HM TREASURY

Royal Bank of Scotland:

details of Asset Protection Scheme and launch of the Asset Protection Agency

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Executive summary

The Government is today publishing details of the Asset Protection Scheme (APS) agreements that it has entered into with The Royal Bank of Scotland (RBS) together with information on the assets that are being covered by the APS.

The release of this information follows from the statement made by the Chancellor of the Exchequer to the House of Commons on 3rd November. On that day, the Chancellor announced[1] that:

- Lloyds Banking Group (LBG) will not participate in the APS, but will instead raise an additional £21bn in capital and pay a fee to the taxpayer for the implicit protection provided to date. Since then, LBG has said that it expects to raise more capital still – as much as £22.5bn. This will reduce the risk borne by the taxpayer, improving value for money.
- RBS will participate in the APS, but will do so under revised terms compared to the in-principle agreement reached in February. These revised terms improve incentives and deliver better risk sharing with the private sector.
- Both RBS and LBG have made a number of additional commitments, restricting payment of bonuses and maintaining lending to households and businesses.
- To promote greater competition in UK banking, and to meet EU State aid rules, both RBS and LBG will also be required to divest significant parts of their businesses over the next four years – together representing nearly 10% of the UK retail banking market.

APS agreement with RBS

The Government and RBS signed full, legally binding agreements on 26th November. Comprehensive detail of these agreements, including the APS rules, is today being put into the libraries of both House of Parliament and is also available at www.hm-treasury.gov.uk.

The key terms in these agreements are consistent with those announced on 3rd November, including:

- A larger first loss to RBS than agreed in February – the first loss to be borne by RBS has increased from £42bn to £60bn;
- A smaller pool of insured assets – reduced from £325bn to £282bn based on RBS's balance sheet at 31 December 2008;
- A capital injection by the Government of £25.5bn in B shares – equal to the £25.5bn total capital commitment announced in February, which comprised £13bn in upfront capital, £6bn to be drawn down at the option of RBS and £6.5bn as a fee taken as capital;

[1] Details of announcement at www.hm-treasury.gov.uk/financial_stability_agreements.htm

- A fee to the Government, to be paid annually, of £0.7bn for the first three years, followed by £0.5bn per year for the life of the APS – compared to an up-front fee of £6.5bn paid in B-shares agreed in February;
- If RBS should in the future withdraw from the APS, then it will pay an 'exit' fee of the larger of £2.5bn or 10% of the actual capital relief provided to RBS by the APS less any annual fees already paid - it could only leave the APS with the FSA's approval; and
- Removing the undertaking, agreed by RBS in February, to forego for up to five years certain tax losses and allowances. This was estimated at a value of £9-11bn in RBS's accounts.

As a result of the capital injection, the Government's economic interest in RBS will rise to 84%, consistent with the agreement in February, but the Government's ordinary shareholding will remain at 70%.

To protect against a worst-case scenario, the Government will also provide a contingent capital commitment of up to £8bn. This would be drawn down in up to two tranches and only should RBS's Core Tier 1 capital ratio fall below 5%.

HM Treasury has agreed not to convert any B shares to ordinary shares if and to the extent that this would result in it holding more than 75% of the total issued ordinary shares.

The FSA has confirmed that, with these measures, RBS complies with its stress-testing framework. Further detail of these arrangements is set out in section 4 of this document, with detail on the assets covered by the APS given in Annex A. The design of the APS is covered in section 5 and Annex B.

Establishment of the Asset Protection Agency

With RBS's formal entry into the APS, the Government is also today announcing the launch of the Asset Protection Agency (APA), an Executive Agency of HM Treasury. This follows the announcement on 25th September 2009 of the appointment of Stephan Wilcke as Chief Executive Officer of the APA.

The APA's main objective is to operate the APS on behalf of HM Treasury in such a way as to maximise the value of the assets protected by the APS. It will fulfil this objective by ensuring that RBS complies with the APS rules when managing the protected assets.

The APA has effective powers to monitor asset performance and influence the management of the assets so as to minimise risks to taxpayers. If necessary, it can intervene directly by, for example, requiring alternative asset managers to be appointed or by stopping the sale of defaulted loans to third parties at unattractive prices. It is staffed by specialists, largely recruited from the private sector to carry out this specific task.

Further detail is set out in section 6. The Framework Agreement that has been agreed between HM Treasury and the APA is at Annex C.

Costs of the APS

The eventual fiscal cost of the scheme is subject to a range of factors including wider developments in financial markets and the economy, and cannot therefore be predicted with certainty. Based on the due diligence of APS assets and assessment of the outlook for asset prices and the economy, HM Treasury's central expectation is that overall net losses on the insured pool of assets will not exceed the £60bn first loss. The direct cost to the taxpayer from the APS is therefore expected to be nil.

In Budget 09 HM Treasury set out it's assessment of overall loses on all its financial sector interventions including on the Government's equity holdings. This assessment will be updated in the forthcoming Pre-Budget Report and then at future Budgets and PBRs. HM Treasury will make equivalent updates to its accounting treatment when producing its future Annual Report and Accounts and through the Parliamentary Estimates process.

LBG and RBS have refunded to HM Treasury the costs it incurred developing the APS and setting up the APA, including those resulting from HM Treasury's use of professional advisers. LBG paid £26m, reflecting its share of these costs through to 3rd November. RBS is paying HM Treasury £45m, which is HM Treasury's estimate of RBS's share of the costs through to 31 December 2009. While it remains in the APS, RBS will continue to refund to HM Treasury the operating costs of the APA.

1 Introduction

Background

1.1 The world economy was hit by a succession of economic shocks during 2007 and 2008. Triggered by the US sub-prime mortgage market in mid-2007, the global credit shock caused a tightening of credit conditions and a number of bank failures across advanced economies, including the UK.

1.2 In October 2008, the Government announced a comprehensive package of measures to support the recovery of the banking system and protect depositors. In November and December 2008 the shareholders of RBS, Lloyds TSB and HBOS approved their respective recapitalisations through the Government recapitalisation scheme and the Government subsequently invested £20 billion in RBS and £17 billion in what is now Lloyds Banking Group (created following the merger of Lloyds TSB and HBOS in January 2009) through the acquisition of ordinary and preference shares. The Government received a net repayment of approximately £2.5bn in June 2009 after LBG redeemed the Government's preference shares.

1.3 The October package was successful and achieved its objectives, preventing the collapse of the banking system and providing stability for depositors and savers. It helped to stabilise lending to banks and businesses by recapitalising the banking system and significantly increasing the capital ratios of the participating banks. This provided the banking system with a buffer to withstand the economic conditions at that time.

1.4 However, the global economic downturn continued to intensify. The deterioration of the world economy undermined market confidence in the value of banks' assets, restricting banks' capacity to lend to creditworthy borrowers. The total amount of lending fell short of what was needed to meet the needs of the economy.

1.5 Investors remained wary of further asset deterioration. It had become clear in the months after the recapitalisation that some banks remained unsure about the value of legacy assets on their balance sheets and so were preferring to hoard capital rather than lend. The failure to maintain lending was hindering economic recovery, which in turn was further weakening the banking sector.

1.6 The Government concluded that further action was necessary to break the circle between declining asset values, credit contraction and weakened consumer demand in order to reduce the depth and length of the downturn. On 19th January 2009, the Government announced a further package of measures to supplement the October package, including the APS to tackle toxic assets on bank balance sheets. In return for a fee, the APS would see HM Treasury protect exceptional credit losses on certain bank assets.

Why the APS?

1.7 Before deciding on the APS, the Government considered the alternatives – principally temporary public ownership of banks and establishing a 'bad bank' to purchase toxic assets. The APS was chosen for a number of reasons.

1.8 The Government is clear that banks are ultimately better off in the private sector and that temporary public ownership should only ever be used as a last resort. How well assets and liabilities are managed drives overall value and the public sector is not generally well equipped to manage such large, complex and international pools of assets on a permanent basis. The delisting of a bank under temporary public ownership also complicates the eventual exit by removing the price mechanism at which it would eventually be returned to the private sector. Private sector involvement ensures that banks are subject to investor scrutiny and commercial and private sector disciplines and this also allows easier exit from taxpayer support in the longer term.

1.9 The APS has many of the ring-fencing virtues of a 'bad bank' approach, while leaving open the option that the protected assets can be reintegrated with the rest of the bank when they are no longer distressed, allowing the banks to move onto a more sustainable footing in the longer term. Implementing a formal 'bad bank' split would be more complicated than any bank resolution attempted so far and it would take much longer to set up the 'bad bank' infrastructure and transfer legal ownership of assets.

1.10 The Government introduced the APS in the context of an emerging global consensus on the need to clean balance sheets of impaired assets in order to restore confidence in the banking system. This approach was supported by the G20 and European Union Finance Ministers. The IMF has advised that: "Governments in countries where market confidence in their financial institutions is being hindered by large exposures to structured, securitised assets trapped on balance sheets due to illiquid markets, or by other problem assets (whether US or domestic), should similarly consider putting in place mechanisms for government purchase or funding of problem assets. Authorities should ensure that these mechanisms are consistent with each other in their design and underlying principles, to avoid adding to uncertainty over valuations of assets."

1.11 Many countries have now introduced schemes to address toxic assets. The choice of scheme has been driven by country-specific circumstances. Germany is introducing a 'bad bank' scheme to tackle impaired assets. Ireland's 'bad bank' scheme will focus primarily on loans relating to commercial real estate. Switzerland, and the Netherlands have agreed tailored asset relief schemes for UBS and ING respectively. The United States has adopted a range of approaches including asset insurance and a system-wide troubled assets scheme involving private sector partners.

"In-principle" participation in the APS

1.12 When it was announced in January 2009, the APS was made available system-wide to any eligible institution on a non-discriminatory basis. An eligible institution was a UK incorporated authorised deposit-taker (including UK subsidiaries of foreign institutions) with more than £25 billion of eligible assets.

1.13 Only RBS and LBG expressed a desire to enter the APS by the deadline of 31 March 2009. An in-principle agreement was reached with RBS on 26 February 2009 and with LBG on 7 March 2009.

1.14 The in-principle agreement with RBS envisaged:

- Inclusion of £325bn of assets into the APS, with RBS bearing a first loss amount of £42.5bn (including existing impairments and writedowns) in relation to protected assets, HM Treasury bearing 90 per cent of losses thereafter, and RBS bearing the remaining 10 per cent;

- Subscription by the Treasury of up to £25.5bn of B shares (non-voting ordinary shares that constitute Core Tier 1 capital), £6bn of which would have been at RBS's option and £6.5bn of which would have been used to pay the fee; and
- An agreement for a number of years that RBS would forego certain UK tax losses and allowances.

1.15 The in-principle agreement with LBG envisaged:

- Inclusion of £260bn of assets into the APS, with LBG bearing a first loss amount of £35bn (including existing impairments) in relation to protected assets, HM Treasury bearing 90 per cent of losses thereafter, and LBG bearing the remaining 10 per cent; and
- Payment of a fee of £15.6bn for participation in the APS to be funded by B shares (non-voting ordinary shares that constitute Core Tier 1 capital).

1.16 In parallel to these agreements on the APS, both RBS and LBG agreed to enter into legally binding lending commitments. RBS commited to lend an additional £25bn on commercial terms and subject to demand, over the 12 months commencing 1 March 2009; £16bn of business lending and £9bn of mortgage lending. The latter commitment has, in the interim, increased by £1bn to £10bn. Over the same period, and again on commercial terms, LBG committed to lend an additional £14bn; £11bn of business lending and £3bn of mortgage lending.

1.17 A robust monitoring framework has been put in place around these lending commitments. The Government will report to Parliament annually on their delivery.

Improved market conditions

1.18 The Government's interventions to stabilise the banking system have been decisive in restoring financial stability and economic confidence. The announcement of the APS earlier this year played a critical part in that.

1.19 The UK has also put in place a stringent bank stress-testing regime comparable with that of any major economy. This has ensured that banks are able to withstand severe downside scenarios while still being able to supply credit to the economy.

1.20 The action taken by the Government, and governments around the world, has reduced the extreme risks that were faced by the financial system and wider economy. This is supporting the return of confidence to the banking system. This renewed confidence means that banks are now able to secure capital support from the private sector in a way that was not possible six months ago.

1.21 In addition, there have been international and regulatory developments that we need to take into account. In particular, in July, the European Commission agreed guidance explaining its approach to restructuring aid given to the banking sector. It has also provided guidance on burden sharing, setting out that investors in bank capital should share in the burden of recapitalising and supporting banks. The Government supports this principle, but recognises that this needs to be implemented in a transparent, fair and consistent way. It has also become clearer how the Commission would, in its State aid considerations, interpret the guidelines in its impaired assets communication published in February. These guidelines are primarily designed to cater for 'bad bank' schemes. However, the Commission is seeking to apply some common principles to asset protection schemes as well.

1.22 Following extensive due diligence, the Government knows considerably more about the assets that LBG and RBS proposed to put into the APS. The FSA has also carried out rigorous stress-testing more widely on both banks. This has given us greater clarity about the scale and timing of potential losses and the impact those could have on the two banks. As a result, on 3rd November, the Government announced certain changes to the in-principle agreements with RBS and LBG, as set out in section 3.

2 Financial Stability Agreements finalised

2.1 On 3rd November, the Government announced the conclusion of its discussions with LBG and RBS in relation to the APS. We also announced certain additional commitments that we had agreed with the two banks, as well as wide-ranging restructuring plans designed to promote greater competition in the UK banking sector.

Conclusion of negotiations with LBG and RBS

2.2 The Government announced that RBS would participate in the APS, but under revised terms compared to the in-principle agreement that the Government reached with RBS in February. The Government and RBS signed full, legally binding agreements in line with these revised terms on 26th November. These agreements are being released alongside this document. Further detail is set out in section 4.

2.3 LBG, on the other hand, withdrew from the APS. The actions taken by the Government, and governments around the world, have reduced the extreme tail risks that were faced by the financial system and wider economy earlier in the year and supported the return of confidence to the banking system. This renewed confidence means that LBG is now able to secure capital support from the private sector in a way that was not possible six months ago.

2.4 Rather than join the APS, LBG therefore announced on 3rd November that it intends to raise £21bn or more in new capital. Since then, LBG has said that it expects to raise more capital still – as much as £22.5bn. This consists of:

- £13.5bn equity by way of a rights issue; and
- Around £9bn by swapping existing debt for new contingent capital that will automatically convert into equity if LBG's Core Tier 1 capital should fall below 5%.

2.5 More than £15bn of the capital that LBG is raising will come from private sources. The Government is then taking up its rights as a shareholder in LBG to participate in the planned capital raising, investing £5.7bn net of a commitment fee. LBG will pay the Government an exit fee of £2.5bn to reflect the implicit support it had received since it agreed in-principle terms on the APS in March.

2.6 The Government's shareholding in LBG will remain at 43%, subject to minor adjustments following completion of the debt-for-contingent capital exchange. The Government's shareholding will continue to be managed by UK Financial Investments Ltd (UKFI). There will be no change to UKFI's mission of managing the Government's shareholding for value and developing and executing a strategy for disposing of the investments in an orderly and active way.

Commitments on pay, lending and a new customer charter

2.7 Both LBG and RBS have agreed that no discretionary cash bonuses will be paid in respect of 2009 performance to any of their staff who earn more than £39000. Even in the case of staff earning less than that, all bonuses will be limited to £2000 in cash with the remainder on deferred, non-cash terms. In addition, executive members of the LBG and RBS boards have agreed to defer all bonuses payments due for 2009 until 2012, to ensure that their remuneration is better aligned with the long-term performance of their banks. As part of its entry into the APS, RBS has also agreed that UKFI will have a right of consent over the size of the bonus pool for 2009. These commitments build on both banks' existing commitments to implement the G20 remuneration principles, the FSA Remuneration Code and any relevant provisions accepted by the Government from the Walker Review.

2.8 Both RBS and LBG also reaffirmed their commitment to the lending agreements that were agreed in February and March respectively. Under these lending commitments:

- LBG agreed to lend an additional £14bn on commercial terms and subject to demand, over the 12 months commencing 1 March 2009; £11bn of business lending and £3bn of mortgage lending.
- RBS agreed to lend an additional £25bn on commercial terms and subject to demand, over the 12 months commencing 1 March 2009; £16bn of business lending and £9bn of mortgage lending. The latter commitment has, in the interim, increased by £1bn to £10bn.

2.9 Similar lending commitments were made in respect of the 12 months from 1 March 2010, and will be reviewed to ensure that they reflect the economic circumstances at the time. Both RBS and LBG have agreed to contribute up to £100 million each to a national investment corporation as part of their lending commitments to business.

2.10 Each bank has agreed to publish and implement a "Customer Charter" for lending to small and medium enterprises (which equate to around 98% of each bank's business customer base). While the details are specific to each bank, these Charters will reinforce the banks' individual commitments to meet all reasonable applications for finance from viable businesses, and to support both viable businesses in temporary financial difficulties and business start-ups.

2.11 Both LBG and RBS have agreed to implement in full any agreements made between the Office of Fair Trading and the banking industry on bank fees and charges, and on the transparency of personal current account costs and the process of switching accounts to another bank. They will also both commit to observe best practice in relation to the future publication of financial statements.

2.12 The Government has signed legally binding agreements with both LBG and RBS in respect of these commitments. Details of these agreements are available in the libraries of the Houses of Parliament and also on-line at www.hm-treasury.gov.uk.

HM Treasury costs met by banks

2.13 LBG and RBS have refunded to HM Treasury the costs it incurred developing the APS and setting up the APA, including those resulting from HM Treasury's use of professional advisers. LBG paid £26m, reflecting its share of these costs through to 3rd November. RBS is paying HM Treasury £45m, which is HM Treasury's estimate of RBS's share of the costs through to 31 December 2009. While it remains in the APS, RBS will continue to refund to HM Treasury the costs of operating the Asset Protection Agency.

Divestments by banks to support competition

2.14 The restructuring plans announced on 3rd November will see both RBS and LBG divest of a significant proportion of their retail and corporate banking assets over the next four years. The divestments from each bank will each represent a viable stand-alone entity. Taken together, the two divestments will represent nearly 10% of the UK retail banking market.

2.15 RBS is expected to divest the Williams & Glyn brand, along with the associated infrastructure needed to create a competitive new UK retail bank:

- 311 RBS branches in England and Wales;
- 7 Nat West branches in Scotland; and
- a Business Banking Infrastructure consisting of: 40 Business and Commercial Banking Centres; 4 Corporate Banking Centres; 2 Direct Business Banking Centres; and 3 Personal Relationship Manager Centres and 3 Operational Centres.

2.16 RBS will also divest RBS Insurance, Global Merchant Services, and its interest in RBS Sempra, the commodities joint venture that is currently part of RBS's Global Banking and Markets division

2.17 RBS has also committed to run down £200bn of non-core assets and expects to achieve a total balance sheet reduction of around £550bn by 31 December 2013. This is equal to around 41% of the balance sheet at September 2008. It will additionally dispose of businesses and associated assets that aggregate to £60bn of risk weighted assets if its Core Tier 1 capital ratio should fall below 5% at any time before 30 November 2014 or if RBS should fail to reduce its funded balance sheet in line with its committed plans by £30bn or more. This will lead to RBS being a leaner and more focussed organisation. Further, RBS has committed not to acquire other financial institutions or make other acquisitions that extend its activities outside of its business model for a minimum of three years.

2.18 LBG will divest a retail banking business with at least 600 branches. The business will consist of:

- the branches of Cheltenham and Gloucester;
- Lloyds TSB Scotland;
- additional Lloyds TSB branches in England and Wales;
- Intelligent Finance; and
- the TSB Brand.

2.19 In addition, LBG has committed to reduce the size of its balance sheet by a further £181bn by the end of 2014. Combined with the retail divestment, this will lead to an overall balance sheet reduction of around 27% of relevant assets. Again, this will lead to LBG being a leaner, more focussed institution to the benefit of both consumers and taxpayers. Further, LBG has committed not to acquire other financial institutions or make other acquisitions that expand its activities outside its business model for a minimum of three years.

State Aid approval

2.20 The financial assistance given to banks across Europe over the past two years has in general been subject to State aid approval. The UK is a strong supporter of the State aid framework, which ensures that governments only give assistance to private institutions where it is absolutely necessary to do so. The support given to RBS and LBG falls into this category.

2.21 In the light of the proposed restructuring packages, the European Commission gave its formal approval to the State aid received by LBG on 18th November. Agreement on RBS's restructuring has been reached in principle with Commissioner Kroes, and is now subject to agreement by the College of Commissioners. The Government is confident that the measures proposed will meet the concerns of the Commission.

3 Agreement with Royal Bank of Scotland

The final terms of RBS's participation in the APS are:

- An increased first loss of £60bn (including impairments already identified by RBS) to be borne by RBS.
- A reduced asset pool of £282bn based on RBS's balance sheet as of 31 December 2008.
- An up-front capital injection of £25.5bn.
- An annual fee of £0.7bn for the first three years and £0.5bn thereafter.
- A potential exit fee, if RBS should leave the APS, of the larger of £2.5bn or 10% of the actual capital relief provided by the APS less any annual fees already paid.
- Removal of the undertaking, agreed by RBS in February, to forego for up to five years certain tax losses and allowances – this was estimated at a value of £9-11bn in RBS's accounts.

In addition, the Government will provide a contingent capital commitment of £8bn, only to be drawn down if RBS's capital position should deteriorate sufficiently. In return for the capital it is providing, including this contingent capital, the Government will receive a fee of 4% per year calculated on the basis of the unused capital commitment.

How and why has the deal changed?

