) An application may be made by—

- (a) the transferor concerned;
- (b) the transferee; or
- (c) both.

(2A) An application relating to a ring-fencing transfer scheme may be made only with the consent of the PRA.

(2B) In deciding whether to give consent, the PRA must have regard to the scheme report prepared under section 109A in relation to the ring-fencing transfer scheme.

(3) The application must be made—

- (a) if the transferor concerned and the transferee are registered or have their head offices in the same jurisdiction, to the court in that jurisdiction;
- (b) if the transferor concerned and the transferee are registered or have their head offices in different jurisdictions, to the court in either jurisdiction;
- (c) if the transferee is not registered in the United Kingdom and does not have his head office there, to the court which has jurisdiction in relation to the transferor concerned.

(4) “Court” means—

- (a) the High Court; or
- (b) in Scotland, the Court of Session.

109A Scheme reports: ring-fencing transfer schemes

- (1) An application under section 106B in respect of a ring-fencing transfer scheme must be accompanied by a report on the terms of the scheme (a “scheme report”).
- (2) A scheme report may be made only by a person—
 - (a) appearing to the PRA to have the skills necessary to enable the person to make a proper report, and
 - (b) nominated or approved for the purpose by the PRA.
- (3) A scheme report must be made in a form approved by the PRA.
- (4) A scheme report must state—
 - (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) is relevant.
- (5) The PRA must consult the FCA before—
 - (a) nominating or approving a person under subsection (2)(b), or
 - (b) approving a form under subsection (3).

110 Right to participate in proceedings

- (4) The following are also entitled to be heard—
 - (a) the PRA,
 - (b) where the transferee is an authorised person, the FCA, and
 - (c) any person (“P”) (including an employee of the transferor concerned or of the transferee) who alleges that P would be adversely affected by the carrying out of the scheme.
- (5) P is not entitled to be heard by virtue of subsection (4)(c) unless before the hearing P has—
 - (a) filed (in Scotland, lodged) with the court a written statement of the representations that P wishes the court to consider, and
 - (b) served copies of the statement on the PRA and the transferor concerned.

111 Sanction of the court for business transfer schemes

(1) This section sets out the conditions which must be satisfied before the court may make an order under this section sanctioning an insurance business transfer scheme, a banking business transfer scheme, a reclaim fund business transfer scheme or a ring-fencing transfer scheme.

(2) The court must be satisfied that–

(a) in the case of an insurance business transfer scheme or a banking business transfer scheme, the appropriate certificates have been obtained (as to which see Parts I and II of Schedule 12);

(aa) in the case of a reclaim fund business transfer scheme, the appropriate certificate has been obtained (as to which see Part 2A of that Schedule);

(ab) in the case of a ring-fencing transfer scheme, the appropriate certificates have been obtained (as to which see Part 2B of that Schedule);

(b) the transferee has the authorisation required (if any) to enable the business, or part, which is to be transferred to be carried on in the place to which it is to be transferred (or will have it before the scheme takes effect).

(3) The court must consider that, in all the circumstances of the case, it is appropriate to sanction the scheme.

112 Effect of order sanctioning business transfer scheme

(1) If the court makes an order under section 111(1), it may by that or any subsequent order make such provision (if any) as it thinks fit–

(a) for the transfer to the transferee of the whole or any part of the undertaking concerned and of any property or liabilities of the transferor concerned;

(b) for the allotment or appropriation by the transferee of any shares, debentures, policies or other similar interests in the transferee which under the scheme are to be allotted or appropriated to or for any other person;

(c) for the continuation by (or against) the transferee of any pending legal proceedings by (or against) the transferor concerned;

(d) with respect to such incidental, consequential and supplementary matters as are, in its opinion, necessary to secure that the scheme is fully and effectively carried out.

(2) An order under subsection (1)(a) may–

(a) transfer property or liabilities whether or not the transferor concerned otherwise has the capacity to effect the transfer in question;

(b) make provision in relation to property which was held by the transferor concerned as trustee;

- (c) make provision as to future or contingent rights or liabilities of the transferor concerned, including provision as to the construction of instruments (including wills) under which such rights or liabilities may arise;
- (d) make provision as to the consequences of the transfer in relation to any occupational pension scheme (within the meaning of section 150(5) of the Finance Act 2004) operated by or on behalf of the transferor concerned.

(2A) Subsection (2)(a) is to be taken to include power to make provision in an order—

- (a) for the transfer of property or liabilities which would not otherwise be capable of being transferred or assigned;
- (b) for a transfer of property or liabilities to take effect as if there were—
 - (i) no such requirement to obtain a person's consent or concurrence, and
 - (ii) no such contravention, liability or interference with any interest or right,

as there would otherwise be (in the case of a transfer apart from this section) by reason of any provision falling within subsection (2B).

(2B) A provision falls within this subsection to the extent that it has effect (whether under an enactment or agreement or otherwise) in relation to the terms on which the transferor concerned is entitled to the property or subject to the liabilities in question.

[...]

(10) The transferee must, if an insurance or banking business transfer scheme or ring-fencing transfer scheme 7 is sanctioned by the court, deposit two office copies of the order made under subsection (1) with the appropriate regulator 8 within 10 days of the making of the order.

[...]

112A Rights to terminate etc.

(1) Subsection (2) applies where (apart from that subsection) a person would be entitled, in consequence of anything done or likely to be done by or under this Part in connection with an insurance business transfer scheme, a banking business transfer scheme or a ring-fencing transfer scheme —

- (a) to terminate, modify, acquire or claim an interest or right; or
- (b) to treat an interest or right as terminated or modified.

(2) The entitlement—

- (a) is not enforceable in relation to that interest or right until after an order has been made under section 112(1) in relation to the scheme; and

(b) is then enforceable in relation to that interest or right only insofar as the order contains provision to that effect.

(3) Nothing in subsection (1) or (2) is to be read as limiting the scope of section 112(1).

Part 9B Ring-fencing

142A “Ring-fenced body”

(1) In this Act “ring-fenced body” means a UK institution which carries on one or more core activities (see section 142B) in relation to which it has a Part 4A permission.

(2) But “ring-fenced body” does not include—

(a) a building society within the meaning of the Building Societies Act 1986, or

(b) a UK institution of a class exempted by order made by the Treasury.

[...]

142B Core activities

(1) References in this Act to a “core activity” are to be read in accordance with this section.

(2) The regulated activity of accepting deposits (whether carried on in the United Kingdom or elsewhere) is a core activity unless it is carried on in circumstances specified by the Treasury by order.

[...]

142D Excluded activities

(1) References in this Act to an “excluded activity” are to be read in accordance with this section.

