

Supplementary report of the skilled person on the proposed ring-fencing transfer scheme to transfer business from National Westminster Bank Plc (“NatWest Bank”) to NatWest Markets Plc (“NatWest Markets”)

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24 July 2018

Important – Your attention is drawn to the limitations under which this Scheme Report has been prepared as set out in Section 1.4

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1 Introduction

1.1 Overview

In order to aid banking groups which are restructuring their businesses to comply with the ring-fencing requirements, a new type of statutory transfer scheme called a ring-fencing transfer scheme ("RFTS") has been introduced under Part VII of the Financial Services and Markets Act 2000 ("FSMA").

When an RFTS is submitted to the Court for approval, it has to be accompanied by a report from an independent skilled person. This is a requirement of Section 109A FSMA and the report must be made in a form approved by the Prudential Regulation Authority ("PRA") having consulted the Financial Conduct Authority ("FCA"), together with the PRA, the "Regulators".

I have been appointed as the skilled person to provide the required report on the ring-fencing transfer scheme ("the Scheme") for The Royal Bank of Scotland Group plc ("RBSG plc") and its subsidiaries (together "RBS" or "RBS Group") for the transfer of the customer derivatives business from National Westminster Bank Plc ("NatWest Bank") to NatWest Markets Plc ("NatWest Markets"). NatWest Markets was formerly known as The Royal Bank of Scotland plc. The companies involved in this ring-fencing transfer scheme proposed by the RBS Group (the "Scheme Companies") are entities within the RBS Group.

I have been appointed jointly by RBSG plc, NatWest Bank and NatWest Markets (together, the "Companies") and my costs have been borne by RBS. My appointment was approved by the PRA, having consulted with the FCA.

This report (my "Supplementary Report") is supplementary to my report (the "Scheme Report") entitled "Report of the skilled person on the proposed ring-fencing transfer scheme to transfer business from National Westminster Bank Plc to NatWest Markets Plc" dated 11 May 2018.

My Supplementary Report should be read in conjunction with my Scheme Report (together, my "Scheme Reports") and both should be considered in their entirety.

A petition has been submitted to the Court for sanction of the Scheme under Section 111 of FSMA. If approved, it is expected that the Scheme will become effective on 13 August 2018 (the "Effective Date"). My Scheme Report has been, and my Supplementary Report will be, presented to the Court and the Court will consider the contents of these Scheme Reports in deciding whether to sanction the Scheme.

1.2 Purpose of this Report

The purpose of this Supplementary Report is to address any developments relevant to the Scheme since my Scheme Report was issued on 11 May 2018. I have considered the potential implications of any developments for Stakeholders and whether this affects the conclusions set out in my Scheme Report.

This includes consideration of a number of factors, including updated financial information, and any concerns or objections expressed by Stakeholders following RBS's communications regarding the Scheme.

1.3 Confirmation of Independence

Neither I, nor my immediate family hold any deposits, credit or loan agreements, mortgages, shareholdings or any other financial interests with NatWest Bank, NatWest Markets or any member of the RBS Group. I have not advised the RBS Group on any significant project in the past which I believe would affect the subject matter of the Scheme Reports.

From 2000 to 2015, Deloitte has acted as auditor to the RBS Group. Ernst & Young LLP has been the auditor for the RBS Group for the years ended 31 December 2016 and 2017.

Deloitte does, and will continue to, provide a range of advisory and consulting services to the RBS Group. In respect of potential services and business relationships, Deloitte has well established firm-wide systems and controls for identifying those that may fall within, or close to, the perimeter of the subject matter of my review of the Scheme as the skilled person. Such potential services and relationships are and have been notified to me to consider; this will include assessing whether effective safeguards exist to mitigate any actual or perceived threat to an acceptable level. Where threats cannot be mitigated to an acceptable level, or no effective safeguard exists, the service or relationship has not and will not proceed.

I do not believe that any of these assignments compromise my independence, create a conflict of interest, or compromise my ability to report on the proposed Scheme.

Deloitte has not acted for the RBS Group in developing any aspects of the Scheme, and has not carried out any of the calculations or the development of any of the underlying financial models connected with the Scheme.

1.4 Limitations

My Scheme Reports have been prepared solely for the use of the Companies and the Court, and solely for the purpose of assisting in determining whether the Scheme should be sanctioned.

My Scheme Reports are subject to the terms and limitations, including limitations of liability set out in my engagement letter dated 25 January 2018.

