

ASSET PROTECTION SCHEME (“APS”)

CONFLICTS MANAGEMENT POLICY

To: **APS Personnel/SOC**
RBS Group Exco/Manco

This document constitutes the Conflicts Management Policy applicable to The Royal Bank of Scotland plc’s (“**RBS**”) participation in the APS as referred to in the APS Terms and Conditions published by Her Majesty’s Treasury (the “**Treasury**” or “**HMT**”) on 7 December 2009 (as amended, modified, supplemented or replaced from time to time, the “**Conditions**”).

This document is a Scheme Document.

1. INTRODUCTION

A Conflict under the APS means any actual or potential conflict (whether in respect of assets, exposures, rights, interests, duties, liabilities, obligations, risks or otherwise) between:

- (A) (i) the Treasury in its capacity as provider of credit risk protection to the RBS Group pursuant to the APS (including where such conflict arises with respect to full compliance with the provisions of the Scheme Documents); and
 - (ii) any member of the RBS Group; or
- (B) (i) any member of the RBS Group with respect to a Protected Asset (including where such conflict arises with respect to full compliance with the provisions of the Scheme Documents); and
 - (ii) any member of the RBS Group with respect to (a) an asset, exposure, right, interest, duty, liability, obligation or risk (including a Related Party Asset) which does not comprise a Protected Asset or (b) any business, activity or operation or proposed business, activity or operation of member of the RBS Group.

This Conflicts Management Policy sets out details of the systems, controls and processes which the RBS Group has put in place to avoid Conflicts where possible and to identify as early as possible, monitor, manage and mitigate Conflicts in conducting the Management and Administration of the Protected Assets and Related Party Assets and to prevent conduct (whether in relation to a Protected Asset, a Related Party Asset or otherwise) which is intended to circumvent or otherwise avoid (or has the effect of circumventing or otherwise avoiding) the application of this Conflicts Management Policy.

*** Indicates omitted material.

For the avoidance of doubt, this Conflicts Management Policy also applies to relationships where the Obligor in respect of a Protected Asset is also a supplier to the RBS Group.

2. DEFINITIONS AND INTERPRETATIONS

Definitions are set out in Schedule 1. Capitalised terms used but not defined in this Conflicts Management Policy have the meanings given to them in the Conditions. Any questions on definitions and interpretation of this Conflicts Management Policy should in the first instance be referred to the relevant APS Compliance Head.

3. APS OBLIGATIONS

Under the Conditions, RBS Group has agreed with HMT that it will avoid Conflicts where possible and will identify as early as possible, monitor, manage and mitigate Conflicts that could arise in the operation of the APS. In addition, RBS Group has agreed with HMT that it will prevent conduct which is intended to circumvent or otherwise avoid (or which has the effect of circumventing or otherwise avoiding) this Conflicts Management Policy.

The purpose of this Conflicts Management Policy is to establish mandatory rules for the conduct of the Representatives of members of the RBS Group to ensure that conduct in respect of the Protected Assets, Covered Assets and Related Party Assets is in compliance with RBS Group's obligations under Condition 10 and that relevant matters are recorded in the Conflicts Log referred to in paragraph 11.2 below.

4. NATURE OF CONFLICTS/RBS CONFLICTS POLICY/ASSET MANAGEMENT OBLIGATIONS

The Conflicts management obligations arising from the Conditions create contractual obligations for the RBS Group which are different to regulatory obligations to manage conflicts. (See Appendix 2 for existing regulatory structural conflicts and conflicts management processes.)

This Conflicts Management Policy operates in addition to the existing compliance and control procedures/policies in place within RBS Group ("**RBS Compliance Policies**") that ensure compliance with applicable law. The RBS Compliance Policies remain in full force and effect and are applicable to both Protected Assets and non-Protected Assets (including Related Party Assets or otherwise).

The Conditions include specific obligations in relation to the management of Conflicts and additional conduct-related obligations, including obligations that require the RBS Group to ensure that the Protected Assets are not Managed and Administered in a manner that discriminates against or is prejudicial to (or has a disproportionate and adverse effect on) those assets compared to the management of non-Protected Assets (Condition 10.8 (C)). This Conflicts Management Policy forms part of the Asset Management Framework designated by RBS Group and the Treasury for the purposes of the Conditions and addresses the requirements of certain provisions of Condition 10 (Asset Management).

5. MANAGING CONFLICTS: METHODOLOGIES AND PROCEDURES – GENERAL

5.1 ASSET MANAGEMENT CONDITIONS

All Conflicts must be monitored, managed and mitigated in a way which complies with Condition 10 and, in particular, each Conflict must be managed (regardless of whether such management is undertaken by a member of the RBS Group or by a Representative of a member of the RBS Group) at all times and in all respects in accordance with Condition 10.8 (including the Asset Management Objective) but only in so far as is necessary to ensure that the Protected Assets are Managed and Administered in accordance with Condition 10.8 (including the Asset Management Objective).

5.2 BLIND POOL ASSETS

The sections of this Conflicts Management Policy that deal with sighted processes will not apply to Blind Pool Assets.