(2) The regulated activity of dealing in investments as principal (whether carried on in the United Kingdom or elsewhere) is an excluded activity unless it is carried on in circumstances specified by the Treasury by order.

(3) An order under subsection (2) may be made only if the Treasury are of the opinion that allowing ring-fenced bodies to deal in investments as principal in the specified circumstances would not be likely to result in any significant adverse effect on the continuity of the provision in the United Kingdom of core services.

(4) The Treasury may by order provide for an activity other than the regulated activity of dealing in investments as principal to be an excluded activity, either generally or when carried

on in circumstances specified in the order.

(5) An activity to which an order under subsection (4) relates—

- (a) need not be a regulated activity, and
- (b) may be an activity carried on in the United Kingdom or elsewhere.

(6) In deciding whether to make an order under subsection (4) in relation to any activity, the Treasury must—

- (a) have regard to the risks to which a ring-fenced body would be exposed if it carried on the activity concerned, and
- (b) consider whether the carrying on of that activity by a ring-fenced body would make it more likely that the failure of the body would have an adverse effect on the continuity of the provision in the United Kingdom of core services.

(7) An order under subsection (4) may be made only if the Treasury are of the opinion that the making of the order is necessary or expedient for the purpose of protecting the continuity of the provision in the United Kingdom of core services.

142E Power of Treasury to impose prohibitions

(1) The Treasury may by order prohibit ring-fenced bodies from—

- (a) entering into transactions of a specified kind or with persons falling within a specified class;
- (b) establishing or maintaining a branch in a specified country or territory;
- (c) holding in specified circumstances shares or voting power in companies of a specified description.

(2) In deciding whether to make an order under this section imposing a prohibition, the Treasury must—

- (a) have regard to the risks to which a ring-fenced body would be exposed if it did the thing to which the prohibition relates, and
- (b) consider whether the doing of that thing by a ring-fenced body would make it more likely that the failure of the body would have an adverse effect on the continuity of the provision in the United Kingdom of core services.

(3) An order under this section may be made only if the Treasury are of the opinion that the making of the order is necessary or expedient for the purpose of protecting the continuity of the provision in the United Kingdom of core services.

(4) An order under this section may in particular—

- (a) provide for any prohibition to be subject to exemptions specified in the order;
- (b) provide for any exemption to be subject to conditions specified in the order.

142F Orders under section 142A, 142B, 142D or 142E

(1) An order made under section 142A, 142B, 142D or 142E may—

- (a) authorise or require the making of rules by a regulator for the purposes of, or for purposes connected with, any provision of the order;
- (b) authorise the making of other instruments by a regulator for the purposes of, or for purposes connected with, any provision of the order;
- (c) refer to a publication issued by a regulator, another body in the United Kingdom or an international organisation, as the publication has effect from time to time.

(2) If the order confers powers on a regulator or authorises or requires the making of rules or other instruments by a regulator, the order may also—

- (a) impose conditions on the exercise of any power conferred on the regulator;
- (b) impose consultation requirements on the regulator;
- (c) make the exercise of a power by the regulator subject to the consent of the Treasury.

142G Ring-fenced bodies not to carry on excluded activities or contravene prohibitions

(1) A ring-fenced body which—

- (a) carries on an excluded activity or purports to do so, or
- (b) contravenes any provision of an order under section 142E,

is to be taken to have contravened a requirement imposed on the body by the appropriate regulator under this Act.

(2) The contravention does not—

- (a) make a person guilty of an offence;
- (b) make a transaction void or unenforceable;
- (c) (subject to subsection (3)) give rise to any right of action for breach of statutory duty.

(3) In such cases as the Treasury may specify by order, the contravention is actionable at the suit of a person who suffers loss as a result of the contravention, subject to the defences and other incidents applying to actions for breach of statutory duty.

- (4) In this section “the appropriate regulator” means—
- (a) in relation to a ring-fenced body which is a PRA-authorized person, the PRA;
 - (b) in relation to any other ring-fenced body, the FCA.

142H Ring-fencing rules

(3) General rules that are required by this section or make provision falling within subsection (2) are in this Act referred to as “ring-fencing rules”.

(4) The “group ring-fencing purposes” are—

- (a) ensuring as far as reasonably practicable that the carrying on of core activities by a ring-fenced body is not adversely affected by the acts or omissions of other members of its group;
- (b) ensuring as far as reasonably practicable that in carrying on its business a ring-fenced body—
 - (i) is able to take decisions independently of other members of its group, and
 - (ii) does not depend on resources which are provided by a member of its group and which would cease to be available to the ring-fenced body in the event of the insolvency of the other member;
- (c) ensuring as far as reasonably practicable that the ring-fenced body would be able to continue to carry on core activities in the event of the insolvency of one or more other members of its group.

[...]

(8) In this section—

“the appropriate regulator” means—

- (a) in relation to a PRA-authorized person, the PRA;
- (b) in relation to any other authorized person, the FCA; [...]

Part XXX Supplemental

428. Regulations and orders.

(3) Any statutory instrument made under this Act may—

- (a) contain such incidental, supplemental, consequential and transitional provision as the person making it considers appropriate; and

(b) make different provision for different cases.

Schedules

Schedule 12 TRANSFER SCHEMES: CERTIFICATES

9B. Appropriate certificates

(1) For the purposes of section 111(2) the appropriate certificates, in relation to a ring-fencing transfer scheme, are—

(a) a certificate given by the PRA certifying its approval of the application,

(b) a certificate under paragraph 9C, and

[...]

9C. Certificate as to financial resources

(1) A certificate under this paragraph is one given by the relevant authority and certifying that, taking the proposed transfer into account, the transferee possesses, or will possess before the scheme takes effect, adequate financial resources.

(2) “Relevant authority” means—

(a) if the transferee is a PRA-authorised person with a Part 4A permission or with permission under Schedule 4, the PRA;

(b) if the transferee is an EEA firm falling within paragraph 5(a) or (b) of Schedule 3, its home state regulator;

(c) if the transferee does not fall within paragraph (a) or (b) but is subject to regulation in a country or territory outside the United Kingdom, the authority responsible for the supervision of the transferee's business in the place in which the transferee has its head office;

(d) in any other case, the FCA.

(3) In sub-paragraph (2), any reference to a transferee of a particular description includes a reference to a transferee who will be of that description if the proposed ring-fencing transfer scheme takes effect.

FINANCIAL SERVICES AND MARKETS ACT 2000 (EXCLUDED ACTIVITIES AND PROHIBITIONS) ORDER 2014

Article 1

(3) The other provisions of this Order come into force on 1st January 2019.

