RBS RSP ASSET SECURITY STATEMENT:

Background

The RSP was established by the Royal Bank of Scotland Group now National Westminster Bank (the "**Bank**") in 2006 to provide retirement savings for employees (and former employees). The RSP is set up as a trust, so that the assets of the RSP (essentially, our members' aggregate savings) are looked after by a board of trustees (the "**Trustee**").

The RSP's assets are presently invested by the Trustee through a policy with Legal & General. For historic reasons, a very small proportion of the RSP's assets are invested with Standard Life (now part of Phoenix Group). Both Legal & General and Standard Life are major insurance companies with established businesses in pensions investment.

A strict legal & regulatory regime exists to protect the RSP's assets, supported by further measures taken by the Trustee and Legal & General. This asset security statement is designed to summarise the applicable protections. This is an extremely complicated area which we have simplified for our members below.

Scheme-level protections

The Trustee has a broad duty to act in the best interests of members and other beneficiaries. More particularly, the Trustee must operate in a strict legal & regulatory environment overseen by the Pensions Regulator.

The Pensions Regulator is the UK regulator of work-based pension schemes. Its objectives include improving confidence in pensions by protecting members' benefits and encouraging high standards in the way pension schemes are run.

There are, however, risks associated with investment of any kind. The value of member savings can go down or up depending on the way investments perform but protections include:

- Diversification to guard against members having "all of their eggs in one basket"; and
- Lifestyling arrangements to gradually reduce the risk of losses in the run up to retirement.

More information about the how the Trustee approaches investment and manages risk can be found in the Statement of Investment Principles.

The trust structure also ensures that the RSP's assets are held separate to those of the Bank. In the very unlikely event that the Bank encounters financial difficulties, pension savings in the RSP are protected from the Bank's creditors.

Investment-level protections

The Trustee currently invests member savings and new contributions in a unit-linked insurance policy issued by Legal & General Assurance Society Limited ("**LGAS**"). LGAS then invests in a unit-linked reinsurance policy with Legal and General Assurance (Pensions Management) Limited ("**PMC**"). In turn, PMC invests in a range of underlying assets.

LGAS and PMC form part of Legal & General's wider pensions and investment business, which is responsible for investing more than a trillion pounds worldwide.

It is possible that some part of the RSP's investment with Legal & General could, in extreme situations, be impacted by failure within this structure, but there are considerable protections from a combination of sources. These are monitored from time to time by the Trustee and the current position is set out below.

- **Investment structure**

  The respective obligations of LGAS and PMC are linked to the value of the underlying assets they each hold. In short summary, this means there should be a very low risk of default in either case.

  Legal & General Investment Management Limited ("**LGIM**"), on behalf of PMC, undertakes securities lending. The programme is managed and administered by the custodian of the funds (Citibank) as securities lending agent ("**Lending Agent**"), overseen by LGIM, and operates within risk control parameters set by LGIM. We understand that:

  - all loaned securities are covered by high quality and liquid collateral, received from the relevant borrower under a title transfer arrangement with a market value at all times equivalent to the market value of the securities lent plus an appropriate margin;
  - the programme has an indemnity from the Lending Agent; and
  - in the event a borrower fails to return loaned securities and proceeds from the sale of non-cash collateral proves insufficient, the Lending Agent is obliged to, at its own expense, pay such additional amount as is necessary to make up the shortfall but there is a risk that the Lending Agent becomes insolvent and is unable to meet this obligation).

- **Capital reserves**

  A division of the Bank of England known as the Prudential Regulation Authority is responsible for ensuring that investment providers like Legal & General act safely and reduce the chance of getting into financial difficulty.

  This includes a requirement to hold substantial amounts of capital to cover obligations in the event of any failure. Both LGAS and PMC are subject to minimum capital reserving requirements (which the former has exceeded).

- **The Financial Services Compensation Scheme**

  If LGAS were to fail, then the Trustee would have a call on the Financial Services Compensation Scheme (the "**FSCS**").

  The FSCS is a statutory compensation scheme of last resort for clients of authorised financial services firms who have suffered financial loss where a firm is unable or unlikely to meet its obligations.

  The general expectation is that, under FSCS rules, compensation would cover up to 100% of losses. However, we are not aware of this being tested in practice and there remains some uncertainty.

  Compensation would not be available if PMC were to experience financial difficulties. Hence additional measures (below) are in place.

- **Additional measures**

  In addition to the protection provided by the FSCS, certain contractual arrangements and legal structures have been adopted by Legal & General. These include discretionary commitments from within Legal & General to support PMC in the event of any failure.

In the event of any failure in the underlying assets owned by PMC under the reinsurance policy, PMC, as the investor, would seek to maximise recoveries from the failure.

The very small proportion of the RSP's assets currently invested with Standard Life benefit from broadly similar protections.

The structure of the RSP's investments and the combination of protections, is expected to leave members in no better or worse a position than other similar types of savings vehicles.

Retirement / Transfer

The position above just relates to the assets of the RSP. If you transfer your money to another pension scheme or purchase a retirement product (such as an annuity), then the protections will be different.

An explanation of the applicable protections should be found in the relevant scheme or product literature.

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