- (A) The Scheme Head will ensure that information handling procedures and controls are in place within RBS Group to ensure that Blind Pool Personnel do not know (and are not authorised to access any information which will enable them to determine) whether or not the assets or exposures they are responsible for form part of a Covered Asset, Protected Asset or Related Party Asset. The APS Compliance Officers for Blind Pool Assets will be responsible for ensuring the information procedures and controls described in Appendix 1 Part A (and such other information procedures and controls as the Scheme Head or the SOC determines are necessary from time to time to ensure compliance with Condition 10), are implemented, maintained and monitored and these steps are evidenced and records of such monitoring are maintained.
- (B) If it is apparent to an APS Compliance Officer that in relation to a particular Covered Asset, Protected Asset or Related Party Asset any Blind Pool Personnel have become aware that the relevant asset or exposure (or any part of that asset or exposure) is a Covered Asset, Protected Asset or Related Party Asset, that APS Compliance Officer will ensure that: (i) a copy of this Conflicts Management Policy is promptly sent to the relevant personnel; (ii) the relevant personnel receive training of the type referred to in paragraph 10 below; and (iii) the relevant personnel are required to comply with this Conflicts Management Policy as if they had Sighted Management of the relevant Covered Asset, Protected Asset or Related Party Asset (or any part thereof).

If there are any concerns that the integrity of a Blind Pool Asset may have been compromised, this must be escalated by the relevant APS Compliance Officer to the Scheme Head for consideration and resolution in accordance with the escalation process set out in Part D of Appendix 1 below. Actions must be taken to determine how information barriers or other segregation measures were breached and (if required) what remedial actions must be taken in order to preserve the integrity of the remaining Blind Pool Assets and to prevent the occurrence of other breaches. This may require changes of processes, systems and controls depending on the circumstances of the breach. If Blind Pool Personnel Managing and Administering a Blind Pool Asset become aware that a relevant asset or exposure (or any part thereof) is a Covered Asset, Protected Asset or Related Party Asset, such person(s) must be issued with this Conflicts Management Policy.

5.3 PUBLICLY TRADED SECURITIES

RBS Group will not be required to ensure that the management of a Conflict is undertaken so as to ensure that Related Party Assets are Managed and Administered in accordance with the Asset Management Objective if and to the extent that (and only for so long as):

- (A) the Conflict has arisen in respect of assets or exposures which are, publicly traded securities; and
- (B) the personnel who Manage and Administer the assets and exposures in respect of which the Conflict has arisen are required by applicable law to be segregated by a Chinese Wall or similarly effective measure from the personnel who Manage and Administer the Protected Assets.

However, in respect of any such Conflicts, it will nonetheless be necessary for such a Conflict; (i) to be managed by the RBS Group in accordance with the rest of Condition 10; and (ii) in accordance with RBS Compliance Policies and, if necessary, refer to Group Regulatory Risk for advice.

In addition, if there are any concerns that the integrity of the segregation measures described in (B) above may have been compromised, such matters must be escalated by the relevant APS Compliance Officer to the Scheme Head for consideration and resolution in accordance with the escalation process set out in Part D of Appendix 1 below. Actions must be taken to determine how information barriers or other segregation measures were breached and (if required) what remedial actions must be taken in order to preserve the integrity of the remaining assets and exposures of a type referred to in paragraphs (A) and (B) above and to prevent the occurrence of other breaches. This may require changes of processes, systems and controls depending on the circumstances of the breach. If personnel Managing and Administering publicly traded securities falling within paragraph (B) above become aware that a relevant asset or exposure (or any part thereof) is a Covered Asset, Protected Asset or Related Party Asset, such personnel must be issued with this Conflicts Management Policy.

5.4 SIGHTED MANAGEMENT

All Protected Assets and Related Party Assets (that are not Blind Pool Assets) will be “**Sighted Assets**” and shall, subject to paragraph 5.3 above, be Managed and Administered in accordance with the information and controls procedures set out in Appendix 1 and in accordance with the following procedures:

- (A) As soon as reasonably practicable following the identification of a Conflict, all proposals for the sale, restructuring or other conduct with respect to the relevant Protected Asset and (where relevant and as far as permitted by applicable law) any Related Party Asset will be referred by the relevant APS Approvers in accordance with the Credit Approval Process for consideration by the relevant APS Compliance Officer who will consider the terms of Condition 10 to determine whether a Conflict exists. (Refer to Appendix 1, part C, paragraph 4 for a non-exhaustive list of examples of scenarios in which a Conflict could potentially arise).
- (B) If the relevant APS Compliance Officer determines a Conflict exists, the APS Compliance Officer in conjunction with the responsible APS Approver will, without undue delay, promptly consider the terms of Condition 10 and determine whether the requirements of Condition 10, the Asset Management Framework and each other

relevant Condition will be complied with if the proposed course of conduct is executed (taking account of any available mitigants that are available at a commercially reasonable cost). Use of a mitigant will be discussed with HMT prior to doing so. If the APS Compliance Officer determines that the terms of Condition 10, the Asset Management Framework and each other relevant Condition would be complied with, the relevant APS Approver may, subject to compliance with the other requirements of the Asset Management Framework and applicable law, approve the proposed course of conduct and shall record in the Conflicts Log that a Conflict was identified and cleared and by whom and record reasonable details of the Conflict (having regard to the value of the assets or exposures to which the Conflict relates and the complexity of the Conflict), any mitigating factors taken into account and any additional processes established for managing that Conflict.