For the avoidance of doubt neither I nor Deloitte, its partners and staff owe or accept any duty to any other party and shall not be liable for any loss, damage or expense (including interest) of whatever nature which is caused by any other party's reliance on representations in my Scheme Reports.

Both Deloitte and I have excluded liability to avoid having potential liability to an unlimited number of people. Without this exclusion, neither Deloitte nor I would be able to do this work. If any readers are concerned with the content of the Scheme Reports or any part of my analysis they should take advice and raise the matter with the Court, either in writing or in person.

2 Scope of this report

2.1 Work performed

In order to prepare my Scheme Report and reach my conclusions on any Adverse Effect, I performed a review of the Scheme proposed by RBS. This review covered a range of areas, including a review of RBS's detriment analysis, review of the legal due diligence performed by RBS and its legal advisors and analysis of the financial forecasts and capital and liquidity projections both before and after the Scheme's implementation.

For the purposes of this Supplementary Report I have sought to update my understanding of the Scheme, to ensure that my conclusions are still appropriate in light of any relevant changes since the date of my Scheme Report. To achieve this, I have performed a further review of RBS's plans, addressing all areas covered in my Scheme Report. In addition to revisiting these areas, I have also discussed any new matters such as the response to the Scheme communications, and the update to RBS's financial forecast information. This is covered in Sections 3 and 4 of this Supplementary Report.

Although outside the scope of my Scheme Reports, I have also asked RBS to update me on progress and any changes in their wider ring-fencing plans. This is also covered in Section 4 of this Supplementary Report.

In performing my review and preparing this Supplementary Report, I have relied on the accuracy and completeness of data and information provided to me, both written and oral, by the RBS Group. Although I have not verified the data and information provided to me, I have reviewed it for reasonableness and consistency using my experience of the banking industry. In doing this, I have:

- Considered the source of the data and the information provided and RBS's governance process in respect of the data and information provided; and
- Corroborated the data and information provided, for example, through interviews with individuals within RBS with knowledge of the issue under consideration.

Although I have not verified the data and information, in performing the procedures above, I can confirm that all my queries have been answered to my satisfaction.

As my Scheme Reports are written before the Effective Date, in reaching my conclusions, I have relied on data and information provided by RBS in respect of activities that are planned to occur in the future. As the future plans have been agreed by RBS's internal governance process, I believe that it is appropriate for me to reach my conclusions on the basis that these plans will be delivered by RBS.

Although the future plans remain the responsibility of RBS, I asked RBS to explain the process by which the plans had been drawn up, what process was in place to cover changes to the Scheme, the governance process over the plans and how the delivery and implementation of plans will be monitored. All such queries have been answered to my satisfaction.

As RBS's future plans could change, I will continue to keep the position under review in the period leading up to the Final Hearing on 31 July 2018, and update the Court if required.

I note that in preparing this Supplementary Report I have also considered the RFTS reports prepared by the other appointed skilled persons and any relevant guidance issued by the Courts hearing the various RFTS applications. As a result of this consideration I am satisfied that the analysis I have performed and the conclusions I have reached are still appropriate.

3 Scheme communications

3.1 Overview

As described in Section 12 of my Scheme Report, RBS planned a communications exercise for all customers and counterparties to be transferred to NatWest Markets as a result of the Scheme.

RBS has provided me with regular updates on the communications received from customers and other stakeholders in relation to the Scheme. This included a breakdown of the types of communications received, and details of any opt-out queries or notifications received. RBS have also provided me with copies of the responses sent to opt-out queries and confirmations sent in response to opt-out notifications.

3.1.1 Direct communications – notification of the Scheme

RBS completed the planned mailing to customers and other interested parties, details of which are set out below in Table 3-1.

Recipient type	Email only	Letter only	Email & Letter	Total
Counterparties and security providers	67	3,159	3,018	6,244
Litigants	1	24	29	54
Counterparties who may come in scope (see Section 3.1.1.3)	1,137	36	66	1,239
Total	1,205	3,219	3,113	7,537

Table 3-1 – Summary of direct communications of the Scheme as at 24 July 2018

Source: RBS management information

In addition to receiving communications by email or by post, counterparties were able to obtain information on the Scheme through their relationship managers.

3.1.1.1 Returned notifications

The level of undelivered Scheme notifications is approximately 0.09% of the postal recipients and 5.84% of the email recipients.

The number of postal returns (6) is lower than the level typical for previous mass mailing exercises by RBS, including the previous RFTS, and I also note that those counterparties who did not receive a letter did receive an email.