**FINANCIAL SERVICE MARKETS ACT 2000 (REGULATED ACTIVITIES) ORDER
2001**

5. Accepting deposits

(1) Accepting deposits is a specified kind of activity if—

- (a) money received by way of deposit is lent to others; or
- (b) any other activity of the person accepting the deposit is financed wholly, or to a material extent, out of the capital of or interest on money received by way of deposit.

(2) In paragraph (1), “deposit” means a sum of money, other than one excluded by any of articles 6 to 9A, paid on terms—

- (a) under which it will be repaid, with or without interest or premium, and either on demand or at a time or in circumstances agreed by or on behalf of the person making the payment and the person receiving it; and
- (b) which are not referable to the provision of property (other than currency) or services or the giving of security.

(3) For the purposes of paragraph (2), money is paid on terms which are referable to the provision of property or services or the giving of security if, and only if—

- (a) it is paid by way of advance or part payment under a contract for the sale, hire or other provision of property or services, and is repayable only in the event that the property or services is or are not in fact sold, hired or otherwise provided;
- (b) it is paid by way of security for the performance of a contract or by way of security in respect of loss which may result from the non-performance of a contract; or
- (c) without prejudice to sub-paragraph (b), it is paid by way of security for the delivery up or return of any property, whether in a particular state of repair or otherwise.

**THE FINANCIAL SERVICES AND MARKETS ACT 2000 (CONTROL
OF BUSINESS TRANSFERS) (REQUIREMENTS ON APPLICANTS)
REGULATIONS 2001**

Transfer of an insurance business

3.—(2) A notice stating that the application has been made must be—

- (a) published—
 - (i) in the London, Edinburgh and Belfast Gazettes;
 - (ii) in two national newspapers in the United Kingdom; and
 - [...]
- (b) sent to every policyholder of the parties.
- [...]

4.—(1) Subject to paragraph (2) or (3), the court may not determine an application under section 107 for an order sanctioning an insurance business transfer scheme—

- (a) where the applicant has failed to comply with the requirements in regulation 3(2), (3) or (6); and
- (b) until a period of not less than twenty-one days has elapsed since the appropriate regulator was given the documents mentioned in regulation 3(5).

(2) The requirements in regulation 3(2)(a)(ii) and (iii) and (iv) and (b) and (c) may be waived by the court in such circumstances and subject to such conditions as the court considers appropriate.

Transfer of a banking business or a reclaim fund business

5.—(1) An applicant under section 107 of the Act for an order sanctioning a banking business transfer scheme or reclaim fund business transfer scheme (“the scheme”) must comply with the following requirements.

(2) A notice stating that the application has been made must be published—

- (a) in the London, Edinburgh and Belfast Gazettes; and
- (b) in two national newspapers in the United Kingdom.

(3) The notice mentioned in paragraph (2) must—

- (a) be approved by the appropriate regulator prior to its publication; and
- (b) contain the address from which the statement mentioned in paragraph (4) may be obtained.

(4) A statement setting out the terms of the scheme must be given free of charge to any person who requests it.

(5) Copies of the application and the statement mentioned in paragraph (4) must be given free of charge to the appropriate regulator and, if the FCA is not the appropriate regulator, the FCA.

BANKING ACT 2009

215 Banknote regulations

(1) The Treasury shall make regulations about the treatment, holding and issuing of banknotes by authorised banks (“banknote regulations”).

(2) Banknote regulations—

(a) shall be made by statutory instrument, and

(b) may not be made unless a draft has been laid before and approved by resolution of each House of Parliament.

CAPITAL REQUIREMENTS REGULATION OF THE EUROPEAN COUNCIL AND PARLIAMENT (REGULATION (EU) NO 575/2013)

Article 92

Own funds requirements

1. Subject to Articles 93 and 94, institutions shall at all times satisfy the following own funds requirements:

(a) a Common Equity Tier 1 capital ratio of 4,5 %;

(b) a Tier 1 capital ratio of 6 %;

(c) a total capital ratio of 8 %.

2. Institutions shall calculate their capital ratios as follows:

(a) the Common Equity Tier 1 capital ratio is the Common Equity Tier 1 capital of the institution expressed as a percentage of the total risk exposure amount;

(b) the Tier 1 capital ratio is the Tier 1 capital of the institution expressed as a percentage of the total risk exposure amount;

(c) the total capital ratio is the own funds of the institution expressed as a percentage of the total risk exposure amount.

3. Total risk exposure amount shall be calculated as the sum of points (a) to (f) of this paragraph after taking into account the provisions laid down in paragraph 4:

(a) the risk weighted exposure amounts for credit risk and dilution risk, calculated in accordance with Title II and Article 379, in respect of all the business activities of an

institution, excluding risk weighted exposure amounts from the trading book business of the institution;

- (b) the own funds requirements, determined in accordance with Title IV of this Part or Part Four, as applicable, for the trading-book business of an institution, for the following:
 - (i) position risk;
 - (ii) large exposures exceeding the limits specified in Articles 395 to 401, to the extent an institution is permitted to exceed those limits;
- (c) the own funds requirements determined in accordance with Title IV or Title V with the exception of Article 379, as applicable, for the following:
 - (i) foreign-exchange risk;
 - (ii) settlement risk;
 - (iii) commodities risk;
- (d) the own funds requirements calculated in accordance with Title VI for credit valuation adjustment risk of OTC derivative instruments other than credit derivatives recognised to reduce risk-weighted exposure amounts for credit risk;
- (e) the own funds requirements determined in accordance with Title III for operational risk;
- (f) the risk weighted exposure amounts determined in accordance with Title II for counterparty risk arising from the trading book business of the institution for the following types of transactions and agreements:
 - (i) contracts listed in Annex II and credit derivatives;
 - (ii) repurchase transactions, securities or commodities lending or borrowing transactions based on securities or commodities;
 - (iii) margin lending transactions based on securities or commodities;
 - (iv) long settlement transactions.

4. The following provisions shall apply in the calculation of the total exposure amount referred to in paragraph 3:

- (a) the own funds requirements referred to in points (c), (d) and (e) of that paragraph shall include those arising from all the business activities of an institution;
- (b) institutions shall multiply the own funds requirements set out in points (b) to (e) of that paragraph by 12,5.