- (C) Where a Conflict exists and the relevant APS Compliance Officer believes Condition 10, the Asset Management Framework or any other relevant Condition may or would be breached by the proposed course of conduct (or would be breached if mitigating steps are not taken) the APS Approver will refer the Conflict to the Scheme Head in accordance with the escalation process detailed in Part E of Appendix 1. The Scheme Head will confirm to the relevant APS Compliance Officer and APS Approver whether the course of action can be taken (and whether any mitigating steps must be taken) and the relevant APS Compliance Officer will record the decision and its reasoning in the Conflicts Log.
- (D) Worked examples will be included in the training detailed in paragraph 10 to illustrate scenarios in which Conflicts may typically arise. (Refer to Appendix 1, part C, paragraph 4 for a non-exhaustive list of examples of scenarios in which a Conflict could potentially arise).

5.5 ENTERPRISE WIDE CONFLICTS – SENIOR MANAGEMENT RESPONSIBILITIES

The Conditions require a broad view to be taken on what could constitute a Conflict intra-RBS Group or between RBS Group and HMT. The provisions of this paragraph 5.5 apply to all businesses within RBS Group including those whose Protected Assets, Covered Assets and Related Party Assets are being Managed and Administered as Blind Pool Assets. Minutes of all meetings conducted pursuant to this paragraph 5.5 will be recorded in the Conflicts Log.

- (A) The Scheme Head has identified the businesses and operations listed in Appendix 2 as representing actual or potential Conflicts that are currently being monitored and managed under the existing RBS Compliance Policies (“**RBS Managed Conflicts**”).
- (B) Prior to RBS Group’s accession to the APS, the Scheme Head and representatives of Group Legal and Group Regulatory Risk will review the RBS Managed Conflicts to

assess whether they are being monitored, managed and mitigated in such a way as will comply with Condition 10 following the Accession Date.

- (C) Thereafter, the Scheme Head and representatives of Group Legal and Group Regulatory Risk will:
- (i) review the RBS Managed Conflicts on *** basis in the first year after the Accession Date and on *** basis thereafter to assess whether they continue to be monitored, managed and mitigated in such a way as will comply with Condition 10; and
 - (ii) assess any proposed changes to the Conflicts Management Policy before they are approved by RBS Group Risk and the SOC (subject to the Treasury's written approval).
- (D) If the Scheme Head determines that any RBS Managed Conflict is at any time not being monitored, managed and mitigated in such a way as to comply with Condition 10 or that changes assessed under paragraph C (ii) above will adversely impact the monitoring, management or mitigation of the relevant Conflict, then the Scheme Head will (as far as permitted by applicable law) take such steps and implement such mitigants as are necessary to ensure the relevant Conflict is monitored, managed and mitigated in such a way as to comply with Condition 10.
- (E) This paragraph (E) is subject to paragraph (F) below. ***
- (F) In connection with the APS, the RBS Group will be required to make a number of changes to its business (including disposals of assets and businesses) to comply with European State aid requirements. An RBS Group Member can implement any such European State aid requirements without complying with the provisions of this Conflicts Management Policy, but the RBS Group will advise HMT of any such actions which would otherwise be in breach of this Conflicts Management Policy.
- (G) Each Exco/Manco member will appoint Representatives from his or her area of responsibility to be responsible for meeting with Representatives of the Scheme Head on *** in the first year following the Accession Date and thereafter on *** to consider the application of the Conditions and this Conflicts Management Policy. The names of the relevant contacts will be recorded in the Conflicts Log. The purpose of the meetings will be to:
- (i) review any previously identified Conflicts (including those described in Appendix 2) to determine whether any agreed mitigants are operating effectively and modify them if necessary; and

*** Indicates omitted material.

- (ii) to consider any additional Conflicts that have arisen or been identified and whether they are avoidable and, if not, how they are being monitored, managed and mitigated and whether further mitigants are required.

If at any meeting conducted pursuant to this paragraph (G) any Conflict is determined to be material and not capable of effective mitigation the relevant Conflict will be referred to the Scheme Head and reviewed in accordance with paragraph 5.5(E) above.

5.6 TRANSACTIONS WITH FORMER SENIOR REPRESENTATIVES

If any member of the RBS Group is at any time considering any business, activity or operation in respect of any Covered Asset, Protected Asset or Related Party Asset which involves entering into a transaction or series of transactions (including any sale, transfer or other disposal of, or the outsourcing or other transfer of responsibility for the Management and Administration of, any Covered Asset, Protected Asset or Related Party Asset) with: (i) any person or persons who were at any time former directors, officers or senior managers of any member of the RBS Group; and/or (ii) any entity owned and/or managed and/or administered by any person or persons who were at any time former directors, officers or senior managers of any member of the RBS Group; and (iii) in the case of (i) or (ii) above, (x) the aggregate of the Covered Amount of the Covered Asset(s), or (y) in the case of (a) Protected Asset(s) and/or (a) Related Party Asset(s), the aggregate principal, par or similar value of such Protected Asset(s) and/or Related Party Asset(s), in each case the subject of such proposed transaction or series of transactions is in excess of £5 million (or its equivalent), the responsible Exco/Manco member must submit the relevant proposal to the Scheme Head for review in accordance with paragraph 5.5(E) above. For the purpose of determining whether the threshold of £5,000,000 has been exceeded, any of the following shall be treated as a single transaction: (i) a number of separate transactions if those transactions, when taken together, form part of the same transaction; or (ii) a series of independent but related transactions to or with a person (the “**Beneficiary**”) or persons connected to or with the Beneficiary which, when taken together, form part of the same transaction.