3.1 The Government made clear in February 2009 that the in-principle agreement made with RBS was subject to due diligence and State aid clearance from the European Commission. Since then, we have carried out extensive due diligence and engaged in extensive discussions with the Commission. A number of changes have been made as a result – the final terms agreed with RBS are set out below.

3.2 First, the in-principle agreement envisaged the Government providing £25.5bn of capital in B-shares, which comprised £13bn in upfront capital, £6bn at the option of RBS and £6.5bn to finance the fee for APS entry. This capital injection was designed to address the capital legacy of previous poor management decisions. Under the new arrangements, this capital injection will simply be £25.5bn upfront. As before, it will take the form of B shares.

3.3 Second, as the result of our due diligence, we know considerably more about RBS assets proposed for inclusion in the APS, and the losses they might sustain in different economic scenarios. We have agreed to reduce the APS pool by £43bn overall, to take account of assets that are incompatible with the APS rules, reduce complexity, and to exclude assets that no longer require protection. This smaller pool further reduces the taxpayer's direct exposure to these assets and leaves the bank free to manage them with incentives better aligned.

3.4 Third, the first loss amount has increased from £42bn to £60bn – this includes certain losses on APS assets that have already been incurred by the bank. The first loss is the amount of loss that RBS bears before it can claim protection from the Government (the equivalent of the 'excess' under a normal insurance policy). This change puts the first loss in line with HM Treasury's current view of the most likely level of losses on APS assets, given the outcome of its due diligence and its assessment of the economic outlook. It is now also expected that the agreement with RBS will be fully in line with the Commission's State aid requirements as set out in its Impaired Assets Communication. By increasing the loss on which RBS is at risk, this change should improve the incentives on RBS to manage its APS assets as effectively as possible.

3.5 Fourth, the previous upfront fee of £6.5bn has been replaced with an annual fee of £0.7bn for the first three years of the APS followed by £0.5bn a year thereafter. In addition, we have removed the proposed tax undertaking that RBS agreed in February, which would have required RBS to forego its rights to certain tax losses and other tax allowances for up to five years. Previously, the fee would have taken the form of B shares. It will now take the form of cash or, with the Government's consent, of B shares or of tax assets. If tax assets are used then they will carry a surcharge of at least 20% relative to payment in cash or B-shares.

3.6 Under the new arrangement, RBS will pay for the insurance as it is used, and subject to FSA approval, will be able to exit the APS if it pays an appropriate exit fee. If RBS should leave the APS in circumstances where it has made no claim or has repaid any claims with an appropriate rate of interest, it will be required to pay an exit fee that will amount to the larger of £2.5bn or 10% of the actual regulatory capital relief provided to RBS while it was in the APS (calculated ex-post); in both cases less the total of the annual fees already paid. Where substantial claims have been made by RBS and have not been repaid, the terms of exit will be by negotiation and subject to the same minimum aggregate fee as set out above.

3.7 Finally, in the event that the bank's capital position deteriorates sufficiently, the Government has agreed to provide up to £8bn additional capital in return for B shares – in two tranches, a first of £6bn and a second of £2bn – on a contingent basis. This will ensure that RBS is properly and robustly secured in a severe downturn. This commitment has a duration of five years.

3.8 RBS will pay a premium of 4% a year for the capital that HM Treasury is providing, including this contingent capital, calculated on the basis of the amount of the unused capital commitment. The capital would only be subscribed if RBS's Core Tier 1 capital ratio should fall below 5%. It can be retired early only if the FSA judges that it is no longer needed. The introduction of this new instrument is good for the bank and for savers and borrowers, who know that they are well protected. It is also good for taxpayers who will receive an additional fee, even though the commitment may never be drawn.

3.9 As a result of the capital we will now provide, the Government's economic ownership stake in RBS is expected to rise to 84.4%. This is in line with the February in-principle agreement, assuming that RBS had exercised the £6bn option for the Government to subscribe to B-shares and issued the Government with the £6.5bn B shares for the APS fee as announced as part of that package. The Government's stake now takes the form of ordinary shares and B shares including a new Dividend Access Share that carries a right to a preferential coupon, that is discretionary but must be paid as an ordinary dividend is paid. The combination of the B shares and Dividend Access Share effectively means that if RBS should pay a dividend before its share prices reaches 65p for a set period then the Government will receive a preferential dividend – the greater of 250% of the ordinary dividend and 7% of the technical issue price of the B shares. In the February agreement, the preferential aspects of the dividend were attached to the B shares and not separated out into a Dividend Access Share. If all of the contingent capital facility should be subscribed then the Government's economic ownership stake could rise again (depending on the levels of other investor take-up), potentially to 86.4%. HM Treasury has agreed not to convert any B shares to ordinary shares if and to the extent that this would result in it holding more than 75% of the total issued ordinary shares.

3.10 The Government's shareholding in RBS will continue to be managed by UK Financial Investments Ltd (UKFI). There will be no change to UKFI's mission of managing the Government's shareholding for value and developing and executing a strategy for disposing of our investments in an orderly and active way.

3.11 Taken together with RBS's commitments on remuneration and disclosure set out in section 3, as well as the lending commitments, these changes will help ensure that RBS is stabilised, secured and well placed to contribute effectively to the economic recovery, while at the same time minimising any ultimate cost to the taxpayer. The FSA has confirmed that this package of measures, together with RBS's strategic plan, satisfies its stringent stress tests.

What due diligence did HM Treasury carry out?

3.12 Under the terms of the APS, HM Treasury is taking on a risk from RBS. The due diligence it conducted was designed to give a better understanding of the level of that risk. This process inevitably took time to complete. RBS wanted to put a large number of assets into the APS, of varying type and size, and this made for a time consuming process. Furthermore, RBS is a global bank and its assets are global in nature. HM Treasury's due diligence therefore had to allow for the economic context not just in the UK, but also in Ireland, Europe and the United States, as well as other parts of the world.

3.13 HM Treasury's principal objectives in relation to due diligence and loss estimations were to:

- gain a better understanding of the size and nature of the risks being taken on by HM Treasury;
- gain assurance that the most appropriate assets were being included in the APS;
- inform the design of the APS and development of its terms and conditions;
- gain assurance that the asset data provided by the bank was sufficiently accurate and complete to allow the APS to be operated post-completion and to enable HM Treasury to estimate the possible future losses;
- provide information to support the State aid clearance process; and
- provide estimated losses for fiscal, budgetary and public accounting purposes.

3.14 To deliver these objectives, HM Treasury and its independent external advisers, in coordination with the Bank of England and the Financial Services Authority, deployed experienced teams, to review the assets that RBS proposed for includionin the APS.

3.15 HM Treasury and its advisers took a 'bottom-up' approach to the due diligence process. This required first a detailed review of the different classes of assets that RBS wanted to put in the APS. Then, the individual characteristics of each asset class were reviewed to produce an assessment of the risks associated with that class. And, finally, these were aggregated to build up an overall view of the risks for the APS as a whole.

3.16 Our due diligence has informed a number of changes to the pricing of the APS. In particular, the first loss has increased to £60bn – in line with our view of the expected losses on the assets that are going into the APS. It also underpinned the changes to the total size of the pool – the assets that have dropped out were considered either to be incompatible with the APS rules, to entail disproportionate complexity or to no longer require protection. This has resulted in a fall in the total value of assets to be included in the APS from £325bn to £282bn.

How much will the APS cost the taxpayer?

3.17 The eventual fiscal cost of the APS is subject to a range of factors including wider developments in financial markets and the economy, and cannot therefore be predicted with certainty. Based on the due diligence of APS assets and assessment of the outlook for asset prices and the economy, HM Treasury's central expectation is that overall net losses on the insured pool of assets will not exceed the £60bn first loss. The direct cost to the taxpayer from the APS is therefore expected to be nil.

3.18 In Budget 09 HM Treasury set out it's assessment of overall losses on all its financial sector interventions including on the Government's equity holdings. This assessment will be updated in the forthcoming Pre-Budget Report and then at future Budgets and PBRs. HM Treasury will make equivalent updates to its accounting treatment when producing its future Annual Report and Accounts and through the Parliamentary Estimates process.

What assets is RBS putting into the APS?

3.19 The assets in the APS are spread across RBS's business, and vary by asset type, by location of origin and by currency. The three tables below set this out.

Table 3.A: Asset Class

Asset class	Converted assets (£bn)
Residential mortgages	15.4
Consumer finance [1,2]	54.5
Commercial real estate finance	39.9
Leveraged finance	27.7
Lease finance	2.4
Project finance	2.2
Structured finance	19.2
Loans [2]	80.0
Bonds	1.6
Derivatives [3]	39.0
Total	281.9

Table 3.B: Location of Obligor Incorporation

Location of obligor incorporation	Covered assets (£bn)
United Kingdom	114.5
Other EU	75.4
United States of America	43.6
Other	48.4
Total	281.9

1 Includes Small Business Finance
2 Includes significant portion of loans collateralised by real estate
3 Includes Credit Derivatives and Structured Finance exposure in derivative form

Table 3.C: Currency of assets

Currency of asset – GBP equivalent	Covered assets
Australian Dollar	4.0
Euro	73.0
GB Pound	121.4
Japanese Yen	2.2
US Dollar	77.3
Other	4.1
Total	281.9

3.20 A more detailed asset class by asset class summary is included at Annex A. This is drawn from HM Treasury's due diligence and is therefore against the bigger asset pool against which HM Treasury carried out its due diligence. Annex A also includes a summary table identifying the changes that were subsequently made – again asset class by asset class – to reduce the size of the pool to £281.9bn.

4 Asset Protect Scheme design

The APS has been designed to protect against losses suffered if certain credit events occur in relation to the assets that are being covered.

There is a First Loss amount on which the bank bears all losses, set at £60bn.

Above the First Loss, HM Treasury bears 90% of all losses but also benefits from 90% of all relevant recoveries associated with the covered assets.

RBS bears the other 10% of losses above the First Loss and benefits from the other 10% of recoveries.

The APS assets will remain on RBS's balance sheet. RBS will also remain the primary manager of the assets, but the APS agreements give HM Treasury significant rights over how these assets are managed.

The APS rules require that RBS complies with wide-ranging asset management, reporting and governance conditions, designed to ensure that the taxpayer is properly protected and that bank customers are treated fairly.

How does the APS work?

4.1 The APS has been designed to provide protection in respect of certain losses if certain credit events occur in relation to the assets that have been put in the APS. For example, if a business RBS had made a loan to should become insolvent, then, assuming that that loan is one of the assets covered by the APS, HM Treasury will in defined circumstances protect RBS in respect of an element of the credit losses it would otherwise have faced. The APS is intended to provide protection in respect of these credit losses, while also ensuring that the taxpayer is properly protected and that bank customers whose assets are in the APS continue to be treated fairly.

4.2 All of the assets against which HM Treasury will provide protection were on RBS's consolidated balance sheet on 31st December 2008. Protection is provided to the extent that overall credit losses on these assets exceed a First Loss amount – the equivalent of the "excess" under a conventional insurance policy. This is now set at £60bn for RBS.

4.3 RBS will bear all losses on its APS assets up to this First Loss amount. If total losses should surpass £60bn, then HM Treasury will pay out 90% of the outstanding amount of a covered asset (up to an agreed limit) in respect of which a relevant credit "trigger" has occurred. Bespoke arrangements are in place where appropriate, but generally the triggers are:

- a counterparty to a covered asset has failed to pay an amount due on the covered asset (after a specified grace period has expired).
- a counterparty to a covered asset has become bankrupt or insolvent.
- a covered asset is restructured (such as, for example, through the implementation of a debt for equity swap) and it was or thereby becomes the subject of a specific accounting impairment.

4.4 Where HM Treasury has paid out in respect of a covered asset, it will receive 90% of any relevant recoveries associated with that asset.

4.5 Further detail on the operational elements of the APS, including in relation to asset coverage, triggers, losses, recoveries and calculation of payments are included in Annex B.

Protections for the taxpayer

4.6 Assets included in the APS will remain on RBS's balance sheet. RBS remains the primary manager of the assets. However, RBS will be required under the APS rules to manage such assets in accordance with a combination of overarching and detailed requirements covering various aspects of the management and administration of the assets included in the APS. These include the requirement to manage and administer the APS assets:

- in accordance with an overarching "asset management objective" being, in summary, to maximise the expected value of the APS assets, including by minimising the losses and maximising the recoveries in respect of such assets;
- so as to ensure that there is no prejudice to, or discrimination against, the APS assets when compared with RBS's other assets which are not in the APS;
- in accordance with an "asset management framework" and "a conflicts management policy" – the first of which ensures that RBS has an appropriate internal framework in place to comply with the management objectives specified in the APS rules and the second of which ensures that RBS has an appropriate framework in place to ensure that certain conflicts are avoided (where possible) and appropriately managed when not);
- in a manner which will facilitate compliance with the various monitoring, reporting, governance and oversight conditions set out in the scheme rules (as summarised briefly below and in more detail in Annex B below); and
- broadly, in accordance with the ordinary course business and banking policies and practices of RBS, to the extent that these are consistent with the business and banking policies of a reasonable and prudent banking organisation and good industry practice.

4.7 These and other aspects of the APS rules have been designed to ensure that the taxpayer is properly protected and also that RBS's customers are fairly treated. So, for example, the APS rules specify certain monitoring and reporting conditions, which will ensure that the APA has at all times full visibility over RBS's management of the assets included in the APS. These include:

- the provision of detailed data on the APS assets, some of which will need to be updated by RBS on an ongoing basis at pre-agreed time intervals;
- the obligation on RBS to provide a wide range of other information, including quarterly information on (amongst other matters) triggers, losses and recoveries in respect of the APS assets and certain reports requested by the APA covering, for example, the performance of the APS assets and any events affecting the level of losses and recoveries on the APS assets; and
- the right for the APA at any time to conduct an audit, investigation and review of RBS's group and certain other matters in connection with the APS (including compliance with the scheme rules and the performance of the APS assets).

4.8 The APS rules also specify a number of governance and oversight conditions. These are designed to ensure that RBS has at all times an appropriate governance framework in place so that the covered assets are managed in a way that gives the APA sufficient oversight over their management. These conditions include the requirement to:

- establish a "Senior Oversight Committee". This will consist of senior management personnel of RBS charged with, for example, developing a strategy for, and providing oversight and supervision of, compliance with the APS and reviewing the business strategies and governance arrangements of RBS in connection with the APS. The APA will also be able to appoint one or more non-voting observers to this committee.
- appoint a "Scheme Head" dedicated to the APS, as the APA's primary senior point of contact in RBS with respect to the APS. This position will have responsibility for leading, overseeing and ensuring the performance by a newly established "Scheme Executive Team", including the day-to-day oversight of compliance with the requirements of the APS.

4.9 The rules also include remuneration conditions covering the implementation of policies for RBS personnel involved in managing assets covered by the APS and extending, in certain respects, to senior management and directors of RBS. These conditions require RBS to establish and implement a remuneration policy to ensure that:

- RBS personnel working on the APS are remunerated at an equivalent level to those working on non-APS assets; and
- a substantial majority of any incentives given to such APS personnel, and an appropriate proportion – subject to HM Treasury consent – of the incentives given to certain specified senior executives of RBS's group, is linked to performance targets and measures of compliance with the APS.

4.10 The rules also include certain other provisions that, for example, provide the APA with sufficient remedies in the event that RBS does not comply with the requirements of the APS. These include:

- rights to suspend (or terminate) APS payments, following the breach of certain of the obligations that RBS is entering into in the APS documents;
- rights to require RBS to appoint special advisers to the "Senior Oversight Committee" (SOC), which APA senior managers attend, to advise the SOC on the management of particularly difficult asset clases, such as leveraged loans, structured finance and commercial real estate, as well as all impaired or triggered assets;
- rights to take a more active role in the management of an asset, including by requiring the appointment of one or more "Step-In Managers" to oversee or directly manage APS assets, again in certain defined circumstances – linked to, for example, the level of losses suffered by RBS in respect of the APS assets or compliance with the APS documents; and
- an indemnity from RBS in favour of HM Treasury (and the APA), covering all losses and damages suffered by HM Treasury and other government bodies (other than a loss under the APS) with respect to RBS, either in relation to APS assets or otherwise.

4.11 Further detail on these principles and on other key provisions of the APS rules is set out at Annex B. Detail of the agreements, including the full APS rules, has today been placed in the libraries of the Houses of Parliament and is also available at www.hm-treasury.gov.uk.

5 Asset Protection Agency

HM Treasury has established a new Asset Protection Agency (APA) to manage the rights it receives through the APS agreements with RBS.

The APA will operate at arms length from HM Treasury. It will take operational decisions relating to the APS on a commercial basis informed by appropriate specialist knowledge and expertise.

Decisions that could have particularly significant implications for the taxpayer or that carry wider sensitivities remain subject to ministerial approval, as are any policy decisions that relate to the APS or the Government's other interventions in financial markets.

Asset Protection Agency

5.1 HM Treasury has established the Asset Protection Agency (APA), a new Executive Agency of HM Treasury. The APA will manage HM Treasury's rights that HM Treasury under the APS agreements with RBS. As announced on 25th September 2009, Stephen Wilcke has been appointed as Chief Executive Officer of the APA. The APA Board will include APA executives, independent members and representation from HM Treasury.

5.2 The APA will operate at arms length from HM Treasury. This is intended to ensure that, where appropriate, ongoing operational decisions relating to the APS are taken on a commercial basis informed by appropriate specialist knowledge and expertise. Interventions that could have particularly significant implications for the taxpayer or that carry wider sensitivities remain subject to ministerial approval, as are any policy decisions that relate to the APS or the Government's other interventions in financial markets. While it remains in the APS, RBS will refund to HM Treasury the operating costs of the APA.

5.3 The APA's role will be to manage the APS on behalf of HM Treasury. A Framework Agreement has been agreed between HM Treasury and the APA - see Annex C.

5.4 In fulfilling its role, the APA will have three main responsibilities:

- ensuring that RBS complies with the terms and conditions attaching to its participation in the APS, including through proactive and timely exercise of HM Treasury's rights, and engagement with RBS to determine appropriate asset management strategies for the covered assets;
- Forecasting potential future payouts under the APS so that HM Treasury can predict any fiscal impact; and
- Verifying losses and recoveries on covered assets and advising HM Treasury on any payments to be made under the APS.

5.5 The Chief Executive Officer is responsible to HM Treasury and is to provide Treasury Ministers with any information they need in the course of Parliamentary business. The APA will prepare and publish an Annual Report and Accounts each year. This will be laid before Parliament in the normal way.

A APS Assets

Table A.1: Summary table of Asset Classes

Portfolio	Covered Assets £bn	Residential mortgages £bn	Consumer finance £bn	Commercial real estate finance £bn	Leveraged finance £bn	Lease finance £bn	Project finance £bn	Structured finance £bn	Loans £bn	Bonds £bn	Derivatives £bn
UK – Retail Residential Mortgages											
UK- Retail Personal Loans	23.1	10.4	12.7								
UK – Retail Overdrafts											
UK – Business Banking/SME	10.3		10.3								
UK – REF/CRE	57.4		22.2	16.8	6.7				11.7		
UK – Corporate Lending											
UK – Corporate Leasing	3.3					2.3			1.0		
EME – Retail Residential Mortgages	4.7	4.7									
EME – Retail Personal Loans	2.2		2.2								
EME – Business Banking/SME											
EME – REF/CRE	14.0		6.6	3.0	0.3				4.0		
EME – Corporate Lending											

GBM – REF	22.0			19.9				0.2	1.9		
GBM – Net Portfolio Management	49.4			0.2	0.2				48.9	0.1	
GBM – Leveraged Finance	19.6				18.6				0.5	0.5	
GBM – C&S DCM	6.0						1.8	0.1	4.1		
GBM – AAAH Credit Markets	1.0				0.3		0.2		0.3	0.2	22.3
GBM – GCT	2.2				1.0		0.2	0.5	0.1	0.3	
GBM – SAU	34.1							11.6		0.2	0.6
GBM – STMF	0.7				0.6				0.1		16.1
GBM – Mortgage Trading	3.4	0.1						2.6	0.1		
GBM – RLMCC - Delta	16.1										
GBM – Equities	2.5								2.2	0.3	
GBM – Mortgages & FI DCM	5.0	0.2	0.5					4.2	0.2		
GBM – Aviation	1.4					0.1			1.2		
GBM – SAF	0.0										
GBM – Shipping	3.7								3.7		
Asset Class	282.0	15.5	54.5	39.9	27.7	2.4	2.2	19.2	80.0	1.6	39.0

Note: the Portfolios identified above reflect provision of due diligence data – a portfolio-by-portfolio explanation and glossary of terms is set out in this annex

Table A.2: Summary table of portfolios

Portfolio used for due diligence	Proposed covered assets at due diligence (£bn)	Asset exclusions (£bn)	Covered assets (£bn)
UK – Retail Residential Mortgages	10.4	0.0	10.4
UK- Retail Personal Loans	9.3	0.0	9.3
UK – Retail Overdrafts	3.3	0.0	3.3
UK – Business Banking/SME	10.3	0.0	10.3
UK – REF/CRE	32.1	(0.0)	32.0
UK – Corporate Lending	25.6	(0.3)	25.3
UK – Corporate Leasing	3.3	0.0	3.3
EME – Retail Residential Mortgages	4.7	0.0	4.7
EME – Retail Personal Loans	0.8	0.0	0.7
EME – Business Banking/SME	1.4	0.0	1.4
EME – REF/CRE	13.0	(6.6)	6.4
EME – Corporate Lending	7.6	0.0	7.6
GBM – REF	23.5	(1.6)	22.0
GBM – Net Portfolio Management	50.4	(1.0)	49.4
GBM – Leveraged Finance	19.8	(0.1)	19.6
GBM – C&S DCM	6.3	(0.3)	6.0
GBM – AAAH Credit Markets	1.6	(0.6)	1.0
GBM – GCT	4.2	(2.0)	2.2
GBM – SAU	34.1	0.0	34.1
GBM – STMF	3.9	(3.3)	0.7
GBM – Mortgage Trading	4.1	(0.7)	3.4
GBM – RLMCC - Delta	30.6	(14.5)	16.1
GBM – Equities	3.7	(1.2)	2.5
GBM – Mortgages & FI DCM	12.4	(7.5)	5.0
GBM – Aviation	1.5	(0.1)	1.4
GBM – SAF	0.0	0.0	0.0
GBM – Shipping	3.9	(0.2)	3.7
Total	322.0	(40.0)	282.0

Notes:

- the portfolios identified above reflect the provision of due diligence data and represents the internal business structure of RBS in 2008
- all information presented in the rest of this annex is on the basis of the £322bn of assets that were the subject of due diligence; the amount of APS covered assets was subsequently reduced by some £40bn.
- further information on the covered assets is contained in RBS's recent circular to shareholders

- asset maturity information in the following portfolio disclosures does not take account of specific APS conditions

UK Retail Residential Mortgages

Portfolio	**Covered amount at 31 Dec 08 (£bn)**	**% of total APS assets %**
UK – Retail Residential Mortgages	10.4	3.3

Portfolio overview	
Composition of the portfolio	• The UK Retail Residential Mortgages portfolio contains £10.4bn of residential mortgages (3.3% of the total APS asset pool) representing approximately 70,000 loans, indicating an average loan size of some £150,000. 86% of loans have balances less than £300,000. • Repayment mortgages comprise 50% of the portfolio, interest only loans 46% and the balance of 4% a mix of capital repayment and interest repayment. • Buy-to-Let represents 11% of the portfolio.
Asset inclusion	• Assets have been selected for inclusion in the scheme based on criteria linked to loan-to-value ratios or affordability.
Portfolio characteristics	
Asset origination	• 93% of the UK residential mortgages are NatWest and RBS branded loans. These are standard, fixed term mortgages with no facility limits. • A majority of the loans (over 90%) were originated between 2006 and 2008.
Asset maturity	• The majority of the portfolio (57%) has a maturity date between 20-30 years although early redemptions/ prepayments would reduce the average maturity date.
Portfolio concentration	• There is wide geographical spread across England, Scotland and Wales with £5.2bn (50%) of mortgages relating to properties in Greater London, the South East and the North West.
Asset security	• The average indexed loan-to-value ('LTV') of the scheme portfolio was 95% at 31 December 2008.