THE CAPITAL REQUIREMENTS DIRECTIVE (DIRECTIVE 2013/36/EU)

Article 104

Supervisory powers

1. For the purposes of Article 97, Article 98(4), Article 101(4) and Articles 102 and 103 and the application of Regulation (EU) No 575/2013, competent authorities shall have at least the following powers:
 - (a) to require institutions to hold own funds in excess of the requirements set out in Chapter 4 of this Title and in Regulation (EU) No 575/2013 relating to elements of risks and risks not covered by Article 1 of that Regulation;
 - (b) to require the reinforcement of the arrangements, processes, mechanisms and strategies implemented in accordance with Articles 73 and 74;
 - (c) to require institutions to present a plan to restore compliance with supervisory requirements pursuant to this Directive and to Regulation (EU) No 575/2013 and set a deadline for its implementation, including improvements to that plan regarding scope and deadline;
 - (d) to require institutions to apply a specific provisioning policy or treatment of assets in terms of own funds requirements;
 - (e) to restrict or limit the business, operations or network of institutions or to request the divestment of activities that pose excessive risks to the soundness of an institution;
 - (f) to require the reduction of the risk inherent in the activities, products and systems of institutions;
 - (g) to require institutions to limit variable remuneration as a percentage of net revenues where it is inconsistent with the maintenance of a sound capital base;
 - (h) to require institutions to use net profits to strengthen own funds;
 - (i) to restrict or prohibit distributions or interest payments by an institution to shareholders, members or holders of Additional Tier 1 instruments where the prohibition does not constitute an event of default of the institution;
 - (j) to impose additional or more frequent reporting requirements, including reporting on capital and liquidity positions;
 - (k) to impose specific liquidity requirements, including restrictions on maturity mismatches between assets and liabilities;
 - (l) to require additional disclosures.
2. The additional own funds requirements referred to in paragraph 1(a) shall be imposed by the competent authorities at least where,

- (a) an institution does not meet the requirement set out in Articles 73 and 74 of this Directive or in Article 393 of Regulation (EU) No 575/2013;
 - (b) risks or elements of risks are not covered by the own funds requirements set out in Chapter 4 of this Title or in Regulation (EU) No 575/2013;
 - (c) the sole application of other administrative measures is unlikely to improve the arrangements, processes, mechanisms and strategies sufficiently within an appropriate timeframe;
 - (d) the review referred to in Article 98(4) or Article 101(4) reveals that the non-compliance with the requirements for the application of the respective approach will likely lead to inadequate own funds requirements;
 - (e) the risks are likely to be underestimated despite compliance with the applicable requirements of this Directive and of Regulation (EU) No 575/2013; or
 - (f) an institution reports to the competent authority in accordance with Article 377(5) of Regulation (EU) No 575/2013 that the stress test results referred to in that Article materially exceed its own funds requirement for the correlation trading portfolio.
3. For the purposes of determining the appropriate level of own funds on the basis of the review and evaluation carried out in accordance with Section III, the competent authorities shall assess whether any imposition of an additional own funds requirement in excess of the own funds requirement is necessary to capture risks to which an institution is or might be exposed, taking into account the following:
- (a) the quantitative and qualitative aspects of an institution's assessment process referred to in Article 73;
 - (b) an institution's arrangements, processes and mechanisms referred to in Article 74;
 - (c) the outcome of the review and evaluation carried out in accordance with Article 97 or 101;
 - (d) the assessment of systemic risk.

THE PRA RULE BOOK FOR CRR FIRMS

Fundamental Rule 4:

A firm must at all times maintain adequate financial resources.

Internal Capital Adequacy Assessment (“ICAA”)

Overall financial adequacy rule

2.1 A firm must at all times maintain overall financial resources, including own funds and liquidity resources, which are adequate both as to amount and quality, to ensure there is no

significant risk that its liabilities cannot be met as they fall due.

Overall Pillar 2 rule

3.1 A firm must have in place sound, effective and comprehensive strategies, processes and systems:

(1) to assess and maintain on an ongoing basis the amounts, types and distribution of financial resources, own funds and internal capital that it considers adequate to cover:

- (a) the nature and level of the risks to which it is or might be exposed;
- (b) the risk in the overall financial adequacy rule in 2.1; and
- (c) the risk that the firm might not be able to meet the obligations in Part Three of the CRR in the future;

(2) that enable it to identify and manage the major sources of risk referred to in (1) including the major sources of risk in each of the following categories where they are relevant to the firm given the nature and scale of its business:

- (a) credit and counterparty risk;
- (b) market risk;
- (c) liquidity risk;
- (d) operational risk;
- (e) concentration risk;
- (f) residual risk;
- (g) securitisation risk, including the risk that the own funds held by a firm in respect of assets which it has securitised are inadequate having regard to the economic substance of the transaction including the degree of risk transfer achieved;
- (h) business risk;
- (i) interest rate risk in the non-trading book;
- (j) risk of excessive leverage;
- (k) pension obligation risk; and
- (l) group risk.

3.2 As part of its obligations under the overall Pillar 2 rule in 3.1, a firm must identify separately the amount of common equity tier one capital, additional tier one capital and tier two capital and each category of capital (if any) that is not eligible to form part of its own funds which it considers adequate for the purposes described in the overall Pillar 2 rule.

THE PRA RULE BOOK: CRR FIRMS AND NON-AUTHORISED PERSONS: RING-FENCED BODIES INSTRUMENT 2016

14 NETTING ARRANGEMENTS

14.1 A ring-fenced body must not enter into a netting arrangement if the effect of the netting arrangement is to permit a person, other than a member of the ring-fenced body's group, to offset its liabilities to the ring-fenced body against its claims on any member of the ring-fenced body's group that is not a ring-fenced affiliate in the event of default of any party to the netting arrangement.

STATEMENT OF POLICY: THE IMPLEMENTATION OF RING-FENCING: THE PRA'S APPROACH TO RING-FENCING TRANSFER SCHEMES

3.13 Transfers may have both positive and negative effects on persons other than the transferor. A key concern for the PRA will be to satisfy itself that persons other than the transferor have adequate information and a reasonable time within which to determine whether or not they are adversely affected and, if adversely affected, whether to make representations to the court. When reaching its view, the PRA will act in a way it considers most appropriate to advancing its own statutory objectives. The FCA also has a particular interest in the publication and notification of customers and the PRA will engage closely with the FCA on this.

FINALISED GUIDANCE 16/1: GUIDANCE ON THE FCA'S APPROACH TO THE IMPLEMENTATION OF RING-FENCING AND RING-FENCING SCHEMES

1.25 Some respondents have asked for flexibility in the way that they communicate to customers, so that the firms can elect the most appropriate form, method and scope of communications with their customers. They have also questioned the need to communicate with all adversely affected 'consumers', rather than the customers of the transferee/transferor. Some have specifically questioned the current expectation in our guidance that the skilled person assess that the summary of the scheme report that is available to customers is clear, fair, and not misleading. Others queried whether it would be necessary for different summaries of the scheme report to be prepared, acknowledging that there may be different audiences, including customers.