5.7 OTHER CONFLICTS

If at any time in relation to a Protected Asset or a Related Party Asset that is subject to Sighted Management any of the APS Approvers, APS Compliance Officers, members of the SOC or other RBS Representatives or Delegates (including Representatives or Delegates of other members of RBS Group) believes that an action or course of dealing not referred to in paragraphs 5.5 and 5.6 above constitutes or may give rise to a Conflict, that person must immediately notify the responsible APS Compliance Officer and the relevant action or course of dealing must be reviewed in accordance with paragraph 5.4 above.

5.8 NO CHANGE TO CONFLICTS MANAGEMENT POLICY

No part of this Conflicts Management Policy may be changed, modified or disapplied without the prior written approval of the Scheme Head, the responsible APS Compliance Officer, Representatives of Group Legal and Group Regulatory Risk, the SOC and the Treasury in writing.

5.9 CONFIDENTIALITY: No disclosure to clients/third parties.

The information that an asset or exposure is a Covered Asset, Protected Asset or Related Party Asset is confidential information and must not be shared. In particular, this information must not be disclosed to clients of RBS Group or any third parties and is subject to the detailed confidentiality restrictions in the Conditions.

5.10 CONFIDENTIALITY: Internal RBS Group

RBS Group Representatives who have access to information on which assets and exposures are Covered Assets, Protected Assets or Related Party Assets are prohibited from passing that information to Representatives engaged in the Management or Administration of Blind Pool Assets, or otherwise making information available which would allow such persons to determine which are Covered Assets, Protected Assets or Related Party Assets. The general principles of information control in the RBS Compliance Policies will apply equally to APS information. For example “Need to Know” as opposed to “nice to know”, applies.

6. COMPLIANCE WITH APPLICABLE LAW

Nothing in this Conflicts Management Policy requires RBS Group and/or any RBS Group Representative or Delegate to breach applicable law. To the extent that any APS Approver or any other of the APS Scheme personnel (or any other RBS Group Representative or Delegate) determines that any proposed activity, whether in compliance with this Conflicts Management Policy or otherwise, would breach applicable law, such action should be referred to the relevant APS Compliance Head who will determine, in consultation with Group Legal and Group Regulatory Risk as appropriate, whether the proposed activity may breach applicable law.

Subject to becoming aware of the issue RBS shall notify HMT of any instances where applicable law prohibits compliance with this Conflicts Management Policy. In such circumstances a review process should be undertaken, in consultation with HMT, for the purpose of determining how the intended effect of the relevant Conflicts Management Policy provision can be achieved in compliance with applicable law.

7. MODIFICATIONS TO CONFLICTS MANAGEMENT POLICY: PROCEDURE TO MAP THE REVIEW AND APPROVAL PROCESS FROM THE CONDITIONS.

This Conflicts Management Policy will be reviewed by the SOC, in consultation with HMT, six months and twelve months after the Accession Date and annually thereafter, in accordance with the Governance and Oversight Conditions, to determine any modifications to this Conflicts Management Policy that the SOC or HMT reasonably considers to be necessary or appropriate for the purpose of ensuring that this Conflicts Management Policy complies with the Scheme Documents and addresses areas where the operation of this Policy (including the effect of any thresholds) has turned out to be deficient or has had unintended or inappropriate consequences. In considering any proposed modification, the SOC will ensure that the same is in compliance with Condition 10 and the other requirements of the Conditions. If any modifications are determined to be required such modifications must be approved in accordance with paragraph 5.8 above and communicated in accordance with paragraph 10 below.

8. COMPLIANCE REPORTING

Compliance with this Conflicts Management Policy and the content of the Conflicts Log will be reviewed by RBS Group Internal Audit in accordance with the Assurance Plan to be implemented pursuant to Condition 19.

9. AVOIDANCE OF POLICY & DISCIPLINARY PROCESS

This Conflicts Management Policy is mandatory and must be complied with in full. Any RBS Group Representative failing to comply with this policy may be subject to disciplinary procedures. If any RBS Group Representative intentionally undertakes a course of conduct designed to circumvent this Conflicts Management Policy, this will constitute serious misconduct and the relevant Representative will be subject to disciplinary action and will be at risk of dismissal.

10. DISTRIBUTION AND TRAINING

This Conflicts Management Policy (and any subsequent modifications) will be distributed to all RBS Representative involved with Sighted Management. In depth (in person and computer based) training will be provided to all relevant APS personnel (including all APS Approvers and APS Compliance Officers) and to all personnel identified by senior management of businesses as requiring Conflicts training in relation to the requirements of this Conflicts Management Policy and the Conditions. Worked examples will be included in training to illustrate scenarios in which Conflicts may typically arise. All personnel undertaking APS training will be required to sign certificates to confirm they have read and understood this Conflicts Management Policy and have undertaken related training.