UK Retail Personal Loans

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
UK – Retail Personal Loans	9.3	2.9

Portfolio overview		
Composition of the portfolio	•	The UK Retail Personal Loans portfolio contains £9.3bn of personal loans (2.9% of the total APS asset pool) from a total £19.4bn UK Retail Personal Loans book.
	•	Approximately 1 million loans have been included in the scheme, with an average loan size of approximately £10,000.
	•	Loans consist of "direct" loans, sourced through brands such as Lombard, Churchill and Mint (11% of assets included in the scheme), and "network" loans sourced through existing banking relationships (89% of assets), primarily under the Nat West brand.
Asset inclusion	•	All outstanding direct loans have been included in the scheme together with a high proportion of network loans.
	•	Network loans have been included in the scheme on the basis of credit risk (i.e. the customer is deemed to be over-indebted, the loan is already in default or at greatest risk of default based on an internal scoring method).
Portfolio characteristics		
Asset origination	•	The majority of the loans (approximately 65%) were originated in 2007 and 2008.
Asset maturity	•	The average maturity date for UK Personal Loans is between three and four years.
Portfolio concentration	•	There is no significant customer exposure within the book.
Asset security	•	All UK personal loans are unsecured loans.

UK Retail Overdrafts

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
UK – Retail Overdrafts	3.3	1.0

Portfolio overview		
Composition of the portfolio	•	The UK Retail Overdrafts portfolio contains £3.3bn of assets (1.0% of the total APS asset pool) from a total £14.1bn UK Retail Overdrafts book.
	•	Approximately 3.2 million accounts have been included in the scheme, with an average balance of approximately £1,000.
	•	£1.4bn of the balance included in the scheme represents undrawn balances on committed facilities.
Asset inclusion	•	All outstanding direct loans have been included in the scheme together with a high proportion of network loans.
	•	Network loans have been included in the scheme on the basis of credit risk (i.e. the customer is deemed to be over-indebted, the loan is already in default or at greatest risk of default based on an internal scoring method).
Portfolio characteristics		
Asset origination	•	The majority of the loans (approximately 65%) were originated in 2007 and 2008.
Asset maturity	•	The average maturity date for UK Personal Loans is between three and four years.
Portfolio concentration	•	There is no significant customer exposure within the book.
Asset security	•	All UK personal loans are unsecured loans.

UK Business Banking/Small Medium Sized Enterprises

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
UK – Business Banking/SME	10.3	3.2

Portfolio overview		
Composition of the portfolio	•	The UK Business Banking portfolio contains £10.3bn of assets (3.2% of the APS asset pool) from a total £21.1bn UK Business banking book.
	•	The portfolio consists of approximately 275,000 accounts including floating rate loans and overdrafts.
	•	Included within the scheme is £0.5bn of undrawn balances at 31 December 2008.
Asset inclusion	•	Assets have been included in the scheme from the total UK Business Banking book at 31 December 2008 on the basis of their risk profile (e.g. refinancing risk).
Portfolio characteristics		
Asset origination	•	99.5% of the assets included within the scheme portfolio are based in the UK.
Asset maturity	•	Approximately £2.0bn of the portfolio (20%) is due to mature within 2009, although over £4.5bn (44%) of assets is due to mature after 2020.
Portfolio concentration	•	There is no customer concentration within the book.
	•	As at 31 December 2008, 43% of the portfolio by covered amount related to the property sector with a further 18% to the wholesale and retail sector.
Asset security	•	As at 31 December 2008, the portfolio includes a mix of secured lending (56%) and unsecured lending (44%).

UK Real Estate Finance/Commercial Real Estate

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
UK – REF/CRE	32.1	10.1

Portfolio overview	
Composition of the portfolio	• The UK Real Estate Finance ('REF')/Commercial Real Estate ('CRE') portfolio contains £32.1bn of assets (10.1% of the total APS asset pool) from a total £57.2bn UK REF/CRE book. • The portfolio consists of approximately 46,000 loan facilities (predominantly term loans and overdrafts) to some 18,000 different real estate and property clients. Clients are predominantly medium sized Commercial and Corporate borrowers with turnover of £1m to over £25m. • Drawn balances amount to £25.3bn together with £6.8bn of undrawn balances as at 31 December 2008.
Asset inclusion	• Assets included in the scheme from the total UK CRE book are: all loans which have been provided against, all loans in default, all restructured loans, all loans on the internal watch list, together with other assets which were considered to have the highest probability of default.
Portfolio characteristics	
Asset origination	• All loans were originated either in the UK or the Channel Islands
Asset maturity	• Approximately one-third of assets by value (£10.7bn) included in the scheme is due to mature within 2009 including £8.4bn relating to term lending. A further £5.7bn of the book expires in 2010.
Portfolio concentration	• The largest 50 counterparties comprise approximately 24% of the UK CRE assets included in the scheme. • 55% of the UK CRE portfolio is concentrated in property investment with a further 44% in relation to property development.
Asset security	• As at 31 December 2008, approximately 75% of the portfolio was secured lending with 25% unsecured. Security was predominantly held against residential, office or retail property in the UK (89%) with the balance in offshore jurisdictions.

UK Corporate Lending

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
UK – Corporate Lending	25.6	8.1

Portfolio overview	
Composition of the portfolio	• The UK Corporate Lending portfolio contains £25.6bn of assets excluding derivatives (8.1% of the APS asset pool) from a total £109.8bn UK Corporate book. • The portfolio consists of approximately 43,000 loan facilities (including term loans, multi-option loans and overdrafts) to some 25,000 customers. Customers range from small businesses to large corporate entities. • Included within the scheme is £7.2bn of undrawn balances at 31 December 2008.
Asset inclusion	• Assets included in the scheme from the total UK Corporate Lending book at 31 December 2008 are all loans in default at that time, all loans then under review by the Global Restructuring Group or on the watch list, and also those that were considered by RBS to be at a high risk of default.
Portfolio characteristics	
Asset origination	• 91% of the book relates to UK lending, 9% to the Channel Islands and other offshore jurisdictions.
Asset maturity	• £8.5bn of the portfolio (33%) is due to mature within 2009, with a further £1.6bn (6%) due to mature in 2010. However, approximately £6.1bn of the portfolio, which is due to expire in 2009 relates to overdrafts, which will generally roll automatically subject to annual review.
Portfolio concentration	• The largest 50 counterparties comprise approximately 26% of the portfolio. • As at 31 December 2008, 62% of the portfolio by covered amount relates to the wholesale, retail, tourism, property and construction and manufacturing sectors. • As at 31 December 2008, 90% of the book was denominated in Sterling, 6% in Euros and approximately 4% in US Dollars.
Asset security	• As at 31 December 2008, the portfolio had £10.1bn of related collateral security (in the form of physical securities and guarantees). 74% of the security and guarantees are in the form of a fixed charge over freehold property.

UK Corporate Leasing

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
UK – Corporate Leasing	3.3	1.0

Portfolio overview		
Composition of the portfolio	•	The UK Corporate Leasing portfolio contains £3.3bn of assets (1.0% of the APS asset pool) from a total £10.6bn UK Corporate Leasing book.
	•	The portfolio consists of approximately 100,000 lease/loan agreements primarily relating to the finance of vehicles under finance lease or hire purchase arrangements.
	•	Included within the scheme is £623 million of undrawn balances at 31 December 2008.
Asset inclusion	•	Assets have been included in the scheme from the total UK Corporate Leasing book at 31 December 2008 on the basis of their risk profile (e.g. loans in default, in arrears or in high risk sectors).
Portfolio characteristics		
Asset origination	•	As at 31 December 2008, approximately 70% of the assets included in the scheme related to the UK and Northern Ireland and 30% to the Republic of Ireland (and is denominated in Euros).
Asset maturity	•	Approximately £1.9bn of the portfolio (58%) is due to mature before the end of 2012.
Portfolio concentration	•	There is no customer concentration within the book.
	•	The loan portfolio is spread across a number of sectors but, as at 31 December 2008, 15% related to unit stocking loans to car dealerships to fund the acquisition of motor vehicles.
Asset security	•	The majority of security for the UK Corporate Leasing portfolio is against motor vehicles.

EME Retail Residential Mortgages

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
EME – Retail Residential Mortgages	4.7	1.5

Portfolio overview	
Composition of the portfolio	• The EME Retail Residential Mortgages portfolio contains £4.7bn of residential mortgages (1.5% of the total APS asset pool) from a total £24.8bn EME Residential Mortgages book. • Approximately 20,000 loans have been included in the scheme, with an average loan size of some £222,000. 80% of loans have outstanding balances between £100,000 and £350,000. • Approximately one-third of the portfolio is Buy-to-Let.
Asset inclusion	• Assets have been included in the scheme on the basis of loan-to-value ('LTV') and risk of loss. 62% of the portfolio has an indexed LTV of over 100% as at 31 December 2008.
Portfolio characteristics	
Asset origination	• 61% of the assets included within the scheme were originated under the First Active brand, a Republic of Ireland entity, which has been integrated into Ulster Bank and has branches across the Republic of Ireland and Northern Ireland. Of the balance, 32% were originated in the Republic of Ireland and 7% in Northern Ireland. • A majority of the loans (over 80%) were originated between 2006 and 2008.
Asset maturity	• Over 80% of EME residential mortgages have an original term of between 20 and 40 years.
Portfolio concentration	• 10% of mortgages are secured on properties in the Greater Dublin and Belfast areas with the remainder located across the Republic of Ireland and Northern Ireland. • £4.4bn (over 90%) of EME Residential Mortgages are denominated in Euros.
Asset security	• As at 31 December 2008, over £2.8bn of EME mortgages had an indexed LTV of over 100%.

EME Retail Personal Loans and Overdrafts

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
EME – Retail Personal Loans	0.8	0.2

Portfolio overview		
Composition of the portfolio	•	The EME Retail Personal Loans portfolio contains £0.8bn of assets (0.2% of the total APS asset pool) from a total £4.4bn EME Retail Personal Loans book.
	•	The portfolio consists of unsecured personal loans (£663m, 87%) and personal overdrafts (£100m, 13%).
	•	Over 150,000 loans and overdrafts have been included in the scheme, with an average balance of approximately £5,000.
Asset inclusion	•	EME Retail Personal Loans and Overdrafts have been included in the scheme on the basis of credit risk criteria including: all default accounts, all accounts with arrears greater than one month, all accounts less than two years old and those with an internal probability of default assessment over 7.5%.
Portfolio characteristics		
Asset origination	•	The majority of EME Retail Personal Loans (87%) were written under the Ulster Bank brand, 7% under the Tesco brand and 6% under the First Active brand.
	•	85% of personal loans were originated in 2007 and 2008 whilst over 40% of overdrafts originate from accounts opened before 2000.
Asset maturity	•	Whilst 95% of overdraft balances have no expiry date, personal loans have an average original term of approximately three and a half years.
Portfolio concentration	•	Over 70% of the portfolio included within the scheme is in the Republic of Ireland and denominated in Euros, with the balance of 28% being in Northern Ireland and denominated in Sterling.
Asset security	•	All EME Retail Personal Loans are unsecured.

EME Business Banking/SME

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
EME – Business Banking/SME	1.4	0.5

Portfolio overview	
Composition of the portfolio	• The EME Business Banking portfolio contains £1.4bn of assets (0.5% of the APS asset pool) from a total £2.4bn EME Business Banking book. • The portfolio consists of approximately 48,000 accounts with an average balance of some £26,000. • Included within the scheme is £156 million of undrawn balances at 31 December 2008.
Asset inclusion	• Assets have been included in the scheme from the total EME Business Banking book at 31 December 2008 on the basis of their risk profile (e.g. loans in default and those exposed to industries which RBS deems to be high risk such as property and construction).
Portfolio characteristics	
Asset origination	• As at 31 December 2008, approximately 70% of the assets included in the scheme related to the Republic of Ireland and 30% to Northern Ireland.
Asset maturity	• Approximately £0.6bn of the portfolio is due to mature within 2009.
Portfolio concentration	• There is no customer concentration within the book. • The loan portfolio is spread across a number of sectors but, as at 31 December 2008, construction and property comprised approximately 29% of the portfolio and agriculture approximately 20%.
Asset security	• The EME Business Banking portfolio contains a mix of secured and unsecured lending.

EME Real Estate Finance/Commercial Real Estate

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
EME – REF/CRE	13.0	4.1

Portfolio overview	
Composition of the portfolio	• The EME Real Estate Finance ('REF')/Commercial Real Estate ('CRE') portfolio contains £13.0bn of assets (4.1% of the total APS asset pool) from a total £19.7bn EME REF/CRE book. • The portfolio consists of approximately 10,000 loan facilities (predominantly term loans and overdrafts) to almost 4,000 borrowers and approximately 2,300 different real estate and property groups. Clients range from large corporate real estate clients to small private residential property developers. • Included within the scheme is £0.8bn of undrawn balances as at 31 December 2008.
Asset inclusion	• Assets included in the scheme from the book are all loans in default at that time, all loans then under review by the Global Restructuring Group or on the watch list, and also those that were considered by RBS to be at a high risk of default. • Assets that were potentially eligible for transfer to the Republic of Ireland's National Asset Management Agency were excluded when the covered amount was decreased.
Portfolio characteristics	
Asset origination	• All loans were originated in the Republic of Ireland and Northern Ireland. • Over 90% of the covered amount of loans included in the scheme were loaned to legal entities incorporated either in the Republic of Ireland (61%) or the United Kingdom (32%). The balance was loaned to companies incorporated in the Channel Islands, Isle of Man or other locations.
Asset maturity	• Over half of assets have short term maturity
Portfolio concentration	• The largest 50 counterparties comprise approximately 33% of the EME REF/CRE assets included in the scheme with the 150 largest counterparties representing 51%. • 64% of loans are denominated in Euros and 36% in Sterling
Asset security	• The book is predominantly secured against residential property (45%) and retail property (19%).

EME Corporate Lending

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
EME – Corporate Lending	7.6	2.4

Portfolio overview	
Composition of the portfolio	• The EME Corporate Lending portfolio contains £7.6bn of assets excluding derivatives (2.4% of the APS asset pool) from a total £24.4bn EME Corporate book. • The portfolio consists of approximately 14,000 loan facilities (including term loans, multi-option loans and overdrafts) to some 6,000 customers. Customers range from small businesses to large corporate entities. • Included within the scheme is £0.9bn of undrawn balances at 31 December 2008.
Asset inclusion	• Assets included in the scheme from the total EME Corporate Lending book at 31 December 2008 are all loans in default at that time, all loans then under review by the Global Restructuring Group or on the watch list, and also those that were considered by RBS to be at a high risk of default.
Portfolio characteristics	
Asset origination	• Assets included in the portfolio have been made by three legal entities: First Active and Ulster Bank (in both the Republic of Ireland and Northern Ireland).
Asset maturity	• Approximately half the portfolio (£4.0bn) is due to mature within 2009, of which £3.4bn is term funding.
Portfolio concentration	• The largest 20 counterparties comprise approximately 22% of the portfolio. • As at 31 December 2008, 17% of the portfolio by covered amount related to the construction industry, 11% to hotels and 11% to the retail sector. • As at 31 December 2008, 72% of the book was denominated in Euros.
Asset security	• As at 31 December 2008, £7.2bn (94%) of the portfolio had some form of guarantee or security.

GBM Real Estate Finance/Commercial Real Estate

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
GBM – REF	23.5	7.4

Portfolio overview		
Composition of the portfolio	•	The Global Banking Markets ('GBM') Real Estate Finance ('REF')/Commercial Real Estate ('CRE') portfolio contains £23.5bn of assets ('CRE') (7.4% of the total APS asset pool) from a total £38.3bn GBM REF/CRE book.
	•	The portfolio consists of approximately 650 loan facilities to some 375 different real estate and property groups. Products within GBM REF/CRE include senior secured loans, revolving credit facilities, mezzanine bridging loans and unsecured corporate funding to International Corporates.
	•	Included within the scheme is £1.7bn of undrawn balances as at 31 December 2008.
Asset inclusion	•	Assets have been included in the scheme from the total GBM REF/CRE book on the basis that, as at 31 December 2008, they were being monitored by the Global Restructuring Group, held on the REF watch list or that RBS felt that assets were experiencing significant deterioration in the value of the underlying collateral, nearing or in breach of covenant limits, together with those assets that RBS considered to be otherwise at a high risk of default
	•	Reverse repurchase arrangements were excluded when the covered amount was decreased.
Portfolio characteristics		
Asset origination	•	The GBM REF/CRE portfolio is concentrated in the UK and European commercial property markets. Germany represents the largest concentration at 29%, with the UK at 27%.
Asset maturity	•	£2.2bn of assets (9%) is due to mature within 2009 included within a total of £14bn (60%), which is due to mature before the end of 2012.
Portfolio concentration	•	Portfolio investment and single asset investment represents £17.6bn (75%) of the portfolio.
	•	The largest 35 counterparties comprise approximately 50% of the GBM REF/CRE assets included in the scheme.
Asset security	•	The book is predominantly secured against office property (31%) and retail property (26%).

Global Banking Markets – Net Portfolio Management

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
GBM – Net Portfolio Management	50.4	15.9

Portfolio overview	
Composition of the portfolio	• The GBM Net Portfolio Management portfolio contains £50.4bn of assets (15.9% of the APS asset pool) from a total £357.8bn GBM Net Portfolio Management book. • The portfolio consists of approximately 2,200 loan facilities including term loans, overdrafts, revolving credit facilities, letters of credit and multi-option loans. • Included within the scheme is £20.2bn of undrawn balances as at 31 December 2008.
Asset inclusion	• Assets have been included in the scheme from the total Net Portfolio Management book at 31 December 2008 on the basis of their risk profile.
Portfolio characteristics	
Asset origination	• As at 31 December 2008, the portfolio included approximately 57% of assets originated by RBS and approximately 43% by ABN Amro.
Asset maturity	• Approximately £13.6bn of the portfolio is due to mature by the end of 2009 of which £6.2bn related to term or syndication funding.
Portfolio concentration	• There is a degree of customer concentration within the portfolio with 42 of the largest customers (by Covered amount) comprising 30% of the book as at 31 December 2008. • The portfolio is concentrated in a small number of sectors including manufacturing (22% by Covered amount as at 31 December 2008), financial services (21%) and media and technology (11%). • Geographically, the USA represented 22% of covered amount as at 31 December 2008, The Netherlands 13% and the UK 10%. • By currency, 38% of the portfolio is denominated in US Dollars, 34% in Euros and some £5bn in Sterling with the balance in a variety of other currencies.
Asset security	• As at 31 December 2008, RBS estimate over 95% of the portfolio is senior lending.