1.26 Currently, our guidance reflects an expectation that firms communicate with persons likely to be adversely affected by the scheme in one or more ways, including publications in gazettes or national newspapers, or individually to adversely affected 'consumers'. Such communications are intended to inform those consumers how they are likely to be adversely affected so that they may consider exercising their statutory right to make representations, or object, against the scheme in the court.

1.27 We do not consider it necessary to revise the wording of the guidance on this point, as it already provides a degree of flexibility to firms. We support a flexible approach to communication, as long as firms are able to explain their communications plan and demonstrate why their proposal is appropriate. For example, this should include appropriate methods of communication with vulnerable customers or groups of consumers with protected characteristics under equality legislation. We expect that the court will want to be satisfied that the firm has proposed an adequate communication plan.

1.28 As discussed above, there may be circumstances where the individuals likely to be adversely affected are wider than direct customers of the transferee/transferor (e.g. counterparties). Firms should sensibly consider all groups of persons that are likely to be adversely affected, and whether and how they should communicate with them.

1.29 We consider it to be reasonable for the skilled person to assess that the summary (as drafted by the firm) of the scheme report is clear, fair, and not misleading, particularly in light of consumers' rights to be heard by the court and that the summary represents the skilled person's opinion on highly complex business restructurings.

1.30 We generally expect firms to produce a summary of the scheme report that can be understood by persons likely to be adversely affected, including customers. In our view, it should be for firms to assess whether it is necessary to prepare more than one version of the summary, depending on the circumstances of their scheme and the different persons adversely affected.

SCHEDULE IV

Defined Terms

“2011 Part VII Scheme”	has the meaning given in Statement 16.2.1;
“2012 CBM”	has the meaning given in Statement 16.3.1;
“2016 Order”	has the meaning given in Statement 32.3.3;
“a banking scheme”	has the meaning given in Statement 6.3.1;
“Adam”	has the meaning given in Statement 1.2.1;
“Adam 2016 Accounts”	has the meaning given in Statement 24.1;
“Adam Customers”	has the meaning given in Statement 23.4;
“Adam Destination Arrangements”	has the meaning given in Statement 40.7.2;
“Adam Destination Assets”	has the meaning given in Statement 3.8;
“Adam Destination Business”	has the meaning given in Statement 3.5;
“Adam Destination Claims”	has the meaning given in Statement 42.11.1;
“Adam Destination Goodwill”	has the meaning given in Statement 42.8;
“Adam Destination Liabilities”	has the meaning given in Statement 3.8;
“Adam Destination Properties”	has the meaning given in Statement 40.2;
“Adam Destination Records”	has the meaning given in Statement 42.9.1;
“adequate financial resources”	has the meaning given in Statement 69.1;
“Amendments”	has the meaning given to in Statement 50.1;
“an insurance scheme”	has the meaning given in Statement 6.3.1;
“Arrangement”	has the meaning given in Statement 40.7.1;
“Assets”	has the meaning given in Statement 40.6.1;
“Booklet”	has the meaning given in Statement 72.10.1;
“CCP”	has the meaning given in Statement 13.2.5;
“COBTRA Regulations”	has the meaning given in Statement 6.5;
“CET1 Capital”	has the meaning given in Paragraph 2.2 in Schedule II;
“CET1 Ratio”	has the meaning given in Paragraph 2.4.1 in Schedule II;
“Core Activities”	has the meaning given in Statement 32.2;

“Core Activities Order”	has the meaning given in Statement 32.3.2;
“Counterparties”	has the meaning given in Statement 3.13;
“Coutts”	has the meaning given in Statement 21.6.3;
“Covered Bond Programme”	has the meaning given in Statement 15.5.1;
“Covered Bond Roles”	has the meaning given in Statement 15.5.4;
“Covered Bonds”	has the meaning given in Statement 15.5.2;
“Covering Letters”	has the meaning given in Statement 72.10.3;
“CPB Business”	has the meaning given in Statement 9.4.2;
“CRD IV”	has the meaning given in Statement 20.3;
“CRD IV Buffers”	has the meaning given in Paragraph 4.1 in Schedule II;
“CRD IV Directive”	has the meaning given in Statement 20.2;
“CRR”	has the meaning given in Statement 20.2;
“Disruption/Adjustment Rights”	has the meaning given in Statement 55.3.2;
“DoLSub”	has the meaning given in Statement 21.6.3;
“Effective Time”	has the meaning given in Statement 39.4;
“Encumbrances”	has the meaning given in Statement 42.7.1;
“Excluded Activities Order”	has the meaning given in Statement 32.4.2;
“Excluded Activity”	has the meaning given in Statement 32.1;
“Excluded Agency”	has the meaning given in Statement 41.3.2;
“Excluded Arrangements”	has the meaning given in Statement 40.7.4;
“Excluded Assets”	has the meaning given in Statement 3.12;
“Excluded Business”	has the meaning given in Statement 3.11;
“Excluded Covered Bond Roles”	has the meaning given in Statement 45.7.1;
“Excluded Fixed Assets”	has the meaning given in Statement 45.13.1;
“Excluded Government Schemes Business Assets”	has the meaning given in Statement 45.5.1;
“Excluded Government Schemes Business Liabilities”	has the meaning given in Statement 45.5.1;
“Excluded Intellectual Property”	has the meaning given in Statement 45.11.1;
“Excluded Legacy Capital Resolution Business”	has the meaning given in Statement 45.4.1;
“Excluded Lending Business”	has the meaning given in Statement 45.2.1;

“Excluded Liabilities”	has the meaning given in Statement 3.12;
“Excluded Structured Debt Roles”	has the meaning given in Statement 45.7.5;
“Excluded Trade Finance Business”	has the meaning given in Statement 45.3.1;
“Existing Adam Deposits”	has the meaning given in Statement 62.1;
“FCA”	has the meaning given in Statement 8.5;
“Fitch”	has the meaning given in Statement 18.6;
“First Order”	has the meaning given in Statement 73.9;
“FSCS”	has the meaning given in Statement 62.2;
“FSMA”	has the meaning given in Statement 1.1.4;
“Group Companies”	has the meaning given in Statement 1.1.3;
“HMT”	has the meaning given in Statement 10.4.4;
“ICAA”	has the meaning given in Statement 20.6.1;
“Initial Adam Destination Assets”	has the meaning given in Statement 46.2;
“Initial Adam Destination Liabilities”	has the meaning given in Statement 46.2;
“Initial NatWest Destination Assets”	has the meaning given in Statement 46.2;
“Initial NatWest Destination Liabilities”	has the meaning given in Statement 46.2;
“Intra-Group Arrangements”	has the meaning given in Statement 45.10;
“ISDA”	has the meaning given in Statement 13.3.1;
“ISDA Master Agreements”	has the meaning given in Statement 13.3.1;
“Legacy Capital Resolution Business”	has the meaning given in Statement 14.1;
“Legal Entity Reorganisation”	has the meaning given in Statement 5.1;
“Liabilities”	has the meaning given in Statement 40.6.2;
“Liquidation Member”	has the meaning given in Statement 15.5.7;
“Liquidity Regulation”	has the meaning given in Statement 21.3;
“LLP”	has the meaning given in Statement 15.5.6;
“Main Section”	has the meaning given in Statement 17.3.2;
“Main Webpage”	has the meaning given in Statement 72.13.1;
“MDA”	has the meaning given in paragraph 4.5.2 of Schedule II;