Additionally, RBS Group will issue an enterprise-wide communication to all RBS Group Representatives confirming that:

- (A) knowledge of which assets and exposures are Covered Assets, Protected Assets or Related Party Assets is intentionally being limited and that only those that need to know that the assets or exposures for which they are responsible are Covered Assets, Protected Assets or Related Party Assets will be told that such assets or exposures are Covered Assets, Protected Assets or Related Party Assets. Blind Pool Personnel will be told that they should not raise enquiries about APS coverage and they should not make assumptions or draw conclusions about possible APS coverage by reason of any internal decision making or interaction; and
- (B) if any Blind Pool Personnel believe they have been told that assets or exposures they are responsible for are Covered Assets, Protected Assets or Related Party Assets they must immediately contact their Group Legal contact and seek advice. If Group Legal determines it necessary, they will immediately refer the matter to the relevant APS Compliance Officer and paragraph 5.2(B) above shall apply.

11. RECORD KEEPING AND CONFLICTS LOG

11.1 Record Keeping – APS Conflicts

Each APS Compliance Officer is responsible for the retention of all records relating to any potential or actual Conflict arising in relation to a Protected Asset or Related Party Asset for which that APS Compliance Officer is responsible including any and all transaction documents, internal documents, e-mails and other forms of electronic communication and the written record required under paragraph 11.2 (together, "**Conflicts Records**").

11.2 Conflicts Log

- (A) **Format:** The Conflicts Log will comprise a standard format (which is to be developed by RBS as soon as possible) for recording Conflicts decisions under this Conflicts Management Policy. The Conflicts Log will be maintained in components within relevant businesses and geographies within the RBS Group and an APS Compliance Officer will be nominated and responsible for reviewing and maintaining each component of the Conflicts Log.
- (B) **Entries:** Entries in the Conflicts Log may be made by an APS Approver, an APS Compliance Officer or a member of Group Legal, Group Operational Risk or Group Regulatory Risk.
- (C) **Review:** The APS Compliance Heads will ensure all entries in components of the Conflicts Log are entered in the standardised format and that a consolidated Conflicts Log comprising all components is prepared and reviewed by the APS Compliance Heads promptly following the end of each calendar half year. Delegates of the Scheme Head will review the Conflicts Log on a monthly basis and those delegates shall meet with the Scheme Head to review the Conflicts Log on a quarterly basis to consider the findings of such review. The Scheme Head may call upon any APS Approver and/or any APS Compliance Officer to produce the Conflicts Records in relation to any potential or actual Conflict for review to clarify any entries in the Conflicts Log.
- (D) **Treasury information:** If so requested by the Treasury, the Conflicts Log format and associated weblog format will be provided to Treasury in a timely fashion (or, where for technology reasons the Conflicts Log format and associated weblog format cannot be given a printed copy, sample or extract illustrating or explaining it or them will be provided as appropriate).

SCHEDULE 1

Note that certain of the definitions included below have been summarised for ease of understanding but defined terms as used in this Conflicts Management Policy have the full meanings as used in the Conditions to which reference should be made if required.

“ACCESSION DATE” is the date on which the Treasury notifies RBS that all of the conditions to participation in the APS becoming effective have been fulfilled to the satisfaction of the Treasury (or waived).

“ACCESSION AGREEMENT” is the agreement between RBS plc, RBS Group plc and the Treasury incorporating (and modifying) the Conditions and setting out certain other terms applicable to RBS’s participation in the APS.

“APS APPROVER” means a person responsible for ensuring that all Asset Actions on Protected Assets and Related Party Assets are compliant with the Conditions.

“APS COMPLIANCE HEAD” means each of the APS GBM Compliance Head and the APS Corporate and Retail Compliance Head.

“APS COMPLIANCE OFFICER” mean personnel appointed by the APS Compliance Heads into roles designated as APS Compliance Officer roles.

“APS CORPORATE AND RETAIL COMPLIANCE HEAD” means David Skelley at the date hereof and any successor appointee.

“APS GBM COMPLIANCE HEAD” means at the date hereof Cosimo Pacciani and any successor appointee.

“ASSET ACTION” means any action proposed in relation to a Protected Asset or Related Party Asset.

“ASSET MANAGEMENT FRAMEWORK” means the written statement designated as such pursuant to the Accession Agreement setting out the details specified in Condition 10.22 and relating to the Management and Administration of Protected Assets and Related Party Assets.

“ASSET MANAGEMENT OBJECTIVE” is to maximise the expected net present value of the Protected Assets, including by minimising losses and potential losses and maximising recoveries and potential recoveries in respect thereof (as further defined in Condition 10.1).

“ASSURANCE PLAN” means the document produced by RBS for the Treasury which must detail, amongst others policies, the adequacy of the systems, control and processes, any failure to comply with the APS scheme documents, an analysis of the quarterly statements (required under the Conditions), compliance with the Asset Management Objective and whether the practices, procedures and conduct of the SOC are effective and comply with Good Industry Practice in respect of corporate governance.

“BLIND POOL ASSET” means a Covered Asset, Protected Asset or Related Party Asset if:

- (A) it falls within (or (i) in the case of a Non-Cash Realisation, it is in respect of a Covered Asset which falls within or (ii) in respect of a Related Party Asset, it would, according to the Data Field Rules (mutatis mutandis) fall within) (a) the “Residential Mortgage” Covered Asset Class, (b) the “Consumer Finance” Covered Asset Class or (c) any other Covered Asset Class or category of Covered Assets, Protected Assets or Related Party Assets identified in the Accession Agreement as falling within Condition 10.18(A); and
- (B) the Management and Administration of such Covered Asset, Protected Asset or Related Party Asset (i) is being undertaken by Blind Pool Personnel or (ii) solely comprises a compliance, reporting or administrative function and does not carry with it any responsibility for, or influence over, strategy, risk, credit trading or similar decisions or any conduct relating thereto.