Global Banking Markets – Leveraged Finance

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
GBM – Leveraged Finance	19.8	6.2

Portfolio overview		
Composition of the portfolio	•	The APS portfolio contains £19.8bn of assets (6.2% of the APS asset pool) from a total £30.6bn RBS Leveraged Finance book.
	•	The portfolio typically consists of loans to fund the acquisition of companies, often with the support of a private equity house. Lending includes senior lending (approximately 90% of the portfolio as at 31 December 2008) and subordinated loans or bonds (mezzanine finance).
	•	Included within the scheme is £3.4bn of undrawn balances as at 31 December 2008.
Asset inclusion	•	All drawn assets within the RBS Leveraged Finance portfolio have been included in the scheme to reflect the sensitivity of highly leveraged transactions in the economic downturn and the lack of liquidity in the secondary loan market.
Portfolio characteristics		
Asset origination	•	Approximately 85% of assets were originated by RBS with approximately 15% originated by ABN Amro.
Asset maturity	•	The majority of the portfolio (£14.8bn, 75%) is due to be repaid between 2012 and 2016.
Portfolio concentration	•	The top 25 customers represent 63% of par exposure as at 31 December 2008.
	•	The portfolio is concentrated in a small number of sectors including industrials (41% by Covered amount as at 31 December 2008), media and technology (34%) and Consumer and Retail (22%)
	•	Geographically, Continental Europe represented 55% of covered amount as at 31 December 2008, the USA 22% and the UK 18%.
	•	By currency, 42% of the portfolio is denominated in Euros, 41% in US Dollars and 13% in Sterling with the balance in a variety of other currencies.
Asset security	•	As at 31 December 2008, approximately 90% of the portfolio is senior lending.

Corporate and Structured Debt Capital Markets ('C&S DCM')

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
GBM – C&S DCM	6.3	2.0

Portfolio overview		
Composition of the portfolio	•	The APS portfolio contains all £6.3bn of assets (2.0% of the APS asset pool) from the GBM C&S DCM book. The portfolio includes Project Finance (structured trade finance in emerging markets), Commodity Finance (typically primary sector assets) and Corporate loans transferred from other parts of the business.
Asset inclusion	•	All assets within the GBM – C&S DCM book have been included in the scheme on the basis that the assets within the portfolio were typically held with the intention of syndication which, due to either specific or general economic reasons, has subsequently not occurred.
Portfolio characteristics		
Asset origination	•	The loans were originated within both RBS and ABN Amro.
Asset maturity	•	Assets included within the scheme have a weighted average life from term to maturity of approximately five years.
Portfolio concentration	•	The top 3 customers represented 46% (£2.9bn) of par exposure as at 31 December 2008.
Asset security	•	Asset security is typically the asset under purchase/construction or related receivables.

Global Banking Markets – AAAH Credit Markets

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
GBM – AAAH Credit Markets	1.6	0.5

Portfolio overview	
Composition of the portfolio	• The AAAH portfolio contains £1.6bn of assets (0.5% of the APS asset pool). • The portfolio consists ABN Amro Australia project finance loans (£1.4bn, approximately 87%) and corporate bond exposures (£0.2bn, approximately 13%). • Of the corporate loans included within the portfolio, 85% are term loans and 14% are revolving credit facilities. • Approximately £0.6bn of par as at 31 December 2008 represents undrawn balances.
Asset inclusion	• Assets have been included in the scheme on the basis of illiquidity, that they are capital intensive or have impaired market values.
Portfolio characteristics	
Asset origination	• Assets included within the portfolio were originated within ABN Australia.
Asset maturity	• Approximately half the portfolio as at 31 December 2008 is due to be repaid between 2014 and 2018.
Portfolio concentration	• There are 25 exposures included within the loans portfolio. Approximately 95% of bond exposures were issued by one company. • By currency, approximately 85% of loan positions are denominated in Australian Dollars, 10% in New Zealand Dollars and the balance split between Euros and US Dollars.
Asset security	• Within the loans portfolio, secured loans represent 87% of exposures as at 31 December 2008. Approximately 95% of bonds are classified as senior secured.

Global Banking Markets - Global Credit Trading

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
GCT – Bonds and loans	4.2	1.3

Portfolio overview		
Composition of the portfolio	•	The Global Credit Trading portfolio contains of £4.2bn of assets (1.3% of the total APS asset pool). The portfolio primarily consists of £0.8bn of bond exposures and £1.5bn of warehoused traded loan exposures purchased on the secondary market with the intention of being securitised into Collateralised Loan Obligations (‘CLOs’).
Asset inclusion	•	Loan assets have been included in the scheme on the basis that the market for securitised debt was severely impacted by the economic downturn and therefore are illiquid.
	•	Bonds have been included in the scheme largely on the basis of high capital requirements and lack of liquidity.
	•	Asset refinements were made when the covered amount was decreased.
Portfolio characteristics		
Asset origination	•	Loan assets included within the GCT portfolio were acquired for trading by RBS and therefore were not originated within the business.
Asset maturity	•	The majority of the loan portfolio (53% of par) is due to be repaid between 2014 and 2018 with a further 17% maturing beyond 2030.
	•	24% of bond exposures mature from 2014 to 2018, with the balance after 2024.
Portfolio concentration	•	Geographically, the UK represents approximately one-third of the loan exposure as at 31 December 2008, with the USA approximately 17% and Europe approximately 40%, with the balance across a number of countries worldwide.
	•	By currency, approximately 48% of loans are denominated in Euros, 26% in US Dollars and 25% in Sterling. Approximately 34% of bonds are denominated in Euros, 44% in US Dollars and the balance in Sterling and Australian Dollars.
Asset security	•	88% of loans are classified as senior loans of which approximately 22% are classified as senior secured.
	•	Some 50% of bond positions are asset backed securities with the balance corporate bonds.

Global Banking Markets – Strategic Asset Unit

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
GBM – SAU	34.1	9.4

Portfolio overview	
Composition of the portfolio	• The SAU portfolio contains £34.1bn of assets (9.4% of the total APS asset pool) from an overall GBM SAU book of £40.7bn as at 31 December 2008. • The portfolio consists of securities and derivatives, including exposures to monoline insurers in relation to Credit Default Swaps ('CDSs') and CDS protection on Collateralised Debt Obligations ('CDO') (£22.6bn) together with underlying CDO securities exposures of £6.8bn and Asset Backed Securities of £4.4bn.
Asset inclusion	• Assets have been included in the scheme on the basis of value impairments, illiquidity or due to their capital intensive nature. Derivative exposures have been included on the basis of credit distress of the derivative counterparties.
Portfolio characteristics	
Asset origination	• The SAU manages exposures of GBM originated assets with a particular high risk profile. Typically, ABS and CDO exposures were originated in the period between 2005 and 2007.
Asset maturity	• The legal maturity of the CDOs is typically over 30 years. • The maturity profile of the underlying assets associated with exposures to monoline insurers is typically between five and ten years. • The legal maturity of ABS included in the scheme typically range from 5 to 40 years.
Portfolio concentration	• There is a significant concentration of exposure to a small number of monoline insurers within this portfolio.
Asset security	• Underlying asset security relates to property (both residential and commercial including sub prime exposure) together with other asset backed securities relating, amongst others, to aircraft leases, consumer loans and trade receivables.

Global Banking Markets – Short Term Markets and Finance

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
GBM – STMF	3.9	1.2

Portfolio overview	
Composition of the portfolio	• The Short Term Markets and Finance ('STMF') portfolio contains of £3.9bn of assets (1.2% of the total APS asset pool). • The portfolio includes Secondary Traded Loans and bonds
Asset inclusion	• Assets have been included in the scheme on the basis of poor liquidity. • Reverse repurchase arrangements were excluded when the covered amount was decreased.
Portfolio characteristics	
Asset origination	• The Secondary Traded Loans were not originated by RBS.
Asset maturity	• Secondary traded loans typically mature in 2014 although 8% matures during 2009. The majority of bonds (approximately 58%) mature after 2018.
Portfolio concentration	• Secondary traded loans are predominantly US based (and denominated primarily in US Dollars) with industry exposure to the Consumer industries (42% of loans) and the Communications industry (31%). • Bonds are predominantly denominated in Euros, with 67% exposure to Spain.
Asset security	• Secondary traded loans are secured loans whilst bonds are either corporate bonds or asset backed securities.

Global Banking Markets - Mortgage Trading

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
GBM – Mortgage Trading	4.1	1.3

Portfolio overview		
Composition of the portfolio	•	The Mortgage Trading portfolio contains of £4.1bn of assets (1.3% of the total APS asset pool). The portfolio contains predominantly US and non-US ABS bonds, but also includes some loans.
	•	Approximately £0.5bn of covered amount as at 31 December 2008 represents undrawn balances.
Asset inclusion	•	Assets have been included in the scheme on the basis of illiquidity.
Portfolio characteristics		
Asset origination	•	Loan assets included within the portfolio were acquired for trading by RBS and therefore were not originated within the business.
Asset maturity	•	A significant majority of the bonds included in the scheme have a legal maturity after 2014, although the actual maturity profile will be accelerated through amortisation.
Portfolio concentration	•	By currency, approximately 50% of the portfolio is denominated in Euros with the balance in US Dollars and Sterling.
Asset security	•	The underlying security of the ABSs included in the scheme is predominantly property.

Global Banking Markets – Delta Trading

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
GBM – RLMC Delta (derivatives)	30.6	9.6

Portfolio overview		
Composition of the portfolio	•	The Delta derivatives portfolio contains £30.6bn of assets (9.6%) of the total APS asset pool.
	•	The portfolio contains derivative exposures including swap products, options and foreign exchange derivatives. The largest derivative product exposures are to Interest rate swaps and Credit Default Swaps.
Asset inclusion	•	Assets have been included in the scheme on the basis of counterparties credit risk.
	•	Credit derivative product company exposures and potential future exposures on certain other derivatives were excluded when the covered amount was decreased.
Portfolio characteristics		
Asset origination	•	Exposures included within the Delta portfolio include derivatives arising on other portfolios that are being included in the scheme.
Asset maturity	•	A majority of exposures included in the scheme mature by 2017 although a significant proportion matures in 2021 or later.
Portfolio concentration	•	Derivative exposures are spread across a large number of countries and industry sectors.
	•	Geographically, the largest country exposures are to the UK (approximately 30%) and the USA (approximately 20%).
Asset security	•	Security is held through cash collateral.

Global Banking Markets – Equities

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
GBM – Equities	3.7	1.2

Portfolio overview		
Composition of the portfolio	•	The APS portfolio contains £3.7bn of assets (1.2% of the APS asset pool) from a total GBM Equities book of £52.5bn.
	•	The portfolio primarily comprises £3.0bn of loans with fund manager counterparties.
	•	Approximately £0.7bn of covered amount as at 31 December 2008 represents undrawn balances.
Asset inclusion	•	Assets have been included in the scheme from the GBM – Equities book largely on the basis of poor liquidity.
	•	Reverse repurchase arrangements were excluded when the covered amount was decreased.
Portfolio characteristics		
Asset origination	•	Loans were primarily originated by RBS whilst all bonds were originated by ABN Amro.
Asset maturity	•	Approximately 75% of assets (over 80% of the loans portfolio) are due to mature by the end of 2012. The remaining balance will largely mature by the end of 2014.
Portfolio concentration	•	As at 31 December 2008, approximately 85% of the loans portfolio was to Hedge Fund Managers and concentrated 44% in the Cayman Islands, 32% in the US and 19% across the UK and Germany.
	•	Approximately 81% of the loans portfolio at 31 December 2008 is denominated in US Dollars and 18% in Euros.
Asset security	•	Loans to Hedge Funds are typically collateralised by hedge fund shares.

Global Banking Markets – Mortgages & FI DCM

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
GBM – Mortgages & FI DCM	12.4	3.9

Portfolio overview	
Composition of the portfolio	• The Mortgages and Financial Institutions Debt Capital Markets ('FI DCM') portfolio contains £12.4bn of assets (3.9% of the APS asset pool). • The portfolio includes warehouse loans provided in advance of proposed securitisation transactions. The business unit also acquires portfolios of distressed secured lending.
Asset inclusion	• Assets have been included in the scheme on the basis of potential losses or illiquidity due to the lack of securitisation opportunities in the wholesale market. • Conduit programme facilities were excluded when the covered amount was decreased.
Portfolio characteristics	
Asset origination	• Assets have been originated either directly by RBS or acquired from third party lenders.
Asset maturity	• The majority of assets included in the scheme (over 60%) have a legal maturity of less than five years with approximately a further 20% maturing within five and ten years.
Portfolio concentration	• The portfolio is concentrated in European, including UK, assets.
Asset security	• Major asset classes include residential mortgage backed facilities, automotive loans and credit card backed facilities.

Global Banking Markets – Aviation

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
GBM – Aviation	1.5	0.5

Portfolio overview	
Composition of the portfolio	• The Aviation portfolio contains £1.5bn of assets (0.5% of the total APS asset pool) from an overall GBM Aviation book of £16.2bn as at 31 December 2008. • The portfolio consists of approximately 120 facilities relating to the finance of aviation assets under either finance lease or hire purchase arrangements. The largest product segment relates to term loans to fund the acquisition of aircraft by corporate entities operating passenger and commercial airlines.
Asset inclusion	• Assets have been included in the scheme from the total GBM Aviation book at 31 December 2008 on the basis of either credit risk or collateral value risk.
Portfolio characteristics	
Asset origination	• A large part of the portfolio was originated during 2007 and 2008.
Asset maturity	• Approximately 70% of the portfolio will mature after 2016 with 45% maturing during 2019 and 2020, reflecting the date of loan origination and the average length of loan in this product segment.
Portfolio concentration	• There is a high degree of customer concentration within the portfolio with the top 15 customers representing 68% of covered amount as at 31 December 2008. • Approximately 99% of the portfolio's geographic exposure is outside the UK (primarily the USA (40%) and Canada (10%).
Asset security	• All of the assets within the GBM Aviation portfolio are secured against aviation assets.

Global Banking Markets – Structured Asset Finance

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
GBM – SAF	0.04	0.0

Portfolio overview		
Composition of the portfolio	•	The SAF portfolio contains £44 million of assets (less than 0.01% of the total APS asset pool) from an overall Structured Asset Finance book valued as £10.2bn at 31 December 2008.
	•	The portfolio consists of term loans, finance leases and letters of credit (given to three counterparties).
	•	£25 million (56% of par) relates to undrawn facility commitments.
Asset inclusion	•	Assets have been included in the scheme on the basis of signs of market stress or where RBS had significant concerns about the market in which they operated as at 31 December 2008.

Portfolio characteristics		
Asset origination	•	All assets were originated by RBS.
Asset maturity	•	The assets included within the scheme mature between 2010 and 2015.
Portfolio concentration	•	The portfolio consists of only three exposures.
Asset security	•	The loans are secured against the assets to which they relate.

Global Banking Markets – Shipping

Portfolio	Covered amount at 31 Dec 08 (£bn)	% of total APS assets %
GBM – Shipping	3.9	1.2

Portfolio overview	
Composition of the portfolio	• The GBM Shipping portfolio contains £3.9bn of assets (1.2% of the total APS asset pool) from an overall Shipping book valued as £14.8bn at 31 December 2008. • The portfolio consists of term loans, finance leases, letters of credit and performance guarantees relating to pre-delivery and post-delivery finance. • £1.0bn (approximately 27% of par) relates to undrawn facility commitments.
Asset inclusion	• Assets have been included in the scheme on the basis of relative loan to value ratios, concern over counterparty credit risk and concentration risk.
Portfolio characteristics	
Asset origination	• All assets included in the scheme were originated by RBS.
Asset maturity	• Most of the loans mature from 2015 onwards, with approximately half maturing on 2017 and 2018.
Portfolio concentration	• As at 31 December 2008, loans relating to delivered vessels represented 155 facilities and to pre-delivery vessels 105 facilities. • By type of vessel, 51 facilities related to dry bulk vessels, 47 to tankers and 20 to container ships with the balance in gas, offshore and other vessels. • The top 5 borrowers accounted for £1.8bn (approximately 50% of covered amount) as at 31 December 2008.
Asset security	• Most facilities extended to a borrower are secured against the entire fleet of vessels funded with that borrower rather than each specific individual vessel.

Glossary of Terms

Term	Description
AAAH	
ABS	Asset Backed Security
APS	Asset Protection Scheme
C&S	Corporate and Structured
CRE	Commercial Real Estate
DCM	Debt Capital Markets
EME	Europe and Middle East (primarily Ireland for the purpose of the APS)
FI	Financial Institutions
GBM	Global Banking Markets
GCT	Global Credit Trading
GRG	Global Restructuring Group
HMT	HM Treasury
LTV	Loan-to-value
NPM	Net Portfolio Management
RBS	The Royal Bank of Scotland
REF	Real Estate Finance
SAF	Structured Asset Finance
SAU	Strategic Asset Unit
SME	Small and Medium sized Enterprises
STMF	Short Term Markets and Finance

B APS design

Asset Protection Scheme Design

A description of the design of the APS is set out below. This is intended to be read in conjunction with the scheme rules (the "**Conditions**") and for ease of reference contains, where relevant, cross-references to the appropriate Conditions.

A. SCHEME PRINCIPLES (Part 1 of the Conditions)

The Conditions contain (at Condition 2) a set of overriding general principles (the "**Scheme Principles**") which overlay the detailed terms and conditions of the Conditions for interpretation purposes.

B. THE SCHEME (Part 2 of the Conditions)

(1) Coverage and Termination

Covered Assets

Under the APS, in return for a fee (see *Fees, Costs and Expenses* below and Condition 9), HM Treasury will, subject to the various requirements specified below, provide protection against credit losses incurred on certain "Covered Assets" that were on the RBS Group's consolidated balance sheet as at 31st December 2008.Further information on the Covered Assets is set out in Annex A above. The APS is intended to target assets across a range of portfolios that present particular uncertainty or risk in the current economic climate. As such, the APS has been designed to cover a variety of different asset classes. The Covered Assets have been identified in advance so that RBS has certainty of cover and to allow HM Treasury to assess its level of exposure under the APS. The Covered Assets portfolio includes assets which fall into the following asset classes (the "Covered Asset Classes"):

- Residential Mortgage;
- Consumer Finance;
- Bond;
- Loan;
- Lease Finance;
- Project Finance;
- Leveraged Finance;
- Commercial Real Estate Finance;
- Structured Finance; and
- Derivative (including contracts documented under, or deemed to be subject to, ISDA or other master agreement or single or multiple derivative transaction agreements)

The role that the APS will play in helping to remove uncertainty around these risky Covered Assets will mean that instead of having to keep high levels of capital in reserve to provide for the risk of significant, but unlikely, losses on these assets, RBS will instead be able to use additional resources to increase lending to UK businesses and consumers.

Further information on the Covered Assets is set out in Annex A above and further detail on the Covered Asset Classes and their relevance to the operation of the APS is contained in Conditions 4, 5, 6, 10 and 17.

Covered Asset Continuity

The APS generally permits agreements or instruments relating to Covered Assets to be amended and (except in the case of Derivatives) novated or replaced. However, the Conditions (as set out in Conditions 4.4 to 4.8) provide that a Covered Asset will cease to be covered (and, therefore no "Losses" or "Recoveries" will be recognised under the APS (see *Losses* and *Recoveries* below)) where, on or after 31 December 2008 any amendment or replacement on or before a Trigger occurs or has occurred in respect of that Covered Asset which breaches certain "**Asset Continuity Requirements**". These Asset Continuity Requirements are designed to ensure that the original assets agreed between HM Treasury and RBS are not effectively substituted for another asset or changed so as to effectively become a new asset.

The Asset Continuity Requirements include certain obligor continuity requirements (with certain limited exceptions) and are also designed to ensure the preservation of potential Recoveries under certain specified "Closely Related Hedges". "**Closely Related Hedges**" are those hedging arrangements in respect of Covered Assets which are in existence as at 31 December 2008 which are recorded in the credit risk management, credit line, trading line or equivalent system of any member of RBS's group as a reduction in the credit risk or increase in the credit line to any obligor with respect to that Covered Asset and have been identified as Closely Related Hedges by RBS in the initial data on the Covered Asset portfolio. More detail on Closely Related Hedges is given in Condition 4.5 and Conditions 7.12 to 7.14.

As mentioned above, the Conditions (and the Asset Continuity Requirements in particular) do not expressly provide for novations of transactions forming all or part of a Covered Asset allocated to the Derivative Covered Asset Class and APS protection may therefore be lost or reduced where derivative transactions are novated from one Covered Entity to another or in connection with a restructuring (other than a restructuring which constitutes a Trigger - see *Triggers* below and Condition 5).

Eligibility of Covered Assets

In order for a Covered Asset to be covered and to continue to be covered by the APS, it must at all times satisfy, prior to any Trigger (see *Triggers* below), certain "**Asset Eligibility Criteria**":

- the Covered Asset was and continues to be "Economically Owned" by one or more Covered Entities (see Covered Entities below) from and including 31 December 2008 until a Trigger occurs; and

- the Covered Asset was and continues to be included in RBS's audited consolidated balance sheet (including, in the case of contingent liabilities, where appearing as a note to RBS's financial statements) from and including 31 December 2008 until a Trigger occurs.

For the purposes of the first bullet point above, "**Economically Owned**" is defined in Conditions 4.19 and 4.20 and means that either:

- broadly, the relevant Covered Entity legally and beneficially owns the Covered Asset; or
- the Covered Asset is subject to certain "Permitted Arrangements" where the relevant Covered Entity continues to retain all or substantially all of the economic exposure to that Covered Asset and, in each case, the Covered Entity is able to control, directly or indirectly, the management and administration of the Covered Asset save to the extent that rights, responsibilities, duties or obligations in connection with such management and administration are or have been (and continue to be) transferred in accordance with the Conditions (see, in particular, Conditions 4 and 11).