“Mentor Customers”	has the meaning given in Statement 12.6.2;
“Moody’s”	has the meaning given in Statement 18.6;
“MREL”	has the meaning given in paragraph 7.2 of Schedule II;
“NatWest”	has the meaning given in Statement 1.3.1;
“NatWest 2016 Accounts”	has the meaning given in Statement 28.1;
“NatWest Customers”	has the meaning given in Statement 27.5;
“NatWest Destination Arrangements”	has the meaning given in Statement 40.7.2;
“NatWest Destination Assets”	has the meaning given in Statement 3.9;
“NatWest Destination Business”	has the meaning given in Statement 3.6;
“NatWest Destination Claims”	has the meaning given in Statement 44.6.1;
“NatWest Destination Goodwill”	has the meaning given in Statement 44.5;
“NatWest Destination Liabilities”	has the meaning given in Statement 3.9;
“NatWest Destination Properties”	has the meaning given in Statement 40.3.1;
“NatWest Destination Records”	has the meaning given in Statement 44.4.1;
“NatWest Markets Business”	has the meaning given in Statement 9.5.2;
“Notice”	has the meaning given in Statement 72.6.1;
“NWH”	has the meaning given in Statement 22.1;
“OTC”	has the meaning given in Statement 13.2.1;
“other bodies”	has the meaning given in Statement 74.3;
“Other Webpages”	has the meaning given in Statement 72.13.1;
“Part 4A Permission”	has the meaning given in Statement 8.2;
“Part VII”	has the meaning given in Statement 2.1.1;
“Part VII Scheme”	has the meaning given in Statement 6.3.2;
“PBB Business”	has the meaning given in Statement 9.3.2;
“PPI”	has the meaning given in Statement 18.3.1;
“PRA”	has the meaning given in Statement 4.2;
“Previous Transfers”	has the meaning given in Statement 16.1.1;
“Prohibited Asset”	has the meaning given in Statement 45.24.1;
“Prohibited Liability”	has the meaning given in Statement 45.24.1;

“RAO”	has the meaning given in Statement 6.5;
“RBS Group”	has the meaning given in Statement 1.1.3;
“RBS Group Employees”	has the meaning given in Statement 17.1;
“RBS Group Ring-Fencing Proposals”	has the meaning given in Statement 5.1;
“RBS NV”	has the meaning given in Statement 16.2.1;
“RBS Pension Schemes”	has the meaning given in Statement 17.3.1;
“RBS plc”	has the meaning given in Statement 1.1.1;
“RBS plc 2016 Accounts”	has the meaning given in Statement 18.1;
“RBS plc Employees”	has the meaning given in Statement 17.2;
“RBS plc Reduction”	has the meaning given in Statement 5.4.1;
“RBSG”	has the meaning given in Statement 1.1.2;
“RBSG 2016 Accounts”	has the meaning given in Statement 9.2.5;
“RBSG Reduction”	has the meaning given in Statement 5.5.1;
“RBSI”	has the meaning given in Statement 37.5.1;
“Regulators”	has the meaning given in Statement 8.6.1;
“Relevant Date”	has the meaning given in Statement 46.12;
“Relevant Transferees”	has the meaning given in Statement 3.10;
“Remaining Counterparties”	has the meaning given in Statement 3.15;
“Residual Assets”	has the meaning given in Statement 46.4;
“Residual Liabilities”	has the meaning given in Statement 46.4;
“Rights in Security”	has the meaning given in Statement 42.6.1;
“Ring-Fenced Sub-Group”	has the meaning given in Statement 37.3;
“RNS”	has the meaning given in Statement 72.14.1;
“RWAs”	has the meaning given in paragraph 2.4.2 of Schedule II;
“S&P”	has the meaning given in Statement 18.6;
“Sanction Hearing”	has the meaning given in Statement 2.2;
“Sanction Order”	has the meaning given in Statement 2.1.1;
“Scheme”	has the meaning given in Statement 2.1.1;
“Scheme Report”	has the meaning given in Statement 67.3;