“BLIND POOL PERSONNEL” means RBS Group Representatives undertaking the Management and Administration of Blind Pool Assets and (consistent with the requirements of Conditions 10.18(B)) who are unaware (and are not authorised to access any information which will enable them to determine) whether or not the relevant asset or exposure forms part of a Covered Asset, Protected Asset or Related Party Asset.

“CLOSELY RELATED HEDGE” means with respect to a Covered Asset, any other asset, agreement, instrument or arrangement which is identified as such in the Initial Data.

“CONDITIONS” has the meaning given to it on page 1 of this Conflicts Management Policy.

“CONFLICT” has the meaning given to it in the introduction to this Conflicts Management Policy.

“CONFLICTS LOG” means the written standard format for recording Conflicts decisions under this Conflicts Management Policy as described in more detail in paragraph 11.2 above.

“CONFLICTS RECORDS” has the meaning given to it in paragraph 11.1 above.

“CONTROL ROOM” means the system adopted by RBS Group to manage conflicts pursuant to the RBS Compliance Policies.

“COVERED ASSET” means the assets and exposures which comprise that Covered Asset as identified (by being allocated an “APS Covered Asset ID”) in the Initial Data as at 31 December 2008, to the extent they have not ceased to form part of that Covered Asset pursuant to the terms of the APS scheme documents.

“CREDIT APPROVAL PROCESS” means the existing RBS Group processes for approving credit decisions in the ordinary course, plus all relevant engagement committees responsible for approving the provision of advisory services to clients, both as supplemented by advice from the Control Room.

“CREDIT AGGREGATION POLICY” means a written statement designated as such pursuant to the Accession Agreement, setting out the RBS group policy for aggregating credit limits, credit lines or trading lines (or equivalent) in respect of the same counterparty or issuer or group of connected counterparties or issuers.

“DELEGATE” means (i) any person who carries out any function on behalf of another person or (ii) any person to whom the responsibility, duty or obligation of a person to carry out any function is transferred.

“EXCO/MANCO” means the Executive Committee and Management Committee of the RBS Groups.

“GOOD INDUSTRY PRACTICE” means the level of skill, care, diligence, prudence, foresight, expertise and experience consistent with the standards which would ordinarily be adhered to by a prudent banking institution in the ordinary course of its business, taking account of (i) applicable corporate governance and corporate responsibility principles, (ii) any published guidance or recommendations (including guidance or recommendations from any Authority (as defined in the Conditions) relating to good industry practice in the banking and financial sectors as may be published from time to time and (iii) other guidelines, recommendations, methods, practices or procedures which would be adopted or complied with from time to time by a prudent banking institution in the ordinary course of its business.

“INITIAL DATA” means the information comprising certain terms or features of, or matters pertaining to, each Covered Asset stated as at 31 December 2008, together with any other information designated as such in the Accession Agreement.

“MANAGEMENT AND ADMINISTRATION” means any and all conduct, whether direct or indirect, relating to an asset or exposure including, but not limited to: , (i) the creation, acquisition, amendment, replacement, termination, sale, transfer, assignment or disposal of that asset or exposure, (ii) any transaction in relation to that asset or exposure, including the creation of any Security (as defined in the Conditions), the creation of any trust, the conferring of any interest or participation right, the entering into of any agreement in respect of votes or the right to receive dividends or any other return of value, the renunciation or assignment of any right to subscribe for or receive an asset or exposure or any legal or beneficial interest in an asset or exposure, the entering into of any arrangement having the effect of reducing or mitigating a person’s legal, beneficial or economic interest in an asset or exposure and any Undertaking Disposal (as defined in the Conditions), (iii) any conduct which will result in an increased commitment, lending or exposure to a Counterparty (or to a Group Member of a Counterparty, where Counterparty is defined in the Conditions), or any determination as to whether or not (or how) such increased commitment, lending or exposure should be created, including through the provision of or making available additional finance, (iv) any Rollover (as explained in Conditions 6.31 to 6.35 inclusive), (v) any act of making an asset or exposure the subject of a Permitted Arrangement (broadly, certain security, permitted securitisation and conduit arrangements all as detailed in Condition 4.21) and the exercise of any rights with respect to that Permitted Arrangement (including any right to withdraw an asset or exposure from it), (vi) any conduct relating to or constituting a Recovery or a Realisation (including the taking of, or refraining from taking, any enforcement action), (vii) the incurrence of, or commitment to incur, any Realisation Expenses and (viii) the exercise of any voting or other rights, but in any case excluding any conduct which consists of delivering any notification, report or Information to the Treasury, and **“Manage and Administer”** shall be construed accordingly.

“NON CASH REALISATION” means any Non-Cash Asset (as defined in the Conditions) that is a Realisation.

“PROTECTED ASSET” broadly means any Covered Asset, any Non-Cash Realisation or a Closely Related Hedge.

“RBS COMPLIANCE POLICIES” has the meaning given to it in paragraph 4 above.

“RBS GROUP” means RBS and each of its subsidiary undertakings and ABN AMRO Bank N.V / RBS N.V. and its subsidiary undertakings.

