State aid: Statement on agreement in principle between Commissioner Vestager and UK Government on Royal Bank of Scotland commitment

Commissioner Margrethe Vestager has reached an agreement in principle with the Exchequer of the United Kingdom, on the design of the alternative package proposed by the UK authorities for Royal Bank of Scotland ("RBS").

This alternative package would replace RBS's commitment to divest its UK retail and SME banking operations, Williams & Glyn (also known as "Rainbow"), as required as part of RBS's restructuring plan submitted in 2009 and amended in 2014. The objective of this alternative package is to remedy the distortion in the UK's SME banking market resulting from the state aid to RBS, with greater speed and certainty than would the divestment of Williams & Glyn. Today's agreement in principle follows intensive and constructive contacts between the Commission and the UK authorities.

In April 2017, the Commission opened an in-depth investigation to assess whether the alternative package proposed by the UK authorities is an appropriate replacement for the original commitment to divest Williams & Glyn.

The Commission can only accept modifications to existing commitments by Member States and aided banks that were given to obtain approval for restructuring aid (such as the one leading to the existing RBS restructuring decision), if the new commitments can be considered equivalent to those originally provided.

In this context, the opening of the in-depth investigation also gave interested parties the possibility to submit to the Commission their views on the new commitments. The UK authorities considered the feedback and proposed some enhancements to the package:

- RBS will provide more financing and set up an independent fund that grants funds to challenger banks to increase their small and medium-sized enterprises (SME) banking capabilities. The funding will be more targeted in order to increase challenger banks' chances of driving competition.
- RBS will commit more financing to support the switching of a higher number of clients. In particular, the package targets a transfer of a 3% market share in the UK SME banking market from RBS to challenger banks. Challenger banks will receive "dowries" that they can use to incentivise SMEs to switch their business current accounts, funding to facilitate the switching of related loans and funding to cover customers' switching costs.

The Commission considers that, in combination with the elements brought forward by the UK authorities in the initial proposal, the improved package is considered sufficient to replace the divestment commitment. The improved alternative package will increase competition in the UK SME banking market going forward.

The United Kingdom will proceed to notify the improved alternative package to the Commission. On this basis, the Commission will adopt its formal decision under EU State aid rules.

Background

RBS is one of Europe’s largest financial services groups and had a balance sheet of £799 billion at the end of 2016. During the financial crisis, in late 2008, RBS was on the verge of collapse and has benefitted from the following state aid measures:

- a recapitalisation of £45.5bn and an (eventually unused) five year contingent recapitalisation of £8bn
- an impaired asset measure covering excess loss (which was terminated with RBS not having received any payments from the State, but instead paid a cumulative fee of £2.5bn for the participation) and
- guarantees and other liquidity measures (now fully repaid).

These aid measures resulted in the nationalisation of RBS (the UK Government currently holds 71.3% of RBS shares) and were accompanied by the restructuring of RBS approved by the Commission in 2009 and amended in 2014.

As part of this restructuring, the UK committed RBS would undertake a significant balance sheet and risk reduction. RBS has already delivered on those commitments to ensure the bank’s long-term viability, in line with the Commission decision. It also delivered on all its other divestment commitments (sale of RBS insurance, transaction business, commodity trading, US banking subsidiary), which were made to ensure adequate own contribution by the bank to the financing of the restructuring of the core UK banking operations and to limit the distortion of competition. The divestment of Williams & Glyn, to be completed by end-2017 is the last outstanding commitment, with the objective to mitigate the distortion of competition in the UK SME banking market.