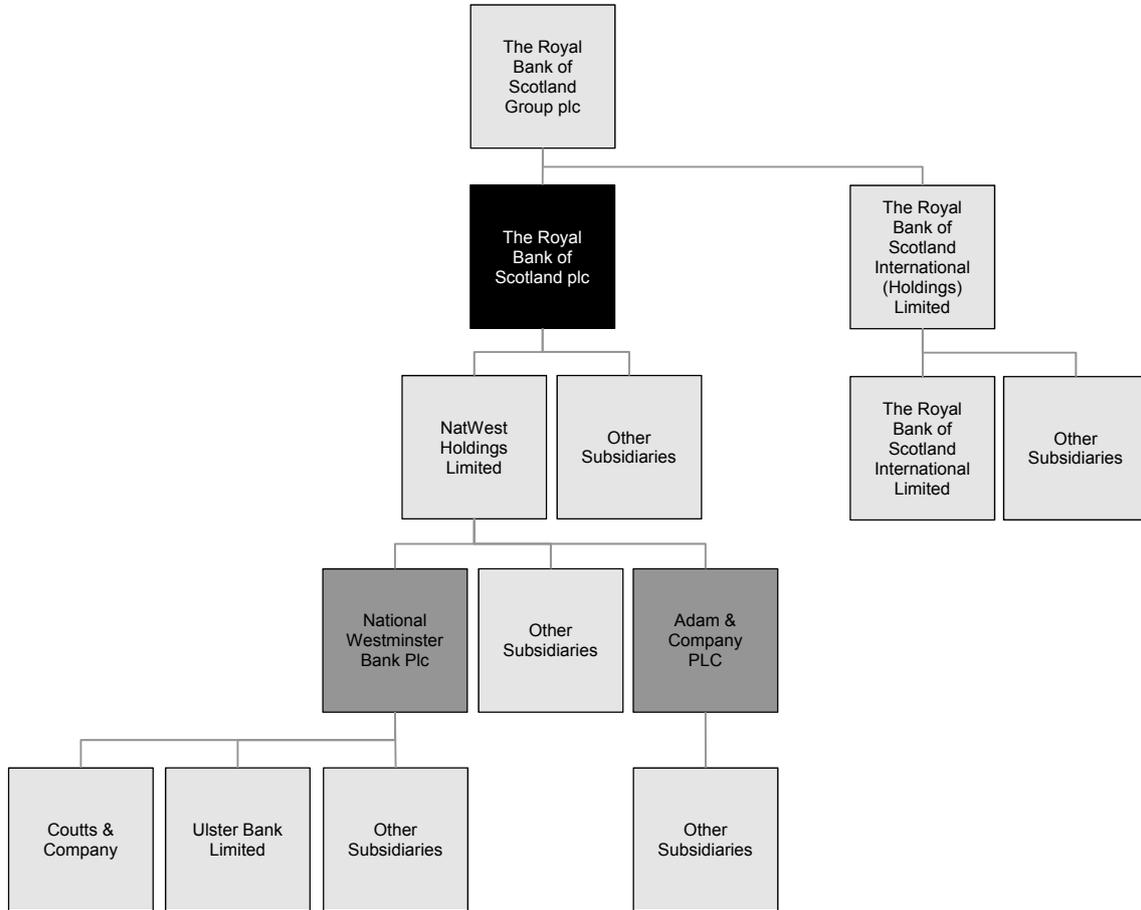
“Scheme Summary”	has the meaning given in Statement 72.12;
“Second RFTS”	has the meaning given in Statement 5.3.1;
“Section 110 Deadline”	has the meaning given in Statement 73.7;
“Shared Government Schemes”	has the meaning given in Statement 57.2;
“Shared Security”	has the meaning given in Statement 58.2;
“Shared Trade Finance Counter Indemnity”	has the meaning given in Statement 56.1.2;
“Statutory Purposes”	has the meaning given in Statement 34.4.1;
“Statutory Records”	has the meaning given in Statement 42.9.2;
“Subsequent Transfer Date”	has the meaning given in Statement 46.5;
“Supplementary Scheme Report”	has the meaning given in Statement 68.1;
“T1 Ratio”	has the meaning given in Paragraph 2.13.2 in Schedule II;
“the relevant authority”	has the meaning given in Statement 69.1;
“Total Capital Ratio”	has the meaning given in Paragraph 2.13.1 in Schedule II;
“total equity”	has the meaning given in Statement 18.2;
“Trade Finance Instruments”	has the meaning given in Statement 12.1.2;
“Transferring Agency”	has the meaning given in Statement 41.3.1;
“Transferring Arrangements”	has the meaning given in Statement 40.7.3;
“Transferring Assets”	has the meaning given in Statement 3.7;
“Transferring Businesses”	has the meaning given in Statement 3.4;
“Transferring Counterparties”	has the meaning given in Statement 3.14;
“Transferring Covered Bond Roles”	has the meaning given in Statement 43.1.2;
“Transferring Deposits”	has the meaning given in Statement 62.1;
“Transferring Liabilities”	has the meaning given in Statement 3.7;
“Transferring Offices”	has the meaning given in Statement 10.3.2;
“Transferring Structured Debt Roles”	has the meaning given in Statement 41.2(i)(b);
“Treasury Function”	has the meaning given in Statement 9.6.2;
“UBI”	has the meaning given in Statement 37.7.3;
“UK”	has the meaning given in Statement 2.4.1;

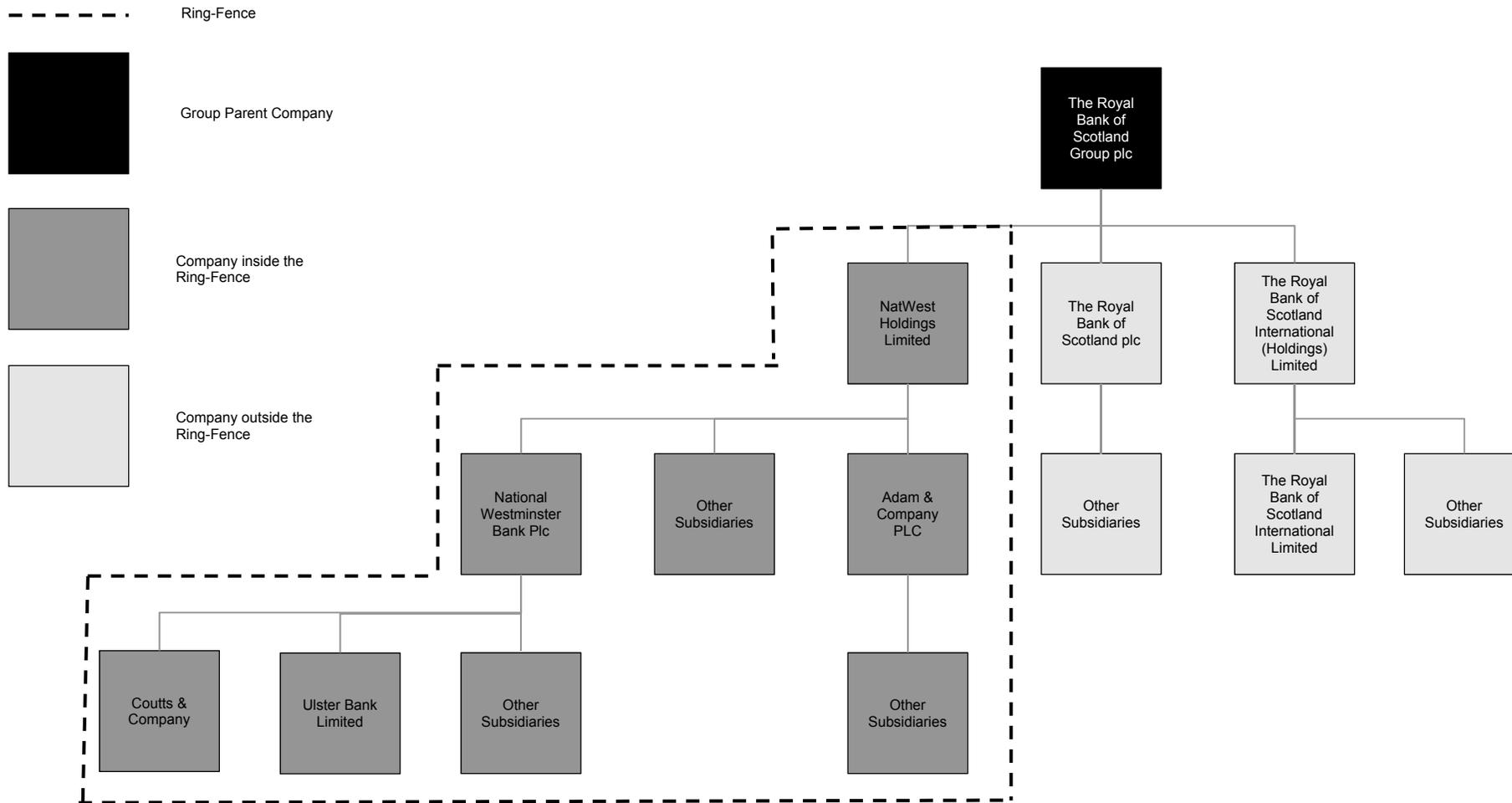
“UK law”	has the meaning given in Statement 10.2;
“USA”	has the meaning given in Statement 9.2.1;
“W&G Business”	has the meaning given in Statement 10.4.1;
“Withdrawal Undertaking”	has the meaning given in Statement 62.5.