“REALISATION” is defined, broadly, as being a variety of assets, receipts, realisations, recoveries, rights, interests and benefits in respect of a Covered Asset including those which derive from certain related assets (such as Related Party Assets and certain equity interests) which are defined in more detail in Condition 7.8.

“REALISATION EXPENSES” means, broadly, the costs and expenses associated with a Realisation but only to the extent permitted under, and as defined in more detail in, the Conditions.

“RECOVERY” means a Cash Realisation (as defined in the Conditions) in respect of a Triggered Asset but which for these purposes is broadly defined and includes certain non cash benefits all as detailed in Condition 7.6.

“RELATED PARTY ASSET” is, but not limited to, (a) any part of a Triggered Asset which would be treated as if it were not a Covered Asset pursuant to Condition 7.26(D) of the Conditions, (b) an asset or exposure (other than a Protected Asset) of any person which is a member of the RBS Group (or which would be consolidated onto the balance sheet of the RBS Group if the balance sheet were prepared in line with Static IFRS (as defined in the Conditions))(a “person”) in respect of which: (i) the credit limit, credit line or trading line (or equivalent) in respect of a Counterparty is aggregated with the credit limit, credit line or trading line (or equivalent) of a Counterparty in respect of a Protected Asset pursuant to the Credit Aggregation Policy, or would be so aggregated if the Credit Aggregation Policy were to be consistently applied as between Protected Assets and assets and exposures (including Related Party Assets) that do not comprise Protected Assets; or (ii) there is a Conflict which is required to be managed pursuant to this Conflicts Management Policy.

(For the purpose of paragraph (i) above, an asset or exposure (other than a Protected Asset) of any person (defined above) in respect of which any Counterparty (or any Group Member of any such Counterparty) is also a Counterparty (including an Obligor) in respect of a Protected Asset (or a Group Member of any such Counterparty) shall be deemed to be regarded by the Credit Aggregation Policy as, prima facie, a Related Party Asset.)

“REPRESENTATIVES” means in relation to any person, the directors, officers, employees, agents, contractors, professional advisers and Delegates of that person, provided that (i) the foregoing reference to agents shall not include any person to the extent acting as a facility agent, security agent, fiscal agent, paying agent or calculation agent with respect to a facility agreement or debt instrument; and (ii) contractors and professional advisers will only be Representatives for the purposes of the Conflicts Management Policy to the extent that they are responsible for the Management and Administration of specific Protected Assets and only to the extent of those responsibilities.

“SIGHTED ASSETS” has the meaning given to it in paragraph 5.4 above.

“SIGHTED MANAGEMENT” has the meaning set out in Appendix 1 part B.

“SCHEME HEAD” means the person appointed by RBS from time to time pursuant to the Conditions to be the executive responsible for heading RBS Group’s participation in the APS.

“SOC” means the Scheme Oversight Committee established pursuant to the Conditions.

“TRIGGERED ASSET” means a Covered Asset in respect of which a trigger (being a Failure to Pay, Bankruptcy or Restructuring, in each case as defined in the Conditions) has occurred.

Appendix 1

Information handling and control procedures:

Part A

Blind Pool Assets

1. WHAT ARE “BLIND POOL ASSETS”?

- 1.1 Designated business areas will manage (either together or individually) Covered Assets, Protected Assets and Related Party Assets as Blind Pool Assets. This means the relevant business unit will continue operations on a “business as usual” (“**BAU**”) basis and will not be aware whether or not an asset or exposure under management is a Covered Asset, Protected Asset or Related Party Asset. Staff engaged in the Management and Administration of Blind Pool Assets will not be able to gain access to information that would enable them to determine whether the assets or exposures they are responsible for are Covered Assets, Protected Assets or Related Party Assets.
- 1.2 The relevant business areas will be unable to conduct activities which differentiate between, and thus prejudice or discriminate against, the Covered Assets, Protected Assets or Related Party Assets. In addition, Blind Pool Personnel will not be capable of identifying or able to mitigate against, transactions that could detrimentally impact the Covered Assets, Protected Assets or Related Party Assets. Information relating to these assets and exposures must be strictly controlled and available only to nominated senior managers who are not directly engaged in the Management and Administration of Blind Pool Assets.

2. APS CONTROL FUNCTION TO RETAIN KNOWLEDGE

The dedicated APS Compliance Officers of the Blind Pool Assets will have knowledge of which assets and exposures are Protected Assets and which assets and exposures are not Protected Assets (including Related Party Assets) and their role is to ensure that the information controls detailed in this Conflicts Management Policy (including around the Blind Pool Assets) are in place. In addition they will undertake regular monitoring to ensure: (i) compliance with Condition 10; (ii) that Blind Pool Personnel are unaware and have no access to information that would make them aware which assets are Covered Assets, Protected Assets or Related Party Assets; and (iii) that Protected Assets and non-Protected Assets (including Related Party Assets) are being treated equally and there is no prejudice to, or discrimination against, or disproportionate and adverse effect on Protected Assets.

3. DESIGNATED BLIND BUSINESS AREAS

Set out below are businesses responsible for Management and Administration of Blind Pool Assets.