"**Permitted Arrangements**" include certain security interests, repurchase agreements, stock loans, asset swaps and certain securitisations and conduit arrangements. Generally, where a Covered Asset is subject to a Permitted Arrangement, the Covered Asset must (at RBS's cost) be released and discharged from such arrangements and any security released within a specified time after the occurrence of a Trigger in respect of that Covered Asset (subject to certain limited exceptions). Failure to obtain such release and/or discharge may result in a Covered Asset ceasing to be covered by the APS.

Further detail on all elements of the Asset Eligibility Criteria is contained in Condition 4; in particular, Conditions 4.9 to 4.15 (inclusive). Further detail on Permitted Arrangements is contained in Condition 4.21.

Covered Entities

Protection under the APS will be provided to RBS plc directly, although the protection will also extend to Covered Assets held by "Covered Entities" other than RBS plc. These Covered Entities include a large number of wholly owned subsidiaries of RBS Group plc, the most significant of which are NatWest and the Ulster Bank Group, as well as assets held by RBS Group plc's interests in ABN AMRO . RBS plc will, in respect of ABN AMRO, enter into an agreement (to which HM Treasury is not a party) to ensure that ABN AMRO receives the desired regulatory treatment and to obtain comfort from ABN AMRO that it will facilitate RBS plc complying with certain of its obligations to HM Treasury as regards the Covered Assets [of approximately £48 billion at 31 December 2008] held by ABN AMRO and its wholly owned subsidiaries.

Duration of APS

The duration of the APS cover for each Covered Asset is generally expected to be for the remaining maturity of that Covered Asset and therefore a "Cover Termination Date" applies in respect of each Covered Asset (see Condition 6.6).

Asset Withdrawal Rights and Termination Rights

RBS has the right to withdraw from the APS permanently all or a consistent proportion of all the constituent parts of a non-Triggered Asset (where failure to dispose of such a consistent proportion will result in the whole of the Covered Asset ceasing to be covered by the APS – see *Circumstances in which a Covered Asset will cease to be protected by the APS* below and Condition 4). In respect of a Triggered Asset where the relevant Trigger is a "restructuring" or "bankruptcy" Trigger (see *Triggers* below), RBS also has the right to withdraw permanently all of that Triggered Asset within one year after the date of the occurrence of that Trigger. If RBS was to exercise this right (including where that leads to the withdrawal of all or the bulk of the Covered Assets from the APS), the remaining provisions of the APS documents (including the information, audit and control rights (including those relating to remuneration) exercisable by HM Treasury and including those set out in Parts 3 to 6 of the Conditions) would nevertheless continue in full force and effect.

In addition, RBS contractually has a right to terminate the APS exercisable at any time provided that the FSA has confirmed in writing to HM Treasury that it has no objection to the proposed termination. On such termination, RBS must pay an "exit fee" which is an amount equal to the shortfall (if any) between (i) the aggregate annual fees paid by RBS and (ii) the greater of (a) £2.5 billion and (b) 10 per cent of the annual aggregate reduction in Pillar I capital requirement in respect of the assets covered by the APS up to the time of exit. The "exit fee" is payable in cash or, subject to HM Treasury consent, by the waiver of certain UK tax reliefs that are treated as deferred tax assets (pursuant to the Tax Loss Waiver – see *Tax Loss Waiver* below). RBS would also potentially be required to refund (in the absence of agreement to the contrary) to HM Treasury any net payments made by it under the APS in respect of Losses on all Triggered Assets, such refund only being payable in cash (see also *Fees, Costs and Expenses* below and RBS's Accession Agreement).

Providing flexibility for termination ensures that RBS participates in the APS only for so long as is necessary. It will also potentially reduce the length of time for which the taxpayer is exposed under the APS, since RBS may be able to leave the APS earlier than it would have been able to with a fixed termination date. The constraints on termination will also help to maintain financial stability by reducing the possibility of market disruption caused by RBS leaving the APS before it is ready to do so. This would be a risk with a fixed termination date.

It is therefore envisaged that termination will take place at a time when economic conditions have stabilised sufficiently and, as noted above, the FSA is of the opinion that RBS has the capability and sufficient capital to withstand exposure to the Covered Assets without the protection of the APS.

The rules for termination of RBS's participation in the APS have therefore focussed on minimising the risk to the taxpayer and maintaining stable financial markets.

Circumstances in which a Covered Asset will cease to be protected by the APS

A Covered Asset will (as set out in Condition 4) cease to be covered by the APS if:

- a Covered Asset which satisfied the Asset Eligibility Criteria (see Eligibility of Covered Assets above) at the outset of the APS subsequently fails to satisfy those criteria at any time prior to a Trigger;
- an amendment or replacement of any agreement or instrument relating to an asset or exposure comprising a Covered Asset breaches the Asset Continuity Requirements (see Asset Continuity above);
- there are errors in the initial data provided to HM Treasury and, as a result of the corrections it is no longer possible to identify the asset or exposure RBS intended to be included in the APS;
- there is a notification in a Quarterly Statement (see Monitoring, Reporting and Provision of Data below) of a Trigger Date, relating to a quarter which ended more than one year before the date of that Quarterly Statement;
- any material or systematic criminal conduct on the part of RBS or any of its representatives occurs which affects or relates to a Covered Asset; or
- there is a relevant event of default (or "Remedy Event", as set out in Condition 31), which may occur if RBS breaches any of a number of "Specified Obligations" under the Conditions (see Remedies and Disputes below), mostly relating to RBS's payment obligations (see Payments below) and compliance with the asset management, information and reporting requirements set out in Parts 3, 4 and 5 of the Conditions.

In addition, if a Covered Asset is disposed of in whole or in part prior to a Trigger, the disposed part of that Covered Asset (or where a partial disposal does not meet certain criteria, the whole of the Covered Asset including that part which has not been disposed) will (as set out in Conditions 4.30 to 4.32) cease to be covered by the APS and no protection will extend to any Loss associated with that part of the Covered Asset.

If RBS has included Covered Assets comprising the same asset or exposure in the APS, the duplicated part of the Covered Assets shall be eliminated from the APS on terms to be agreed between RBS and HM Treasury. In the absence of agreement, HM Treasury shall (as set out in Condition 4.33) determine the terms of any changes to be made, which may have a retrospective effect and result in adjustments to the payments made as described in *Payments* below.

If a Covered Asset (including a Triggered Asset) ceases to be covered by the APS as a result of the circumstances described above, HM Treasury (as set out in Condition 4) is no longer obliged to reimburse RBS for any (past or future) Losses (see *Losses* below) in respect of that Covered Asset. In the case of a Triggered Asset ceasing to be covered by the APS, retrospective adjustments will be made for the repayment of any Losses reimbursed by HM Treasury or the repayment of any Recoveries paid by RBS.

Asset Purchase Requests

HM Treasury has the right under the Conditions (as set out in Conditions 4.45 to 4.47) to deliver "Asset Purchase Requests" from time to time in respect of one or more Covered Assets and/or Non-Cash Realisations (see *Recoveries* below) stating that it wishes to acquire, or enter into total return swaps (or the economic equivalent) with respect to the relevant Covered Assets and/or Non-Cash Realisations specified in such request. Following the provision of an Asset Purchase Request, RBS and HM Treasury are required to negotiate in good faith to attempt to agree the terms upon which HM Treasury may acquire the relevant Covered Assets and/or Non-Cash Realisations (including pricing (taking into account the value, if any, of any credit protection provided by the APS which would be lost by RBS) and the date upon which such transaction is to occur).

Other points on Covered Assets Coverage

Firstly, the protection provided by the APS in respect of each Covered Asset is generally capped by the lower of (a) the amount specified for each Covered Asset in the agreed initial data on the Covered Assets delivered to HM Treasury by RBS and (b) the maximum exposure a Covered Entity has to that Covered Asset based on the terms and conditions of that Covered Asset as at 31 December 2008 (see *Loss* below and Condition 6 for further details).

Secondly, the extension of cover under the APS for a Covered Asset whose maturity has been extended is limited (see *Rollovers* below and Conditions 6.31 to 6.35 for further details).

Thirdly, the disposal of part of a Covered Asset prior to a Trigger is subject to certain limitations, breach of which may result in the whole of the Covered Asset ceasing to be covered by the APS (see *Circumstances in which a Covered Asset will cease to be protected by the APS* above and Conditions 4.30 to 4.32).

Finally, certain conduct, such as a partial or complete disposal of a Covered Asset following the occurrence of a Trigger, is subject to certain approval requirements (see *Asset Management* below and Condition 12 for more details).

(2) Triggers

Under the Conditions, HM Treasury will be liable (subject to certain exceptions and specified rules described further below with respect to Covered Assets in the Derivative, Consumer Finance and Residential Mortgage Covered Asset Classes) to make payments in respect of Covered Assets if a trigger occurs. The "Triggers" area "failure to pay", a "bankruptcy" or a "restructuring" as described in Condition 5. Covered Assets in respect of which a Trigger has occurred become "**Triggered Assets**". The date of the first Trigger to occur will be the "**Trigger Date**".

- A "failure to pay" Trigger (as set out in Condition 5.3):
  - is defined as a failure (or, in the case of certain structured Covered Assets, an implied failure) by an obligor to make payments when due under the terms of the relevant Covered Asset; and
  - will only occur at the end of an applicable grace period (specified in Conditions 5.14 and 5.15), which differs for each Covered Asset Class and ranges from 30 days (in the case of, for example, the Bond Covered Asset Class) to 270 days (in the case of, for example, the Loan Covered Asset Class) (see *Covered Assets* above).
- A "bankruptcy" Trigger (as set out in Condition 5.16) will occur:
  - where one of certain specified bankruptcy, insolvency or similar events or proceedings occurs in respect of all obligors who are liable for all of the payment obligations under a Covered Asset; or
  - upon a secured party in respect of one or more of such obligors taking possession of, or legal process against, any of the assets of the obligor(s) in connection with the enforcement of security relating to the relevant Covered Asset.
- A "restructuring" Trigger (as set out in Conditions 5.18 to 5.25) is defined as including certain restructuring events (including a reduction in, or deferral of, principal or interest, a change in priority, ranking or a realise or discharge of security in respect of a Covered Asset), provided that an individual asset level accounting impairment has been or is, at the time or as a result of the applicable restructuring event, recorded against the value of the relevant Covered Asset in the consolidated accounting balance sheet of RBS (a "Specific Impairment"). Further detail on the Specific Impairment provisions are contained in Conditions 5.21 and 5.22.

For the purposes of the "restructuring" Trigger, periodic individual impairment assessments and calculations are expressly required by the APS documents in respect of all Covered Assets with a Covered Amount (see Loss below) of over £1 million (or its equivalent) other than: (i) Covered Assets within the Consumer Finance Covered Asset Class which are managed on a "blind" basis (see *Asset Management* below and Conditions 10.17 and 10.18), where, instead, periodic individual impairment assessments and calculations are required where the relevant Covered Assets have a Covered Amount (see Loss below) of £10 million); and (ii) assets within the Residential Mortgage Covered Asset Class.

Neither a "failure to pay" or "bankruptcy" which was remedied or waived on or before 31 December 2008, nor a "restructuring" which occurred on or before 31 December 2008, will be Triggers under the APS (as set out in Condition 5.2).

The "failure to pay", "bankruptcy" and "restructuring" Triggers summarised above apply to all Covered Assets other than:

- Derivatives – the only Triggers applicable to Covered Assets allocated to the Derivative Covered Asset Class are set out in Condition 5.2 and are:
  - a failure to pay when due an amount payable to the Covered Entity in respect of an "early termination date" reflecting the value of the transaction(s) terminated and other unpaid amounts (subject to a grace period of 30 days); and

- a “restructuring” Trigger, although (as set out in Condition 5.18) the applicable restructuring events for Derivatives include: (i) a reduction in the “early termination amount”, termination (in whole or in part) to one or more transaction(s) where the amount payable in respect of such termination is less than the amount that would otherwise have been the “early termination amount” if the transaction(s) had terminated on an “early termination date”; (ii) amendment to one or more transactions where scheduled payments are reduced and there is a related forgiveness of value; (iii) a postponement or deferral of any scheduled payment or the “early termination amount”; or (iv) a change in the priority, ranking or release or discharge of security, provided that in each case a Specific Impairment has been, or is, at the time or as a result of the applicable restructuring event, recorded against the value of the relevant Covered Asset in the consolidated accounting balance sheet of RBS.

In addition, the above “restructuring” Trigger will only apply without HM Treasury consent where the amount of Loss in respect of the relevant Covered Asset which arises as a result of such a Trigger would not exceed £10 million. It if would exceed £10 million, a “restructuring” Trigger will only occur if HM Treasury in its sole discretion determines that the “restructuring” Trigger applies. This is set out in more detail in Condition 5.2.

- Consumer Finance and Residential Mortgages:
  - As set out in Condition 5.3, the “failure to pay” Trigger will apply to Covered Assets in these Covered Asset Classes (albeit with some technical amendments).
  - As explained above, the “restructuring” Trigger will only apply to Covered Assets where Specific Impairments are made (see above) and, in practice, it is expected that this will generally not occur in respect of Covered Assets in these Covered Asset Classes.
  - Finally, the first bullet point under the description of the “bankruptcy” Trigger above (i.e. the occurrence of certain specified bankruptcy, insolvency or similar events or proceedings occurs in respect of all obligors who are liable for all of the payment obligations under the relevant Covered Asset) is replaced for these Covered Assets such that a “bankruptcy” Trigger will occur when the relevant Covered Asset is recorded as written off in the systems of the relevant Covered Entity in accordance with its ordinary business practices and the accounts closed.

These Triggers ensure that APS protection is targeted at credit risk in respect of the Covered Assets. The APS is not designed to protect against accounting impairments or writedowns caused by regular market activity or otherwise. Accordingly, the existence of an accounting impairment (including a Specific Impairment) or writedown will not, in itself, trigger a loss under the APS. Consequently, the level of accounting impairments or writedowns that RBS has taken against Covered Assets is not an accurate proxy for the level of losses under the APS. The Triggers are designed to be independent and verifiable and, as such, the APS is designed so that RBS has limited control of when it can claim on specific Covered Assets. This is important to help ensure that RBS is not incentivised to skew its behaviour in relation to customers whose assets are in the APS.

The detailed Trigger provisions are set out in Condition 5.

(3) Loss

Detailed provisions concerning the calculation and treatment of Losses for the purposes of the APS are covered in Condition 6.

In summary, the “Loss” in respect of a Covered Asset protected by the APS is capped at the lesser of the “Outstanding Amount” (see in particular Conditions 6.9 and 6.10) and the

"Covered Amount" (see in particular Conditions 6.5 to 6.8) for that Covered Asset, each as determined either on the "Trigger Date" (see *Trigger Date Losses* below – in such cases, the calculation for the Covered Amount may in some circumstances refer back to an earlier date, such as the first failure to pay under the agreement) or thereafter (see *Post-Trigger Date Losses* below).

Trigger Date Losses

The "Outstanding Amount" for each Covered Asset (except Covered Assets in the Derivatives Covered Asset Class) will be an amount equal to the aggregate outstanding principal amount (if any) of that Covered Asset on the Trigger Date (after taking into account any reduction in such principal amount on that date). This will exclude interest, fees, premium or any other non-principal sum which has accrued or is payable in respect of that Covered Asset save to the extent it was capitalised on or before 31 December 2008 or was capitalised in respect of an overdraft.

Where a Covered Asset is an exposure such as a committed undrawn facility, undrawn overdraft facility, letter of credit or guarantee (a "Covered Liability"), the Outstanding Amount will be, broadly, the amount paid or amounts drawn in respect of that liability by the relevant Covered Entity and not reimbursed at the time of the Trigger.

For Covered Assets in the Derivatives Covered Asset Class, the Outstanding Amount is the lower of: (i) the relevant amount (if any) payable to the relevant Covered Entity in respect of an "early termination date" reflecting the value of the transaction(s) terminated and other unpaid amounts; and (ii) broadly, such amount recalculated to disregard any transactions entered into under that Derivative after 31 December 2008. The Outstanding Amount is reduced to take account of relevant collateral, by subtracting an amount reflecting a proportion of the cash recoveries under the Derivative (see *Recoveries* below and Conditions 6.12 to 6.18).

The "Covered Amount" for all Covered Assets other than (i) Covered Assets in the Derivatives or Consumer Finance Covered Asset Classes, (ii) "Extended Protection Assets" (see *Post-Trigger Date* Losses below and Conditions 6.36 to 6.42) and (iii) certain Covered Assets which have become subject to a Rollover (see *Rollovers* below and Conditions 6.31 to 6.35) is, broadly. the lesser of:

- the maximum exposure a Covered Entity is committed to have (including contingent exposures) on any day in respect of that Covered Asset based on its terms as at 31 December 2008 and subject to any actual reduction in that maximum exposure at any time up until a Trigger occurs (so that the Covered Amount will not go back up again should a reduced exposure be subsequently reinstated or increased); and
- the amount specified by RBS in the relevant agreed initial data for that Covered Asset (see Monitoring, Reporting and Provision of Data below).

For the purposes of the first bullet point above, if, following the notification to HM Treasury of a Loss in respect of a Covered Asset, there is no reasonable evidence to establish this exposure, the Covered Amount will be zero (as set out in Condition 6.5).

In respect of Derivatives, the Covered Amount is, subject to certain data field rules governing the data that has been (and will continue to be) supplied to HM Treasury in respect of the Covered Assets, based on the mark-to-market value of such Derivative as at 31 December 2008 plus, in respect of certain specified Derivatives only, an additional buffer amount.

Post-Trigger Date Losses

As set out in Condition 6, further Losses may arise after the Trigger Date in respect of:

- amounts paid (and not reimbursed) by a Covered Entity in respect of Covered Liabilities (including guarantees and undrawn overdraft facilities - see Trigger Date Losses above and Conditions 6.23 to 6.26), in which case:
    - o such Loss is also capped at the lesser of the relevant Outstanding Amount and the Covered Amount; and

    - the Covered Amount concept is adjusted for these assets or exposures for technical reasons but in particular to ensure that any Loss already claimed on the Trigger Date is taken into account and also to take account of principal amounts which have been repaid but which are capable of being redrawn; and

- certain assets which HM Treasury has elected will be protected by the APS pursuant to Conditions 6.36 to 6.42 (which assets would not otherwise have been so protected ("Extended Protection Assets").

Further details on the calculation of Losses in relation to Covered Assets allocated to the Consumer Finance Covered Asset Class are set out under *Consumer Finance Assets* below. In addition, further details on these issues in respect of Covered Assets eligible for Rollovers are set out under *Rollovers* below.

Rollovers

The APS provides limited rights for the protection provided in respect of some Covered Assets which fall within the Loan or Commercial Real Estate Finance Covered Asset Classes, where the "Covered Amount Currency" specified in the initial data (generally the base currency amount of a Covered Asset – see *Valuations of non-sterling* below) is sterling and the Covered Asset has a final maturity date (and a Cover Termination Date as specified in the initial data) no later than 31 December 2010 to be extended where the maturity date of that Covered Asset is extended (whether such extension takes the form of an amendment or a refinancing). Where this is the case, the cover under the APS after the original Cover Termination Date will be limited to 49.5 per cent. of the principal amount of such Covered Asset and will only be provided for the period to no later than 31 December 2013. Further detail on Rollovers is set out in Conditions 6.31 to 6.35.

This flexibility is designed to ensure that there is no incentive for RBS to let Covered Assets Trigger earlier than they would otherwise have done but for the protection provided by the APS, but with such flexibility being limited appropriately in order to effectively manage HM Treasury's exposure under the APS.

Consumer Finance Assets

The protection provided by the APS in respect of Covered Assets allocated to the Consumer Finance Covered Asset Class is (as set out in Conditions 4 and 6) slightly different to that for other Covered Assets in that:

- amendments, novations and replacements can generally be made to these Covered Assets provided that, broadly, the obligor remains the same person or is a connected person and, in respect of Covered Assets in the Residential Mortgages Covered Asset Class only, there remains security on a residential property at all times (see Asset Continuity above and Conditions 4.5 to 4.10);

- in respect of overdrafts (including overdrafts falling within the Consumer Finance Covered Asset Class), the Covered Amount will be the lesser of: (i) the amount specified by RBS in the agreed initial data for that Covered Asset; and (ii) an imputed amortisation profile which will broadly be the Covered amount as at 31 December 2008 for two years and will then amortise down over the next two years on a monthly basis; and

- in respect of Covered Assets in the Consumer Finance Covered Asset Class other than overdrafts, the Covered Amount will be the higher of (i) the amount set out under the description of the "Covered Amount" in the third paragraph of Trigger Date Losses above and (ii) the amount set out in the second bullet point above.

Detailed provisions in relation to the treatment of Recoveries in respect of Covered Assets are set out in Condition 7.

90 per cent. of the "Recoveries" on a Triggered Asset are to be applied to reduce the Loss payable by HM Treasury on all Triggered Assets (see *Triggers* above). Recoveries are to be applied at a portfolio level rather than in respect of the Loss in respect of a specific Triggered Asset for which the relevant Recovery has been received such that if Recoveries received in respect of a Triggered Asset exceed the Loss payable under the APS by HM Treasury on that Triggered Asset, the excess Recoveries will be applied to reduce the Losses on other Triggered Assets. The remaining 10% of Recoveries is for the account of RBS.