SCHEDULE V

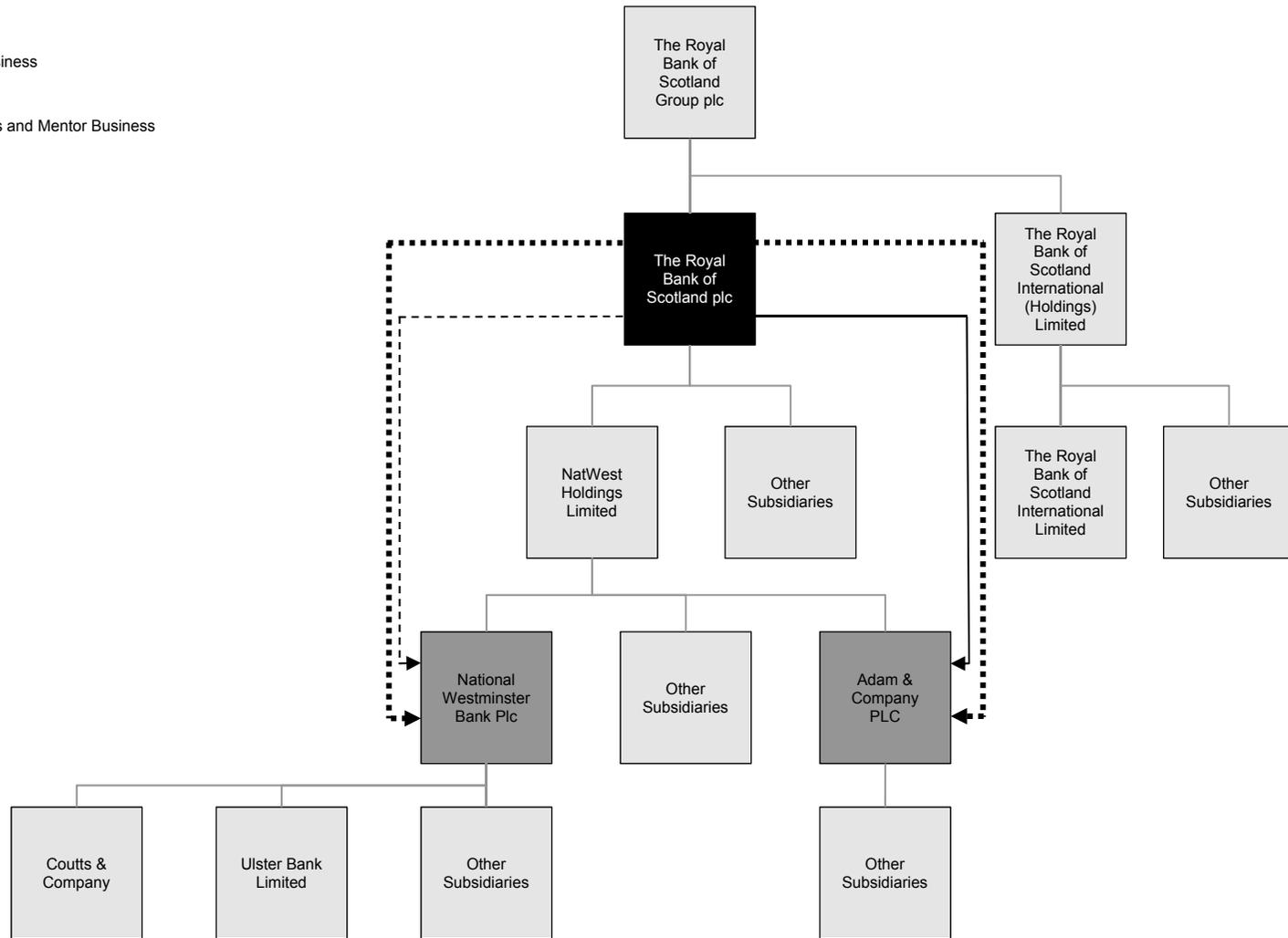
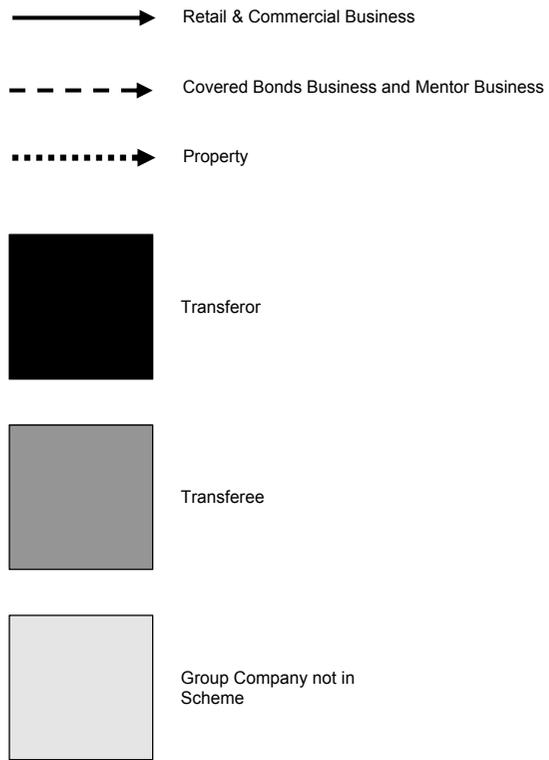
Diagrams of the Pre-Legal Entity Reorganisation and Post-Legal Entity Reorganisation

RBS Group





SCHEDULE VI
Diagram of the Transferring Businesses



APPENDIX
The Scheme