- RBS Global Banking and & Markets (only in respect of Related Party Assets that are publicly traded securities in the secondary market)

- UK Retail Banking
- Ulster Banking Group (only Retail Banking and Business and Commercial Banking)
- Business & Commercial Banking, Corporate Banking Division (including Lombard but **only** in respect of that part of its assets as described below)

Covered Assets managed by Lombard are treated as Blind Pool Assets where the Covered Asset:

- (i) has a Covered Amount as specified in the Initial Data equal to or less than *** (or its equivalent);
- (ii) is designated in the Initial Data as belonging to the “Lease Finance” or “Loans” Covered Asset Class; and
- (iii) has been Managed and Administered by the Lombard Division at all times since 31st December 2008.

Part B

Sighted Management

1. WHAT IS “SIGHTED MANAGEMENT”?

- 1.1** “Sighted Management” means that assets and exposures will be Managed and Administered by RBS Group staff who know which assets and exposures are Covered Assets, Protected Assets or Related Party Assets.

Sighted Management will be maintained on the “private side” of an information barrier in RBS Global Banking & Markets and other relevant businesses, thus segregated from the “public side”, which will carry on operations without knowledge of “private side” business. The segregation of the “private side” from the “public side” will be maintained in line with best industry practice and applicable law and regulation.

- 1.2** On the “private side” of the information barrier, knowledge of Covered Assets, Protected Assets and Related Party Assets will be made available to the business unit as a whole or limited to specific managers, in line with normal information control protocols (i.e. on a “need to know” basis).

Part C

2. APS CONFLICT MANAGEMENT PROCESS

*** Indicates omitted material.

Reminder - This process is in ADDITION to the BAU conflict clearance process.

2.1 Identification – APS

- 2.1.1 Approval for all transactions affecting Protected Assets and non-Protected Assets (including Related Party Assets) must go through the Credit Approval Process. As soon as possible and in any event from the end of the Transitional Period the Credit systems used by RBS Group will have a flag/identifier against Covered Assets, Protected Assets and any Related Party Assets, and prior to such automation and subject to the relaxations set out in the Transitional Exceptions Document, manual checks will be undertaken to determine whether assets and exposures are Covered Assets, Protected Assets or Related Party Assets. When an APS Approver receives a request for credit approval, they will use the flag (or, as appropriate, the results of the manual checks) as a trigger to undertake a Conflict check. (See also part 4 below for examples of scenarios in which an APS conflict may arise which RBS policies and procedures will seek to address.)
- 2.1.2 The transaction request will be referred to the relevant RBS Credit officer who is an APS Approver. That person is required to refer the transaction to an APS Compliance Officer to assess the transaction in line with paragraph 5 of the Conflicts Management Policy.
- 2.1.3 In all cases, the APS Compliance Officer and/or Scheme Head must also determine whether or not the APS Conflict in question may also give rise to a regulatory conflict with any third party client or counterparty (see Appendix 2) and if necessary refer to Group Regulatory Risk for advice.
- 2.1.4 Operational flow charts will be developed as soon as possible to assist in the Conflicts management process and should be referred to as appropriate. It is noted that copies of operational flow charts may be provided to the Treasury for information purposes if so requested and, where requested, shall be provided in a timely fashion.

2.2 Identification – BAU. The Control Room will conflict check the request BAU.

If a Conflict is identified by the Control Room between a Protected Asset and a Related Party Asset (or any other asset or exposure which is not a Protected Asset) or a third party transaction, then the Control Room will escalate this to the relevant APS Compliance Head who will operate above the permanent “public side”/“private” side information barriers and ensure that the Conflict (including any regulatory conflict) is addressed as part of the APS Conflict review process in line with paragraph 5 of the Conflicts Management Policy.

2.3 Resolution

Note that the Non-Protected Asset manager requesting clearance cannot proceed unless they have received clearance from both the Control Room and through the Credit Approval Process which will include the Conflicts review.

3. DESIGNATED SIGHTED MANAGEMENT BUSINESS AREAS

- RBS Global Banking & Markets (other than area detailed in Appendix 1 Part A, paragraph 3)
- Large Corporate Banking, Corporate Banking Division
- UK Corporate Banking, Corporate Banking Division. For internal organisational purposes, Credit staff will be Sighted to APS assets, however client Facing staff will be “blind” to any assets that are in the APS
- Ulster Corporates (other than asset classes detailed in Appendix 1 Part A, paragraph 3)
- Global Restructuring Group

4. POTENTIAL CONFLICT SCENARIOS RELATING TO APS

Below is a non-exhaustive list of potential Conflicts scenarios which may arise relating to the APS:

- Actual or potential Conflicts between HMT as credit protection provider under the APS and RBS’s group;
- Actual or potential Conflicts arising between the Protected Assets and those assets, exposures, rights, interests, duties liabilities, obligations or risks outside the APS (in particular the treatment of assets where the same or related Obligor has assets both within and outside the APS);

Part D

SCHEME HEAD AND ESCALATION PROCESS

- (i) Any escalations required under this Conflicts Management Policy will be made by the responsible APS Compliance Officer in accordance with the escalation process set out in the Asset Management Framework.
- (ii) Results of Blind Pool Asset monitoring are to be reported to the Scheme Head for reporting and recording purposes.
- (iii) If there are any concerns that the integrity of a Blind Pool Asset may have been compromised, such matters must be escalated by the relevant APS Compliance Officer to the Scheme Head for consideration and resolution.

*** Indicates omitted material.

Appendix 2

DESCRIPTION OF EXISTING REGULATORY STRUCTURAL CONFLICTS AND CONFLICTS MANAGEMENT PROCESSES

*** Indicates omitted material.