Recoveries include any of the amounts set out in the bullet points below (and set out in more detail in Condition 7). In addition, they may also include recoveries on: (i) any Closely Related Hedge (see *Covered Asset Continuity* above and Conditions 7.12 to 7.14); and (ii) any share, equity security or equity interest or any asset or exposure that ranks junior to the relevant Triggered Asset in respect of which one or more of the counterparties (or its group members) is also an obligor in respect of that Triggered Asset (a "Related Junior Asset") (excluding, in summary, any publicly traded securities managed and administered by a market-making desk of a member of RBS's group and by personnel who are required by law to be segregated by an information barrier (or similar measure) from the personnel who manage the Covered Asset or any "Non-Cash Realisation" in respect of that Covered Asset and who are unaware whether the asset or exposure is related to a Covered Asset). Further details on the definition and treatment of Related Junior Assets are set out in Conditions 7.15 and 7.16.

Recoveries include (as set out in Condition 7.8):

- any payment received (whether in respect of interest, principal, dividends or other amounts);
- any reduction in, or discharge of, obligations as a result of set off, netting or other substantially similar arrangements;
- any non-cash asset received and all recoveries with respect to each non-cash asset;
- the proceeds of any sale, assignment, transfer or other disposal of: (i) any interest in a Covered Asset; (ii) any Non-Cash Realisation; (iii) any Related Junior Asset or (iv) any undertaking which holds or Economically Owns a Triggered Asset, Non-Cash Realisation or Related Junior Asset (or has a right, interest or benefit, whether direct or indirect in or with respect thereto) ceasing to be a consolidated entity;
- any insurance claim;
- any recovery under a protection scheme;
- any claim against any person (including for negligence or breach or warranty);
- an indemnity claim;
- in respect of a Covered Asset within the Consumer Finance or Residential Mortgage Covered Asset Classes, any related loan or mortgage payment protection insurance policy or rebate which must be accounted for to any obligor in connection with any such insurance if all outstanding amounts had been repaid;
- any refunds or payments received in respect of tax credits or VAT, etc.;
- any amount received following the enforcement of any security or other benefit arising from security;

- any reduction (including expected further reduction) in any amount that would otherwise have been payable by any applicable entity in respect of a Closely Related Hedge (see Covered Asset Continuity above) which is a credit-linked note (or analogous instrument); and
- any fee received acting as agent, security trustee, servicer, manager or administrator.

Non-cash Recoveries will generally only be applied to reduce the Loss payable by HM Treasury on Triggered Assets after they have been converted into cash receipts. There are certain exceptions to this, such as the deemed cash Recoveries in respect of the penultimate bullet point above.

In addition, if RBS fails to deliver a "Conflicts Certificate" (see *Monitoring and Reporting* below) pursuant to the requirements of the Conditions (as set out in Condition 15) with respect to a Covered Asset, HM Treasury will (as set out in Condition 7) be entitled to determine that a Recovery has been made in respect of that Covered Asset with an amount corresponding to the excess benefits (as determined by HM Treasury) received by RBS's group with respect to any arrangement not being commercially fair, reasonable and on arm's length terms.

Recoveries include recoveries received by an "applicable entity", which includes a member of the RBS Group and any entity with whom a Covered Entity has entered into a Permitted Arrangement (see *Eligibility of Covered Assets* above) and which owns the relevant Covered Asset. Pursuant to Condition 7, RBS takes the risk of such entity failing to pass on any such Recoveries.

Certain limited third party recovery expenses paid by a member of RBS's group or another applicable entity in respect of Recoveries will be deducted from the Recoveries for which such expenses are incurred, if they are: (i) amongst other requirements set out in the Conditions, proportionate, properly and reasonably incurred in good faith and directly associated with the corresponding Recoveries and not a consequence of an outsourcing arrangement which was or could otherwise have been performed by RBS's group as at 31 December 2008; or (ii) approved by HM Treasury in writing.

In certain circumstances, Recoveries will include amounts received prior to the occurrence of a Loss for the purposes of the APS (i.e. prior to a Trigger having occurred). This is broadly the case in the following situations (as set out in more detail in Condition 7.2):

- cash amounts recovered in respect of a "restructuring" Trigger whether before or after the restructuring, will be applied as Recoveries;
- cash amounts received on or after a potential breach which leads to a Trigger in respect of any Related Junior Asset in respect of that Triggered Asset; and
- all cash amounts received (whether before or after a Trigger) in respect of: Closely Related Hedges; any assets transferred to a Covered Entity under any credit support annex or similar title transfer arrangement in respect of Derivatives; any insurance claim; any claim under another protection scheme; any claim against any person (including a claim for negligence or breach of warranty); an indemnity claim; or rebates in connection with any payment protection insurance policy, etc.

In respect of Covered Assets allocated to the Derivatives Covered Asset Classes, only a specified proportion of receipts in respect of the relevant Covered Asset are treated as Recoveries. This specified proportion is the lower of 100 per cent. and a fraction equal to the "early termination amount" under the relevant Derivative agreement (calculated ignoring any transaction entered into under that Derivative agreement after 31 December 2008) divided by the "early termination amount" (calculated taking into account any such transaction(s)). Where a cash Recovery in respect of a Derivative arises on or before the Trigger Date, the specified proportion of the cash Recovery is applied to reduce the Outstanding Amount (and therefore the Loss) of the relevant

Derivative. Where a cash Recovery arises on or after the Trigger Date, the specified proportion of the cash Recovery is applied in the usual way through the Pending Account as described below (see *Payments* below). If the Trigger in respect of a Derivative was a "restructuring" Trigger (see *Triggers* above) which does not result in the termination of all transactions under the relevant Derivative agreement, the mid-market value of any transaction which remains outstanding after the "restructuring" Trigger is deemed to be a cash Recovery. The detailed provisions on Derivatives are set out in Conditions 6 and 7.

(5) Payments

First Loss Amount and 90 per cent./10 per cent. loss-sharing

APS cover extends to the Covered Assets to the extent that overall Losses on these Covered Assets exceed a "First Loss Amount" of £60 billion to be borne by RBS. RBS incurs all Losses on the Covered Assets up to this aggregate First Loss Amount. When the aggregate of all Losses (see *Losses* above) in respect of the pool of Covered Assets exceeds the aggregate of all Recoveries (see *Recoveries* above) in respect of the Covered Assets by an amount equal to or greater than the First Loss Amount, HM Treasury will bear 90 per cent. of that excess, with the remaining 10 per cent. of such excess for the account of RBS. Where the First Loss Amount has been exceeded, this position may later be reversed i.e. where at any time the First Loss Amount is greater than the excess of aggregate Losses over aggregate Recoveries. At any time that this occurs, RBS will bear all Losses until the First Loss Amount has again been exceeded.

The First Loss Amount and RBS's retention of a 10% stake in all further Losses above the First Loss Amount provide protection to the taxpayer by ensuring that RBS retains an interest in the Covered Assets, thereby providing an incentive for it to continue to manage them effectively and efficiently. This is important as the taxpayer benefits from low Losses and high levels of Recoveries on Covered Assets where Triggers have occurred, as lower Losses and higher Recoveries reduce the overall amount payable by HM Treasury to RBS.

More detailed provisions covering the First Loss Amount and the 90 per cent./10 per cent. split are covered in Condition 8 and, in addition, the APS payment calculation which applies these principles is summarised under *Payment Calculation* below.

Payment Calculation

Condition 8 provides for the preparation of various accounts to determine amounts paid or payable under the APS.

At the end of each calendar quarter, a single net amount will be added to the balance of an account established by HM Treasury (the "Pending Account"). This net amount will broadly be equal to (i) 90 per cent. of cumulative Losses in that quarter in excess of the First Loss Amount less (ii) 90 per cent. of cumulative Recoveries received on the Triggered Assets in that quarter (such net amount being the "Quarterly Payable"). Interest will accrue on the balance of the Pending Account at the "Sterling General Collateral Repo Rate", as displayed on the Bloomberg service, or such rate as may be notified by HM Treasury from time to time. If the balance of the Pending Account as of the first day of a quarter is greater than zero (the "Positive Balance") and the balance of the Pending Account has been greater than zero throughout the immediately preceding eight quarters, HM Treasury shall pay to RBS an amount equal to the lesser of: (i) any positive excess of the Positive Balance over the sum of the Quarterly Payables for the eight preceding quarters; and (ii) the Positive Balance, plus accrued interest.

The rules for the operation of these accounts have the effect (amongst other things) that:

- there is at least a two year deferral period between a Loss in respect of a Covered Asset and a Loss payment from HM Treasury under the APS;
- during this deferral period, the pending payment from HM Treasury will be subject to: (i) reduction by an amount (if any) by which 90 per cent. of Recoveries received on all Triggered Assets exceed 90 per cent. of Losses in the intervening eight

quarters from the occurrence of a Loss under the APS; and (ii) a requirement that 90 per cent. of total applicable Recoveries to date do not exceed 90 per cent. of total applicable Losses to date; and

- if the Pending Account is negative at any time, RBS will be required to make an immediate payment to HM Treasury (subject to a cap equal to (i) the aggregate amounts paid or payable by HM Treasury from the date of RBS's accession to and participation in the APS until the relevant quarter minus (ii) the amount payable by RBS in that quarter).

The deferral period described above is designed to protect the taxpayer by allowing the Asset Protection Agency to audit the Loss claims properly and therefore ensure that the claims are accurate. It also ensures that RBS does not use the APS as an immediate source of funding and therefore incentivises it to manage the Covered Assets on a long-term basis and allows for a smoother payment profile as the Recoveries that have been received on the Triggered Assets are netted against pending payments due for Losses.

If a "Quarterly Statement" (see *Monitoring, Reporting and Provision of Data* below) notifies: (i) a correction or adjustment which increases the amount of the Losses or reduces the amount of the Recoveries for a quarter which ended more than one year before the date of that Quarterly Statement; or (ii) an adjustment relating to an amount which becomes repayable as a result of applicable law, and such adjustment relates to a quarter, and the applicable repayment was made in a quarter, which ended more than one year before the date of that Quarterly Statement; or (iii) in the case of an adjustment arising as a result of the retrospective effect of an "Extended Protection Notice" in respect of an Extended Protected Asset (see *Post-Trigger Date Losses* above, *Additional Lending* below and Conditions 6.36 to 6.42), and such adjustment relates to a quarter, and the Extended Protection Notice became effective in a quarter, which ended more than one year before the date of that Quarterly Statement, in each case, such correction or adjustment will be disregarded for the purpose of calculating any payment due from HM Treasury. Full details of the provisions covering reporting of Losses and Recoveries and related matters are contained in Condition 8.7 to 8.15 and Condition 16.

Valuations of non-sterling Losses and Recoveries

Each Covered Asset is protected under the APS until the Trigger Date (or such other date on which the Loss is calculated – see *Triggers* and *Loss* above) in the currency specified by RBS in the initial data provided in respect of each Covered Asset (see *Monitoring, Reporting and Provision of Data* below). This will usually be the base repayment currency under the terms of that Covered Asset in effect as at 31 December 2008.

Following a Trigger Date (or any subsequent date on which a Loss may be claimed under the APS), the Loss in respect of a Covered Asset is converted to sterling in accordance with the Conditions (in particular, Condition 40). Any Recovery (see *Recoveries* above) is also converted into sterling on the date of its recovery under the Conditions.

(6) Fees, Costs and Expenses

During the life of the APS, RBS will pay a non-refundable annual upfront fee (payable in advance) of £700 million per annum for the first three years of the APS and £500 million per annum until the earlier of (i) the date of termination of the APS and (ii) 31 December 2099 (being the latest maturity date of a Covered Asset under the APS) (see *Asset Withdrawal and Termination Rights* above and Conditions 4.38 to 4.42). The annual fee can, subject to HM Treasury consent, be paid wholly or partly by means of the waiver of certain UK tax reliefs that are treated as deferred tax assets (pursuant to the Tax Loss Waiver) (see *Tax Loss Waiver* below) or funded by the issuance of additional B Shares to HM Treasury. If the deferred tax assets are to be used, they will carry a surcharge of at least 20% relative to the post-tax cost of making the payment in cash or B shares.

There will be no rebate of any part of any annual fee regardless of any withdrawal of Covered Assets or termination of the APS unless agreed by HM Treasury at the time of the withdrawal or termination.

RBS will bear its own costs in connection with its accession to, and participation in, the APS. It will also bear HM Treasury's costs in relation to the establishment and ongoing management and administration of the APS (including employment costs).

Tax Loss Waiver

Under the "Tax Loss Waiver", subject to HM Treasury consent, RBS has the option to pay the annual fee described above and the "exit fee" payable in connection with any termination of RBS's participation in the APS (see *Asset Withdrawal Rights and Termination Rights* above) (but not the refund of the net payments it has received from HM Treasury under the APS), in whole or in part, by waiving the entitlement of members of RBS's Group to certain UK tax reliefs. The tax reliefs in question are, broadly, those which are taken into account as deferred tax assets in RBS's annual report and accounts for the year ended 31 December 2008 and future tax reliefs which would so qualify to be taken into account in future statements of the RBS group before the relevant fee is payable. In addition to requiring HM Treasury consent, the use of tax reliefs to pay the above fees is subject to certain conditions, including verification of the tax reliefs by HMRC.

The Tax Loss Waiver contains provisions designed approximately to value the tax reliefs which are being waived. In calculating the value of those tax reliefs, the Tax Loss Waiver requires the tax reliefs being waived to be subject to a discounting factor (with a minimum rate of 20 per cent) and takes into account any difference in the tax treatments of the waiver and the fee which would otherwise have been payable in cash.

The Tax Loss Waiver contains undertakings designed to prevent the RBS group from engaging in arrangements which have a main purpose of reducing the net cost to the RBS Group of any waiver of tax reliefs pursuant to the Tax Loss Waiver.

B. ASSET MANAGEMENT (Part 3 of the Conditions)

The management and administration of the Covered Assets, Non-Cash Realisations and Closely Related Hedges (the "Protected Assets") must be carried out in accordance with certain "Asset Management Conditions" set out in the Conditions.

RBS is expected to continue to manage the Protected Assets effectively, to continue to protect its customers where appropriate and to maximise the return on those Protected Assets as it would do in its normal course of business. The APS has been designed to ensure that customers are not prejudiced by the behaviour of RBS due to its participation in the APS.

Therefore, under Part 3 of the Conditions (in particular Condition 10), RBS is obliged to ensure that the management and administration of the Protected Assets is undertaken, subject to certain exceptions, in a manner consistent with the following requirements:

- applicable law;
- the "Asset Management Objective" (see below);
- so as to ensure that there is no prejudice to, discrimination against or disproportionate and adverse effect on the Protected Assets when compared with the management and administration of RBS's other assets and exposures which are not Protected Assets (including "Related Party Assets" (see Asset Management Objective below));
- in accordance with any provisions of RBS's Accession Agreement relating to the management and administration of the Protected Assets (including the Asset Management Framework and the Conflicts Management Policy);

- in a manner which will facilitate compliance with the Monitoring and Reporting Conditions and the Governance and Oversight Conditions (see Monitoring, Reporting and Provision of Data and Governance and Oversight below); and
- broadly, in accordance with the ordinary course business and banking policies, practices and procedures of RBS's group, to the extent consistent with (i) the business and banking policies, practices and procedures of a reasonable and prudent banking organisation and (b) good industry practice.

Asset Management Objective

The "Asset Management Objective", as set out in the Conditions (in particular, Condition 10.1), is to maximise the expected net present value of the Protected Assets (calculated, on a risk-adjusted basis, using a discount rate equal to the fixed loan rates of the Public Works Loan Board published on the website of the Debt Management Office of HM Government (or a similar government rate)), including by minimising losses and potential losses and maximising recoveries and potential recoveries. "Related Party Assets" (which, as set out in Condition 10.7, broadly include assets or exposures in respect of which the credit limit, credit line or trading line of the obligor is or would be aggregated with the credit limit, credit line or trading line of an obligor in respect of a Protected Asset pursuant to the "Credit Aggregation Policy" of RBS's group and assets in respect of which a "Conflict" under the APS has arisen (see Asset Management Framework and Conflicts Management Policy below and Condition 10) must also be managed and administered in a manner consistent with the asset management requirements listed above.

RBS is not required to comply with the Asset Management Objective in respect of Protected Assets or Related Party Assets which are managed on a "blind" basis (i.e. broadly, certain specified classes of assets where the relevant bank personnel managing and administering the assets are unaware, and are not authorised to know, whether those assets are included in the APS). In addition, the Asset Management Conditions will not: (i) require, preclude or prohibit any withdrawal of a Covered Asset under specified APS terms, the full or partial termination of the APS or any sale or disposal of a Covered Asset which is not Triggered; or (ii) require RBS to make additional loans which are not protected under the APS.

Asset Management Framework and Conflicts Management Policy

The Protected Assets must also be managed and administered in compliance with the "Asset Management Framework" implemented by RBS. The Asset Management Framework includes (as set out in Condition 10.22) internal governance arrangements for the management and administration of Protected Assets and Related Party Assets (including in particular a "Conduct Approval Hierarchy"), procedures for regular review of such assets and remedial management steps where Losses on the Covered Assets or the likelihood of any or further Losses, increase.

The management and administration of the Protected Assets must also comply with the "Conflicts Management Policy". This is a written statement setting out (as per Condition 10.23) the proposed policy for the avoidance (where possible), identification, monitoring, management and mitigation of certain "Conflicts", including conflicts between the interests of any member of the RBS's group and HM Treasury and conflicts between Protected Assets and assets of RBS's group which do not comprise Protected Assets.

Any modification to the Asset Management Framework, the Conflicts Management Policy or the Credit Aggregation Policy must be approved by HM Treasury.

Additional Lending

In order to comply with the all relevant provisions of Condition 10, a member of RBS's group may be required to provide additional, or to extend existing, financing to an obligor in relation to a Covered Asset, a group member of the obligor or another relevant person, subject to any Loss incurred by the relevant member of RBS's group in respect of such additional or extended financing being covered under the APS. Losses incurred by RBS in respect of such additional or extended financing may, at the option of HM Treasury, form part of a Triggered Asset and be protected by the APS (see the "Extended Protection Assets" requirements set out in Loss above, Condition 10.15 and Conditions 6.36 to 6.42).

Prohibited Conduct

In addition, the Conditions (as set out in Condition 12) include a list of actions which constitute "Prohibited Conduct" in relation to the Covered Assets, Related Party Assets or Closely Related Hedges. The Covered Entities are not permitted to carry out any Prohibited Conduct if it exceeds certain thresholds, unless approved in accordance with a specified "**Conduct Approvals Hierarchy**" included in RBS's Asset Management Framework (see Asset Management Framework and Conflicts Management Policy above). Under the terms of the Conduct Approvals Hierarchy, decisions require, in increasing order, the approval of specified categories of RBS APS personnel, a member of the Scheme Executive Team, the Scheme Head, the Senior Oversight Committee (each as defined under Governance and Oversight below and Part 5 of the Conditions) and, for the most significant decisions, HM Treasury. The following activities will, broadly, constitute "**Prohibited Conduct**":

- sales, transfers or other disposals of any Triggered Assets and/or Non-Cash Realisations (other than, broadly, intra-group sales, transfers or disposals);
- any release of "security" (as defined in the Conditions) in respect of Covered Assets which are not "blind assets" (see Asset Management Objective above);
- any return of value on equity (whether by way of payments of dividends, distributions or otherwise) to any applicable entity by an obligor of a Covered Asset to the extent it does not give rise to a Recovery under the APS; and
- amendments, replacements or termination of any Closely Related Hedge.

Other Restrictions regarding Covered Assets- Hedging

Subject to certain exceptions, RBS is able to hedge the exposure to the remaining 10 per cent. of risk (see Payments above) provided that, once the First Loss Amount has been exceeded and following the occurrence of a Trigger, RBS will retain a fully unhedged exposure to its right to 10 per cent. of Recoveries in respect of such risk.

C. MONITORING, REPORTING AND PROVISION OF DATA (Part 4 of the Conditions)

The general principle underlying the "**Monitoring and Reporting Conditions**" (as set out in Part 4 of the Conditions) is, broadly, to provide transparency in respect of the Covered Assets to enable HM Treasury to manage and assess its exposure under the APS. There are detailed requirements relating to the provision of information in relation to each Covered Asset set out in Part 4 of the Conditions which are intended to ensure that:

- HM Treasury can verify that the assets or exposures forming part of a Covered Asset meet the Asset Eligibility Criteria as set out in Eligibility of Covered Assets above (and Condition 4) and the Asset Continuity Requirements as set out in Asset Continuity above (and Condition 4);
- the arrangements for calculation of payments to be made pursuant to the APS documents can operate effectively and the quantum of such payments can be accurately verified (see Payments above);
- the performance and expected performance of the Covered Assets can be monitored and assessed;
- HM Treasury can monitor and assess compliance of each member of RBS's group with the APS documents; and

- HM Treasury can: (i) comply with its responsibilities and obligations, and exercise its rights, powers and discretions in connection with the APS or the APS documents; (ii) provide or enable the provision of financial support to RBS or protect or enhance the stability of the financial system of the UK; (iii) report on the establishment, performance or operation of, or compliance with the APS; and (iv) discharge its responsibilities and functions.

The Covered Assets are identified by RBS by the completion of agreed data fields in relation to each Covered Asset. There are a limited number of agreed initial data fields in relation to each Covered Asset and information provided by RBS in respect of such data may be corrected in limited circumstances. The consequences of incorrect data potentially include a lower level of protection or, in some limited cases, loss of protection in respect of the affected Covered Asset. Other consequences of data errors include, subject to certain conditions, HM Treasury's exercise of "Step-In Rights" (see *Step-In Rights* below and Condition 32).

Post-accession, RBS is also obliged to provide further data in respect of the Covered Assets (for example, data regarding guarantees, collateral, Rollovers, etc.), some of which will need to be updated on an ongoing basis at pre-agreed time intervals. The consequences of a failure to update or correct such further data, or certain quarterly statement data (see below and *Payments* above), in respect of a Covered Asset include suspension of payments by HM Treasury or removal of cover in respect of that Covered Asset, subject to lengthy grace periods (see *Remedies and Disputes* below and Condition 31).

Under the APS documents, RBS has the obligation to provide the following statements, certificates and reports to HM Treasury:

- "Quarterly Statements": these are statements to be provided on a quarterly basis which set out, for example, details of Triggers, Losses and Recoveries on the Triggered Assets during the relevant quarter, and include certain quarterly statement data fields which set out this information for each relevant Covered Asset, with such information then forming the basis of the payment calculation described under Payments above (see Conditions 8 and 16);

- "Conflicts Certificates": these are certificates to be delivered to HM Treasury with each Quarterly Statement (as set out in Condition 15) with respect to aggregate Losses exceeding £10 million in respect of a Covered Asset, which confirm that: (i) all agreements, transactions or arrangements which have been entered into either in connection with that Covered Asset or any Related Party Asset or which give rise to a "Conflict" (as described under Asset Management above), in each case in the period from the initial breach to the Trigger Date, were commercially fair and reasonable and on arm's length terms; and (ii) RBS has complied with the Asset Management Objective and the other asset management requirements (see Asset Management above and Condition 10) at all times during the relevant period, and is signed and certified by the Scheme Head (see Governance and Oversight below and Condition 22);.

- "Requested Reports": these are reports which may be requested by HM Treasury from time to time in relation to a variety of specified matters (as set out in Condition 15), for example, satisfaction of the Asset Eligibility Criteria (see Covered Asset Eligibility above and Condition 4) and the Asset Continuity Requirements (see Asset Continuity above) with respect to any Covered Asset, events or circumstances that have materially affected the level of Losses and Recoveries in respect of Triggered Assets or the impact of any material modifications that have been made to the Asset Management Framework and/or the Conflicts Management Policy (each as described in Asset Management above and Condition 10) – these will, amongst other things, allow HM Treasury to see if the financial performance of the

Covered Assets is being maximised, in order to ensure that any concerns over the taxpayers' interests are under constant review;

- "Notification Reports": these are reports which relate to adverse events in relation to RBS and its ability to comply with the requirements of the APS (such as the occurrence of an event of default (i.e. a "Remedy Event" (see Remedies and Disputes below and Condition 31)) in respect of RBS and its obligations under the APS or a proposed material reorganisation of RBS's group (with a more detailed list set out in Condition 15)) and are to be notified to HM Treasury by RBS upon the occurrence of the relevant events; and

- "Reconciliation Statements": these are statements to be delivered to HM Treasury monthly in respect of Covered Assets listing the Covered Assets which have permanently ceased to be Covered Assets since the delivery of the previous monthly report (with more detail set out in Condition 15).

RBS is also under an obligation to prepare an "Assurance Plan" (as set out in more detail in Condition 19), which will set out the scope of an annual review of the systems architecture in place for compliance with the APS. The Assurance Plan will address the adequacy of controls, practices and processes for ensuring compliance with the APS, the accuracy of Quarterly Statements, the accuracy and completeness of data and a review of any failure to comply with the APS. The results of the review conducted in accordance with the Assurance Plan are to be set out in an annual assurance report to HM Treasury. In addition, the Assurance Plan shall provide a reconciliation between the aggregate Outstanding Amounts of all Covered Assets then included in the APS and the total assets of RBS's group, as soon as reasonably practicable (and in any event within 30 business days) following the finalisation of the audited consolidated balance sheet of RBS for any financial year.

It is very important for HM Treasury to have visibility over the management of the Covered Assets to ensure that RBS's responsibilities to the taxpayer are being fulfilled. Therefore, in addition to the reporting requirements described in the previous section, the Conditions also provide (as set out in Condition 20) that HM Treasury has the right, at any time, to conduct an audit, investigation and review of RBS's group and certain other matters in connection with the APS. For example, an HM Treasury audit may focus on general compliance with the APS, specific reports provided to HM Treasury or reports on the performance of any Covered Assets. The scope and duration of any such audit is largely at the discretion of HM Treasury. HM Treasury may also appoint any Asset Protection Agency personnel or HM Treasury employee or officials to attend meetings of any credit or risk committee (or equivalent) of RBS, from time to time, for the purpose of monitoring RBS's compliance with the Asset Management Conditions (see Asset Management above).

D. GOVERNANCE AND OVERSIGHT (Part 5 of the Conditions)

The "Governance and Oversight Conditions" (as set out in Part 5 of the Conditions) cover the establishment of the following governance structure for the purposes of the APS:

- the "Senior Oversight Committee", which consists of senior management personnel of the Group charged with, for example, developing strategy for, and providing oversight and supervision of, compliance with the APS and reviewing, approving and periodically reassessing the business strategies and governance arrangements of RBS's group in connection with the APS (with such responsibilities set out in more detail in Condition 21). The Senior Oversight Committee must include at least one non-executive director of RBS. HM Treasury is entitled to appoint one or more non-voting observers to this committee;

- the "Scheme Head", who (as set out in Condition 22) reports to the Senior Oversight Committee and is the primary senior point of contact for HM Treasury with respect to the APS. The Scheme Head is one of RBS plc's executive directors or a member of its senior management team appointed to be dedicated to the APS and his/her appointment is subject to the prior approval of HM Treasury. The Scheme Head is responsible for leading, overseeing and ensuring the performance by the Scheme Executive Team (see below) of their respective functions under the APS; and

- the "Scheme Executive Team", which (as set out in Condition 23) will include the deputy to the Scheme Head and is charged with the day-to-day oversight of compliance with the APS, for example, ensuring compliance with the Monitoring and Reporting Conditions and the Asset Management Conditions.

For the purpose of compliance with the Conditions, RBS's obligations under the Governance and Oversight Conditions also include:

- retaining or recruiting sufficient and appropriately trained staff and having available to them such resources as may be necessary and appropriate, and ensuring that, amongst other obligations, there is no prejudice to, discrimination against, or disproportionate adverse effect on the management and administration of the Covered Assets when compared with the other assets and exposures of the members of RBS's group;
- ensuring the provision of the same shared services in relation to the Covered Assets as are provided from time to time by RBS's group on a centralised basis in respect of assets and exposures which are not Covered Assets, and the other businesses, operations and activities of the members of RBS's group; and
- ensuring that each member of RBS's group shall maintain and operate and implement all necessary systems, controls and processes.

E. REMUNERATION (Part 6 of the Conditions)

The Conditions (as set out in Conditions 28 and 29 and RBS's Accession Agreement) and RBS's Accession Agreement contain requirements for the development of a "**Remuneration Policy**" for both RBS plc and the wider RBS group. This Remuneration Policy must comply with the FSA Remuneration Code and RBS must be on the leading edge of implementing the G-20 principles and proposals from the Walker Review that are implemented in regulations. RBS is required to provide a copy of this Remuneration Policy to HM Treasury.

Remuneration for members of the Scheme Oversight Committee, the Scheme Head and members of the Scheme Executive Team must be at least equivalent to that of non-APS personnel. In addition, (i) a substantial majority of the incentive and bonus components of the remuneration of APS personnel and (ii) an appropriate proportion of the incentive and bonus components of the remuneration of certain specified senior executives of RBS's group, must be linked to performance targets and measures of compliance with the APS. The "appropriate proportion" for such linkage for senior executives is, in the case of senior executives who have RBS plc-wide responsibilities, a proportion which is not less than the proportion of the total risk-adjusted value of all risk-weighted assets of RBS's group which is represented by the Covered Assets and, in the case of senior executives who have responsibility for certain business units or divisions of RBS plc, the proportion of the total risk-adjusted value of all risk-weighted assets in that division or business unit which is represented by the Covered Assets in that division or business unit (in each case, ignoring for the purposes of this calculation any impact of the APS and attributing a risk-weighting to be agreed to defaulted assets). The compensation targets and measures and the appropriate proportion referred to above must be approved by HM Treasury.

RBS is required to provide information with respect to the remuneration of particular categories of personnel to HM Treasury on request. In addition, RBS has agreed with HM Treasury the structure and clawback principles applicable to the pool of bonuses for the 2009 performance year. RBS has further undertaken to provide to UK Financial Investments Limited ("UKFI") proposals regarding the total quantum of individual variable remuneration proposals for all main board directors, and aggregate discretionary bonus proposals for other employees, for the 2009 performance year. This is with a view to discussing such proposals with UKFI, and RBS is not to announce or implement such proposals for the 2009 performance year without having obtained UKFI's consent. UKFI will take into account RBS's pre-existing binding and irrevocable commitments regarding 2009 bonuses.

F. REMEDIES AND DISPUTES (Part 8 of the Conditions)

Remedy Events

Suspension (or termination) of payments under the APS may occur where there is a relevant event of default (a "**Remedy Event**") under the Conditions, which may occur if RBS breaches any of a number of "**Specified Obligations**" under the Conditions, mostly relating to RBS's payment obligations (see Payments above and Condition 8 in particular) and compliance with the asset management, information and reporting requirements set out in Parts 3, 4 and 5 of the Conditions, including obligations:

- not to modify the Asset Management Framework, the Conflicts Management Policy or the Credit Aggregation Policy (see Asset Management above and Condition 10) without HM Treasury's approval;
- not to transfer responsibilities, rights, duties or obligations, create security or undertake Prohibited Conduct (see Asset Management above and Condition 12) in connection with any Covered Asset without certain internal or HM Treasury's approval;
- to comply with various aspects of the remuneration requirements summarised above under Remuneration and set out in Part 6 of the Conditions;
- to produce and deliver Quarterly Statements in accordance with Conditions 15 and 16;
- to notify, subject to certain conditions, HM Treasury of proposed corrections to any information provided by RBS in any initial data in respect of a Covered Asset;
- to deliver to HM Treasury accurate data in respect of Covered Assets post-accession at pre-agreed date(s); and
- to comply with the instructions of a "Step-In Manager" (see Step-In Rights below and Condition 32).

These obligations also include RBS's obligations to make the payment described in the third bullet point under *Calculation of Payments* above and to pay any indemnity amounts due to HM Treasury or any of its representatives (see *Indemnities* below and Condition 33).

If RBS fails to comply with any Specified Obligation, HM Treasury has the right, subject to certain conditions (and as set out in Condition 31), to suspend the payment of an amount due from HM Treasury (all payments still being due from RBS), in respect of relevant Covered Assets (or, if the Specified Obligation relates to all Covered Assets, all Covered Assets), provided that if the relevant breach is specified to be remediable, such suspension will cease if remedied within 60 Business Days (or 120 Business Days, in the case of: (i) data submitted in respect of Covered Assets post-accession in accordance with pre-agreed timing and frequency requirements (see *Monitoring, Reporting and Provision of Data* above) but which were not accurate; and (ii) delivery of a Reconciliation Statement in accordance with the procedure as set out under the

Conditions (see *Monitoring, Reporting and Provisions of Data* above and Condition 15), but which was not accompanied by an unqualified Compliance Certificate).

If such breach has not been remedied by RBS or waived by HM Treasury within 60 business days (or 120 business days as applicable), HM Treasury shall remove such Covered Assets (or if the Specified Obligation relates to all Covered Assets, all Covered Assets) from the APS.

These actions are intended to protect the taxpayer by ensuring that, particularly where RBS breaches certain key obligations under the APS, HM Treasury is able to suspend or terminate payments under the APS.

Step-In Rights

HM Treasury has the right under the APS documents (as set out in Condition 32 and RBS's Accession Agreement) to appoint one or more "**Step-In Managers**" to exercise "**Step-In Rights**" in relation to all or some of the Covered Assets upon the occurrence of the following specified "**Step-In Triggers**":

- the provision of incorrect or incomplete information, or the failure to manage the Protected Assets in accordance with APS requirements, in each case where HM Treasury determines that such information deficiency or failure is persistent or material or evidences a systemic problem which prejudices compliance with any Asset Management Conditions, Monitoring and Reporting Conditions or Governance and Oversight Conditions;
- where aggregate Losses in respect of the Covered Assets net of recoveries (incurred or received, as the case may be, in the most recent quarter) exceed a specified threshold amount equal to 125 per cent of the First Loss Amount for Covered Assets in the aggregate (provided that this right may only be exercised two years after RBS's accession to the APS (the "Two Year Standstill Period") or a (broadly proportionate) specified amount for each Covered Asset Class; or
- as a result of RBS's default under or breach of specified provisions of the APS documents.

Once appointed, a Step-In Manager would have certain oversight, investigation, approval and other Step-In Rights. For example, the Step-In Manager may determine that certain decisions may not be taken in relation to the Covered Assets without the Step-In Manager's approval. The Step-In Manager could also require the modification or replacement of any of the systems, controls, processes and practices of RBS's Group. In addition, the Step-In Manager would have extensive rights in relation to the direct management and administration of the Covered Assets, which may be exercised without regard to whether or not an asset is a "blind asset" (see above). This means that the Step-In Manager would have the ability to exercise all or any of the rights and decision-making powers of RBS's group in respect of the relevant Covered Assets, with, for example, the authority to sell Covered Assets (subject to RBS's consent, not be unreasonably withheld) or otherwise to effect investment transactions involving such Covered Assets.

The terms of the APS are intended to protect the interests of the taxpayer, and these Step-In Rights ensure that HM Treasury can take action if it appears Losses, Recoveries or other relevant matters are not being effectively controlled.

Under the Step-In Rights provisions in Condition 32, Step-In Rights are to be carried out in good faith and with a view solely to the achievement of certain "**Step-In Objectives**":

- to gather information for reporting to HM Treasury in relation to the management and administration of the Covered Assets and Related Party Assets and compliance with the APS documents;
- to remedy the effects of any default trigger where Step-In Rights have been exercised as a result of any default under or breach of the APS documents;

- to meet the Asset Management Objective and to comply with certain other provisions of the Asset Management Conditions; and
- to ensure compliance by RBS (and all members RBS's Group) with the APS documents.

RBS will be required to appoint the Step-In Manager as its agent. The Step-In manager will either be a representative appointed by HM Treasury or a person otherwise identified by, or agreed with, HM Treasury. RBS will be obliged to co-operate fully with the Step-In Manager, including providing access to books and records and establishing additional systems, controls and processes required to fulfil the Step-In Objectives.

The appointment of a Step-In Manager may be terminated under the following circumstances:

- at HM Treasury's election; or
- where the relevant Step-In Trigger has been remedied, provided that HM Treasury is satisfied that the Step-In Objectives have been achieved; or
- where the relevant Step-In Trigger is a default-based trigger, HM Treasury has exercised its right to terminate protection in relation to the particular Covered Asset(s) or the APS as a whole.

HM Treasury may by notice to RBS require the appointment of a special adviser to the Senior Oversight Committee (the "SOC Special Adviser") to carry out all or any of the oversight functions which a Step-In Manager would have in accordance with the Conditions, in relation to:

- any Covered Assets which are subject to Specific Impairments (see Triggers above and/or Triggered Assets ("Non-Performing Assets"); and/or
- any of the Covered Assets in the Leveraged Finance, Commercial Real Estate or Structured Finance Covered Asset Classes and assets in the Derivatives Covered Asset Class which are managed by RBS's Strategic Asset Unit, in respect of which, in each case, the Covered Amount is £25 million or more.

The SOC Special Adviser shall be a person identified by RBS and approved by HM Treasury or, if none of the persons identified by RBS has been approved by HM Treasury, a person identified by HM Treasury.

If HM Treasury exercises its rights to require the appointment of a SOC Special Adviser in respect of any Non-Performing Assets on the terms set out above, it shall not exercise any right to require RBS to appoint or procure the appointment of a Step-In Manager (on the terms set out above) to carry out any direct management functions in respect of such Non-Performing Assets within 6 months of the appointment of that SOC Special Adviser. At the expiry of that period, a Step-In Trigger shall be deemed to have occurred in respect of the relevant Covered Assets, whereupon HM Treasury will have the rights set out under *Step-In Rights* above (and as set out in detail in Condition 32).

HM Treasury's rights in respect of the appointment of a SOC Advise, and the rights flowing from this as set out above, apply notwithstanding the Two Year Standstill Period.

Indemnities

The Conditions contain (as set out in Condition 33) indemnity obligations from RBS in favour of HM Treasury, any other government entity, HM Treasury's solicitor, and any representatives of the same. Under the indemnities, RBS is obliged to indemnify HM Treasury (in its capacity as provider of credit risk under the APS) and the other indemnified parties against all losses and damages suffered by such persons in relation to either the Covered Assets (other than a Loss covered by the APS) or any other assets, exposures, liabilities and obligations of any member of

RBS's Group (as well as any losses or damages in relation to other matters including any Remedy Event), without the need for any default or culpable action by RBS's Group. The indemnities also extend to certain tax liabilities (including UK tax liabilities) which may arise in connection with the APS. The indemnities do not contain an exclusion for loss arising from the negligence of the indemnified persons themselves. RBS has no right of control in respect of proceedings in which the indemnified persons may be involved, the costs of which (whether successful or otherwise) RBS is required to indemnify.

Dispute Resolution Procedures

If a dispute arises, HM Treasury or RBS may instigate arbitration proceedings. The Conditions set out (in Condition 35) the requirements for notices, the composition of the arbitration panel (generally to be agreed between the parties) and the length of time for awards. A decision of the arbitration panel will be final and binding.

G. GENERAL PROVISIONS (Part 10 of the Conditions)

Transfer Rights

HM Treasury has the right to transfer: (i) any of its payment obligations under the APS documents at any time to any person (including a Government entity); and (ii) any of its monitoring, administration or enforcement rights, powers or discretions under the APS documents at any time to a government entity, in each case provided that the regulatory capital risk weightings in respect of the Covered Assets will (overall) be no worse following such transfer. HM Treasury is not obliged to consult with RBS in relation to the transfer and any such transfer does not require RBS's consent. Following notification of such a proposed transfer from HM Treasury, RBS is required to enter into any such further agreements as may be required to give effect to such a transfer, including consequential amendments and modifications to the APS documents. RBS is also required to bear its own costs in respect of the transfer.

Modifications to the Conditions

Certain of the Conditions are (as set out in Condition 47) subject to modification at any time with retrospective effect at the discretion of HM Treasury as described in the paragraph below. The exercise of such modification rights by HM Treasury does not require the consent of RBS, although HM Treasury will consult RBS by serving a notice on it. Such notice will specify the nature and details of the proposed modification, the date on which the modification is proposed to become effective and the reasons for such modification. HM Treasury will consult RBS (and any other participants who may accede to the APS) in good faith in relation to the proposed modification with a view to agreeing the proposed modification, the modification effective date, and determining and identifying any consequential matters arising from the proposed modification. RBS is entitled to object to any part of the proposed modification and any consequential matters arising from the proposed modification, including to propose an alternative modification. HM Treasury is obliged to consider any such objection or alternative suggestions from RBS (and any other participants who may accede to the APS), although it is not obliged to take them into account.

The modification rights arise where:

- the operation, interpretation or application of such Conditions conflicts with any of the overriding Scheme Principles (set out in Condition 2);
- Conditions contain a manifest error; or
- it is necessary to modify such Conditions to take account of any change in applicable law.

HM Treasury's modification rights are not permitted to be exercised if: (i) the proposed modification is inconsistent with any of the Scheme Principles; or (ii) following HM Treasury's consultation with the FSA, the FSA has formally notified HM Treasury that the proposed modification would be expected to result in any protection provided to RBS's Group under the APS ceasing to satisfy the BIPRU eligible risk mitigation techniques requirements; or (iii) HM Treasury has not considered in good faith or had regard to any submissions, communications or representations of or made by RBS regarding the anticipated impact of the proposed modification under any non-UK capital adequacy regime, which is binding on RBS or a Covered Entity.

Broadly, the Conditions to which the modification rights apply in the context described in sub-paragraph (i) above are limited to: (i) the Asset Eligibility Criteria and the operative Trigger, Loss, Recovery and payment mechanics; (ii) the Asset Management Conditions (except the Asset Management Objective and the Prohibited Conduct provisions); and (iii) the conditions covering Step-In Rights.

Broadly, the Conditions to which the modification rights in sub-paragraphs (ii) and (iii) apply include all provisions other than the overriding Scheme Principles themselves and HM Treasury's transfer rights (see *Transfer Rights* above and Conditions 41 and 47).

Announcements

The Conditions (as set out in Condition 44) provide for certain restrictions on the form and substance of announcements or public statements made by RBS plc and RBS's group in relation to the APS or to HM Treasury in connection with the APS ("**APS Statements**") without HM Treasury's consent.

Generally, prior to making any APS Statements which are required by law or regulation, RBS plc (or the relevant member of RBS's group) must notify HM Treasury and allow HM Treasury sufficient time to review and comment. RBS plc (or the relevant member of RBS's group) is then required to reflect any such comments except where to do so would not be permitted by law, would conflict with directors' fiduciary duties, would be inaccurate or misleading or where the comments reflect a disagreement between RBS and HM Treasury. As an exception to this regime, post-notification of such statements is permitted if the relevant statement must be made urgently such that prior notification to HM Treasury is not reasonably practicable.

Where APS Statements are not required by law or regulation, HM Treasury retains an approval right in relation to such statements with the exception of unscripted oral statements (which are required to be consistent with other APS Statements).

RBS must also provide to HM Treasury an advanced draft of any material financial announcement in relation to the RBS group.

Confidentiality Obligations

Under the Conditions (and as set out in Condition 42), RBS and HM Treasury are obliged to keep "**Confidential Information**" which they or their representatives receive from the other under the APS documents or in connection with the APS (or any information relating to negotiations, discussions or correspondence regarding the APS) confidential, subject to certain exceptions. The exceptions which apply to HM Treasury allow it to disclose such Confidential Information to its representatives , the FSA, the Bank of England, the National Audit Office, the National Archive, the Cabinet Office, HMRC and other government entities (or any of their successors), or to Parliament, any Parliamentary Committee, or otherwise, or to any third party where it is necessary or HM Treasury reasonably considers it necessary to enable it to fulfil certain purposes as summarised in the fifth bullet point under *Monitoring, Reporting and Provision of Data* above (refer also to Condition 42). In the case of any disclosures to another government entity (or any of its successors), these may also be made for these entities' purposes rather than those of HM Treasury.

In addition to the exceptions outlined above (and in Condition 42), HM Treasury may also disclose such Confidential Information: (i) where required by applicable law, the rules of the Bank of England or any authority to which HM Treasury is subject; or (ii) to Step-In Managers (or proposed Step-In Managers) or the European Commission (where HM Treasury considers it necessary in connection with the application of the State aid rules or an EC decision relating to those rules for State aid purposes). Although HM Treasury has a duty to notify or consult with RBS in certain limited situations (i.e. disclosures to Parliament, a Parliamentary Committee or the European Commission) prior to disclosure, RBS does not have the right to prevent such disclosure.

Any information received by HMRC from HM Treasury as set out above may be held, retained or disclosed by HMRC as if it had been obtained by HMRC in accordance with applicable law. Pursuant to the Tax Loss Waiver, RBS has consented to the disclosure of certain information concerning RBS plc or its subsidiaries held by or on behalf of HMRC to HM Treasury, which information is subject to the confidentiality obligations under the Conditions described above.

HM Treasury may publish RBS Confidential Information pursuant to its publication scheme (which allows it to publish information on its website), whether or not it receives a request for that information under the Freedom of Information Act 2000, but in deciding whether to publish RBS Confidential Information in this way HM Treasury must have due regard, in its sole opinion, as to whether such information would be exempt from disclosure under that Act. Such publication would not be in breach of HM Treasury's duty of confidence.

RBS is permitted to use and transfer HM Treasury Confidential Information to its representatives and other members of the RBS group for the purpose of complying with its responsibilities and obligations and exercising its rights, powers and discretions under the APS. RBS may also disclose such information where required to by applicable law, the rules of the Bank of England or any authority, clearing system or securities exchange to which RBS is subject. RBS is obliged to consult with HM Treasury prior to any such disclosure and to limit that disclosure to the portion of the HM Treasury Confidential Information required to be disclosed.

Confidentiality provisions under the Conditions remain in force even when RBS ceases to be a participant in the APS. Unless required by applicable law, RBS must ensure that none of its group or representatives will allow an obligor or counterparty to discover whether its asset is part of the APS or not.

C Asset Protection Agency framework document

1 Introduction

This Framework Document has been drawn up by the Treasury. It describes:

- the status and structure of the Asset Protection Agency (the "APA");
- the objectives and overall responsibilities of the APA;
- the responsibilities of the Chief Executive of the APA;
- the relationship between the APA and the Treasury (including the Chancellor of the Exchequer, Treasury Ministers and the Principal Accounting Officer) and Parliament; and
- certain ancillary matters relating to the operation of the APA.

The APA is part of the Treasury and was established as an executive agency to operate the Asset Protection Scheme (the 'Scheme') which was announced by the Treasury on 19 January 2009. The APA was launched on 7th December 2009.

The objectives of the Scheme are to support the stability of the UK financial system, increase confidence and capacity to lend, and thus support the economy by protecting financial institutions participating in the Scheme against exceptional credit losses on certain portfolios of assets.

The APA is located in the City of London and is expected to have around 50 staff.

The APA website is to be found on the Treasury's main website at www.hm-treasury.gov.uk/APA.

The Minister ultimately responsible for the APA is the Chancellor of the Exchequer. He is supported by the Financial Services Secretary to the Treasury.

2 Function and responsibilities of the APA

The main function of the APA is to operate the Scheme on behalf of the Treasury.

The APA's principal responsibilities are:

A) ensuring that each participating financial institution complies with the terms and conditions attaching to its participation in the Scheme, including through:
   - proactive and timely exercise of the Treasury's rights under the Scheme; and
   - engagement with participating financial institutions to determine appropriate asset management strategies for covered assets.

B) forecasting potential future payouts under the Scheme; and

C) verifying losses and recoveries on covered assets and advising the Treasury on any payments to be made under the Scheme.

Under the terms and conditions of the Scheme, participating financial institutions are required to manage and administer covered assets (and certain related assets) in accordance with a specified asset management objective. This objective is to maximise the net present value of the relevant assets, including by minimising losses and potential losses and maximising recoveries and potential recoveries in respect of them.

In exercising on behalf of the Treasury any of the approvals, consents or interventions given to the Treasury under the Scheme that relate to the management of covered assets, the APA makes its decisions in furtherance of the specified asset management objective. The primary objective in making these decisions is to achieve the best financial outcome reasonably possible. If at any stage, the APA becomes aware that the Accounting Officer's duty to achieve the best outcome for the public sector conflicts with this, the APA should alert the Treasury and seek to resolve the issue with the Treasury's Principal Accounting Officer.

The APA should keep the Treasury in touch with significant developments that could affect future payouts under the Scheme and operate so as to avoid surprises as far as possible.

The APA may also be required from time to time to provide advice on other aspects of the Treasury's business.

3 Key target areas

HMT will set the strategic objectives of the APA and agree financial and performance targets with the APA. These objectives and targets will be published in the APA's Business Plan (as referred to in Section 11 of this Framework Document).

Through effective management of the Scheme the APA will be supporting the Treasury's Departmental Strategic Objectives to maintain sound public finances and ensure high and sustainable levels of economic growth, well-being and prosperity for all.

The APA will provide such management information as deemed necessary to allow the Treasury to manage its performance

4 Roles and relationships

The Chancellor of the Exchequer will determine the policy and financial framework within which the APA operates. He/she will also agree the strategic objectives, and the key financial and performance targets for the APA and approve the Business Plan (as referred to in Section 11 of this Framework Document) and will make adjustments to this document or make other directions if following monitoring of the APA's activities and decisions he/she deems this necessary. The Chancellor is also ultimately responsible for any public communication and reporting in relation to the Scheme.

Certain significant decisions relating to the Scheme will require approval of the Chancellor or Treasury Ministers to whom the Chancellor has delegated authority, including:

- participation in the Scheme;
- termination of a participating financial institution's participation in the Scheme; and
- any purchase by the Treasury of assets from participating financial institutions;

Such decisions will be taken following consultation by the Chancellor or Treasury Ministers with Treasury Permanent Secretary, the Chief Executive of the APA and Treasury officials.

The reservation to the Chancellor or Treasury Ministers of certain decision making powers under the terms and conditions of the Scheme will not affect the validity of any decision or action taken by the APA, which will be binding on participating financial institutions.

The Chancellor will not be involved in day-to-day management of the APA and has delegated the day-to-day management of the APA and operational decisions relating to the Scheme to the Permanent Secretary to the Treasury. The Permanent Secretary has further delegated this responsibility to the Chief Executive of the APA.

The Chancellor will exercise his/her responsibilities by:

- agreeing this Framework Document and any revisions to it;
- approving the strategic objectives for the APA;
- approving the APA's Business Plan, including the key performance targets and any necessary in-year revisions following consultation with both Treasury officials and the Chief Executive of the APA;
- monitoring of the APA's performance against targets (financial and non-financial);
- taking certain decisions relating to the Scheme that have been reserved by the Treasury; and
- approving any communication or disclosure to Parliament or the wider public, including of the APA's annual report and accounts, except where this responsibility has been delegated to the Chief Executive of the APA.

The Chancellor may delegate some or all of these responsibilities to a Treasury Minister or Ministers.

The Chief Executive of the APA and other members of the senior management team and the APA's Board will meet the responsible Treasury Minister(s) at least once a year to agree the APA's objectives and financial and performance targets which are to be included in the Business Plan and discuss performance, risks and such other issues as might be appropriate at the time.

The Chief Executive of the APA will have the right of direct access to the responsible Treasury Minister(s).

Treasury Sponsorship

The Director of the International and Finance Directorate responsible for Financial Stability sponsors the Scheme. He/she is to be supported in this role by the APS Sponsorship Team.

The Treasury will:

- advise Treasury Ministers on the strategic direction of the APA in the context of wider Treasury or cross-governmental objectives;
- ensure that procedures are in place to exercise meaningful oversight of the APA's strategy and performance;
- advise Treasury Ministers in relation to decisions that have been retained by Treasury Minister;
- advise Treasury Ministers on their response to the APA's performance;
- advise Treasury Ministers on public communications and reporting matters relating to the Scheme; and
- ensure that the APA has the delegations and authorities necessary for effective delivery of its Business Plan and continuous improvement.

The APS Sponsorship Team will implement procedures to ensure that they receive all information required to monitor the performance and effectiveness of the APA.

Chief Executive

The Chief Executive of the APA is responsible for delivering the APA's remit, as outlined in this Framework Document and the APA's Business Plan, in a way that he/she judges will deliver value for money. This role is to be undertaken in a manner which is compatible with the terms and conditions of the Scheme.

Day-to-day management of the APA is delegated to the Chief Executive who is appointed by the Treasury.

The Chief Executive is accountable to the Treasury for the APA's performance, and specifically for:

- acting as Accounting Officer for the APA;
- reporting regularly to the Treasury and other stakeholders as agreed with the Treasury on compliance by participating financial institutions with their obligations under the Scheme and on the Treasury's exposure under the Scheme;
- meeting the objectives set for the APA;
- advising the Treasury on any decisions that need to be made relating to the Scheme that have been reserved by the Treasury;
- managing the APA's resources efficiently and effectively within an agreed budget;
- achieving the APA's agreed financial and performance targets;
- preparing the APA's Business Plan and agreeing it with the Treasury;
- reporting on and accounting for the APA's performance; and
- acting as the APA's representative on all relevant Treasury Committees. The Chief Executive can delegate responsibility for attending these committees to other staff members of the APA.

The Chief Executive of the APA will report to the Second Permanent Secretary of the Treasury. The Second Permanent Secretary of the Treasury will act as the sponsor of the APA on the Treasury's Board.

Management of the APA

The APA will have a Board to advise its executive management on all strategic operational and management issues pertaining to the achievement of the APA's objectives and fulfilment of its responsibilities. Responsibility for all decisions taken by the APA remains with the Chief Executive of the APA. The APA Board is advisory; it has no statutory function. It works with the Chief Executive to develop corporate policy, ensure good governance and monitor performance.

Members of the APA's Board will be appointed by the Treasury Permanent Secretary, in line with applicable HM Treasury and Cabinet Office guidance, acting on the recommendation of the Chief Executive of the APA. The Board is expected to consist of:

- a number of independent members, one of whom acts as Chairman;
- senior representatives from the Treasury
- the Chief Executive of the APA; and
- other senior executives of the APA, including, as required by Treasury guidance for all public bodies, a finance director or other named director fulfilling the responsibility of finance director who holds professional qualifications from a recognised accounting body.

The Board will normally meet at least quarterly, or more often as required. Its meetings will be chaired by the Chairman. The Board may designate other Committees of the Board as it determines appropriate. These will include:

- an Audit and Risk Committee with responsibility for developing and maintaining a sound system of internal control to support the achievement of the APA's objectives and responsibilities as set out in Section 13; and
- a Remuneration Committee to provide advice on remuneration arrangements and terms and conditions for the staff of the APA as set out in Section 14.

5 Accounting Officers

Principal Accounting Officer

The Permanent Secretary to the Treasury is the Treasury's Principal Accounting Officer. As such he/she is the Accounting Officer for the Treasury's Administrative Vote, for the Consolidated Fund and for the National Loans Fund. He/she is the principal adviser to Treasury Ministers and is responsible for ensuring a high standard of financial management throughout the Treasury. The Permanent Secretary also advises Treasury Ministers on Treasury policy in relation to the Scheme, including the operation of the APA, the setting of appropriate financial and performance targets, resource levels, accountability, propriety and regularity. He/she must be satisfied that the APA has adequate financial systems and procedures in place to promote the efficient and economical conduct of its business, and to safeguard financial propriety and regularity.

Chief Executive

The Chief Executive of the APA is responsible for the day-to-day management of the APA and is responsible to Treasury Ministers and accountable to Parliament for the APA's performance and operations in respect of the APA's administrative costs.

The Permanent Secretary has designated the Chief Executive as the APA's Accounting Officer. His/her responsibilities in this respect, including responsibility for the propriety and regularity of the public finance for which he/she is accountable and the keeping of proper records, are set out in chapter 3 of "Managing Public Money". The Permanent Secretary delegates certain financial powers to the Chief Executive through a formal delegation letter, updated from time to time. The current letter is at Annex A.

The Chief Executive is further responsible for ensuring that the requirements of Managing Public Money are met, that the APA observes the general guidance issued by the Treasury and the Cabinet Office, and for putting into effect any other government policies notified to him/her. Both the Principal and the Agency Accounting Officers may be summoned to appear before the Committee of Public Accounts or other Parliamentary select committees at hearings when matters concerning the APA are being discussed.

6 Relationship with other bodies

The APA will respond constructively to relevant initiatives from elsewhere in Central Government and other public bodies. These may include, for example, working with the Financial Services Authority, the Bank of England and others as required to enable the APA to achieve its objectives and fulfil its responsibilities as outlined in this Framework Document.

7 Relationship with Parliament

Treasury Ministers remain accountable to Parliament for the work of the APA. Treasury Ministers are responsible for all matters concerning the policy framework within which the Scheme operates (including the terms and conditions on which participating financial institutions accede to the Scheme), certain decisions relating to the Scheme requiring ministerial approval, other policies relevant to the operation of the APA, for determining the APA's strategic objectives and for approving its annual financial and performance targets.

The Chief Executive of the APA may be summoned to attend as a witness with the Principal Accounting Officer of the Treasury and/or other Treasury officials or to provide written evidence to a hearing of the Committee of Public Accounts (PAC) to give evidence on the discharge of his/her responsibilities as an Accounting Officer.

The Chief Executive of the APA may also be summoned to attend as a witness or to provide written evidence to a hearing of the Treasury Select Committee or other Select Committees of Parliament.

Members of Parliament may write directly to the Chief Executive on issues relating to the Scheme or APA operational issues. Treasury Ministers may ask the Chief Executive to write to MPs in response to written Parliamentary Questions and individual letters about matters assigned to them. The Chief Executive’s letters in reply to written Parliamentary Questions will be published in the Official Report.

The Chief Executive is to provide Treasury Ministers with any information needed to answer Parliamentary Questions or deal with other Parliamentary business.

8 Relationship with participating financial institutions

The Chief Executive is responsible for all communication with participating financial institutions in relation to the operation of the Scheme and will ensure that procedures exist to ensure effective communication with such organisations.

The Chief Executive will also ensure that the APA adopts appropriate procedures for managing conflicts and inside information. In particular, s/he will ensure that robust guidelines are established such that the APA respects confidentiality in relation to information on assets covered by the Scheme, including in relation to information provided to the Treasury on assets covered by the Scheme.

9 Corporate services policy

The APA will put in place corporate services policies to cover finance and procurement, human resources, health and safety, correspondence and enquiry handling, information management and security and other areas as it judges appropriate to its business needs.

Unless agreed otherwise with the Treasury, these corporate services policies will be in line with the Treasury’s policies in these areas.

10 Financial arrangements

The budget of the APA will be prepared on an annual basis by the APA, submitted to the relevant Treasury Committee via the APS Sponsorship Team for agreement and subject to approval by the Principal Accounting Officer of the Treasury and Treasury Board. Once agreed it forms one section of the Treasury’s Request for Resources as presented to Parliament. The APA is subject to both gross and net running cost controls.

The APA is also expected to participate in the in-year forecasting exercises for Treasury Group Finance. This will require the APA to provide updated losses and cashflow forecasts as required by Treasury Group Finance for these exercises. Typically this will be at the end of months 5 and 7.

The APA is responsible for assessing its medium and long-term resource requirements and the scale and profile of losses under the Scheme to inform spending review discussions and public spending plans.

The Chief Executive of the APA otherwise has full financial authority within the budget allocated, provided that relevant expenditure is undertaken in accordance with the Business Plan.

It is expected that the Treasury will recharge participating financial institutions for all ongoing costs associated with the Scheme.

11 Business Plan

The APA's Board is responsible for the preparation on an annual basis of a twelve-month Business Plan. This contains the forward-looking aims, objectives and targets for the APA across all its business activities. The APS Sponsorship Team will guide the APA in the preparation of the Business Plan. The APA's Business Plan will be subject to Treasury approval. Once approved, the Business Plan will be published, subject to the redaction of any commercially sensitive information.

The Business Plan will identify how the APA intends to meet its strategic objectives and fulfil its responsibilities against a changing background. It will include the activities, priorities and tasks that the APA has identified for the coming year and how resources will be allocated accordingly to meet the APA targets. The Business Plan will also set out any initiatives that the APA proposes to take for the duration of the Business Plan.

12 Annual report and accounts

The APA is to prepare and publish an Annual Report and Accounts each year which will be laid before Parliament by the Treasury. Each Annual Report and Accounts will be produced as a single document and prepared in accordance with the Government Financial Reporting Manual.

The Annual Report and Accounts must contain:

- details of the APA's performance against targets for the year;
- details of the APA's progress towards its strategic objectives;
- a summary of the APA's activities during the year;
- an update on compliance by participating financial institutions with the terms and conditions of the Scheme;
- financial information about the operation of the APA and the Scheme; and
- any other issues that the Treasury or the APA deem appropriate.

The APA will use the existing Treasury accounting system (and HR system where relevant), supplemented by systems required to provide database and reporting functionality. The APA Accounts will be consolidated into the Treasury Group Accounts and its accounts will be signed off by the relevant Treasury Committee

13 Audit

Treasury Group Internal Audit will be responsible for internal audit of the APA.

The APA's accounts will be subject to external audit by the Comptroller and Auditor General.

The relevant Treasury Committee will scrutinise the APA's accounts, as part of its remit to scrutinise all Treasury Group accounts.

14 Risk Management

The APA Board is required to designate a Risk Committee with responsibility for developing and maintaining a sound system of internal control to support the achievement of the APA's objectives and responsibilities. This system of internal control must include procedures for identifying, prioritising and addressing the principal risks that will be faced by the APA in fulfilling its objectives.

The Risk Committee will be responsible for reviewing and monitoring the APA's risk register, on advice from the relevant Treasury Committee.

APA will provide any reasonable input necessary to support the Treasury's management of its balance sheet risks. This will include providing the risk register to the Treasury at least quarterly.

15 Human Resources

The overall remuneration policy for the APA's Chief Executive, Board and other staff will be set by the relevant Treasury committee.
The setting of the remuneration policy, and any subsequent amendments to it, will be made only after consultation with the Chief Executive of the APA and the APS Sponsorship Team.

The Chief Executive of the APA will be responsible for setting the APA's other human resources policies and managing the staff of the APA. The Chief Executive of the APA has delegated authority for setting individuals' pay, pay bargaining and setting terms and conditions within the parameters of the remuneration policy.

The Remuneration Committee is a committee of non-executive directors from the APA's Board. This committee recommends to the Chief Executive the remuneration arrangements for APA staff within the overall remuneration policy set by the relevant Treasury Committee. The Chief Executive's remuneration package is set by the Treasury.

The APA will have a staff handbook setting out the terms and conditions of employment at the APA.

The APA's human resources policies (including with respect to remuneration) will be designed to:

- recruit, retain and motivate staff;
- be appropriate to the APA's requirements;
- recognise the specialist skills and expertise required by the APA to fulfil its function; and
- be consistent with the Civil Service Management Code.

The APA will provide appropriate training to help staff develop their professional effectiveness and personal skills generally.

Notwithstanding the Chief Executive's delegated authority, the APA will operate in accordance with Treasury HR policies on conduct, discipline, attendance management, equal opportunities and health and safety.

The Treasury may participate in recruitment boards for senior management positions within the APA (that is, for senior management of the APA and non-executive board members of the APA). The APA will hold discussions with the head of the APS Sponsorship Team prior to initiating recruitment for senior management positions.

All permanent staff will be civil servants. They will be subject to the usual disciplines on outside appointments and use of official information. The Treasury's policies on compliance, fraud prevention and whistle blowing will also apply along with Cabinet Office rules on data handling. In addition, the APA will develop guidance relating to personal transactions in listed securities and conflicts of interest which will be mandatory for all employees of the APA.

16 Review arrangements

In line with guidance on reviewing executive agencies, the APA's high-level objectives, structures and processes will be integrated into future Treasury reviews of economic stability.

A review of this Framework Document will be conducted by the Treasury by no later than March 2011 and annually thereafter. This Framework Document will be amended to reflect any recommended changes arising out of such review following consultation between the APA, the Treasury and the Cabinet Office.

Any amendments to this Framework Document, whether proposed before the next review or otherwise, must be approved by the Treasury.

17 Publication

Copies of this Framework Document and any subsequent amendments will be placed in the libraries of the House of Parliament and can be obtained from the APA at Asset Protection Agency, 5th Floor, Eastcheap Court, 11 Philpot Lane, London EC3M 8UD. The Framework Document is also available on the APA's website.

HM Treasury contacts

This document can be found in full on our website at:
hm-treasury.gov.uk

If you require this information in another language, format or have general enquiries about HM Treasury and its work, contact:

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