In relation to returned emails, the number of undelivered emails (252) is considered by RBS to be acceptable for a mass mailing exercise. I note that all but two of those counterparties who did not receive an email did receive a letter. For the two counterparties that did not receive an email or a letter, RBS contacted them through their sales contact and subsequently sent an email.

3.1.1.2 Data quality

Following the initial mailing, RBS identified approximately 400 counterparties of NatWest Bank that were incorrectly included as part of the communications exercise. These counterparties are not in scope as, while they have in place an "all monies" security agreement with NatWest Bank, they do not have any open derivative transactions with RBS and do not meet other requirements to put them in scope to be transferred under the Scheme.

RBS has communicated with these customers by email or letter to apologise for any confusion or inconvenience and to notify them that any new Derivative Transactions entered into with NatWest Bank prior to the Effective Date will be within the scope of the Scheme and will transfer to NatWest Markets.

As noted in Section 3.1.1.1 above, RBS identified two counterparties who did not receive any written notification of the Scheme. As a result, these counterparties were contacted by their sales contacts and given information on the Scheme. Although this late communications did not give the 6 weeks' notice required by the FCA Guidance and was also given after the opt-out date of 18 June 2018, I do not consider this to be a significant issue as RBS has now provided the counterparties with written notification of the Scheme, including details of how to object should they so wish, and has also called the counterparties to explain the operational implications of the Scheme. In addition, as the counterparties have missed the ability to opt out of the Scheme, RBS has offered the counterparties the option to exclude their Derivative Transactions from the Scheme. The counterparties are also able to either terminate or novate their Derivative Transactions should they wish.

RBS identified 12 counterparties that were omitted from the initial mailing but who were subsequently sent notifications. However, I note that the late communications did not provide the full 6 weeks' notice required by the FCA Guidance. I do not consider this to be an issue as 10 of the counterparties received notifications in advance of the opt-out date of 18 June 2018. As a result, those counterparties were provided with the opportunity to opt out of the Scheme if eligible, in addition to the offer to terminate or novate their Derivative Transactions if they considered themselves likely to suffer an Adverse Effect. Although the other two counterparties received notifications after the opt-out cut-off date, as neither counterparty had any live Derivative Transactions I do not consider them likely to suffer an Adverse Effect.

RBS also identified 3 Litigants and 30 security providers that were, in error, omitted from the initial mailing. RBS has since sent notifications to these parties. I note that although the late notifications did not provide the full 6 weeks' notice required by the FCA Guidance, I do not consider this to be an issue as I have not identified any Adverse Effect in relation to Litigants or to the provision of security.

3.1.1.3 New business

As set out in my Scheme Report, RBS's response to requests for new Derivative Transactions to be entered into with NatWest Bank that would mature after 31 August 2018 and therefore be within the scope of the Scheme, depended upon the specific circumstances of the counterparty.

Any existing counterparty of NatWest Bank who wished to execute a Derivative Transaction after the First Hearing but before the opt-out cut-off date of 18 June 2018 was able to trade with NatWest Bank and was able to opt-out of the Scheme in respect of their Eligible Derivative Transactions.

Any existing counterparty of NatWest Bank who wished to or wishes to execute a Derivative Transaction after the opt-out cut-off date of 18 June 2018 but before the Effective Date was and will be able to trade with NatWest Bank but such Derivative Transactions will not be eligible for opt-out and will move to NatWest Markets under the Scheme. This information is contained in the Scheme communications.

For any existing banking customer of NatWest Bank who wished to or wishes to execute a Derivative Transaction with RBS for the first time, the approach will depend upon when they intend or intended to execute the trade.

- Up to the opt-out cut-off date of 18 June 2018, they were informed that they could enter into a Derivative Transaction with NatWest Bank and would be able to opt-out of the Scheme in respect of their Eligible Derivative Transactions only; and
- Between the opt-out cut-off date of 18 June 2018 and the Effective Date, counterparties have been and will be informed that they can either trade with NatWest Bank with the understanding that the Derivative Transactions will all transfer to NatWest Markets under the Scheme, or they can trade with NatWest Markets.

Any customers that are new to RBS who wish only to trade Derivative Transactions will be offered the ability to trade with NatWest Markets. Any new customer that wishes to open both a Derivative Transaction and banking relationship will be offered banking facilities with NatWest Bank and Derivative Transaction services with NatWest Markets.

RBS has also undertaken a 'pre-emptive' notification exercise by email and by post to approximately 1,200 counterparties currently outside the scope of the Scheme but who, based on their trading history with RBS, may come into scope by entering into a Derivative Transaction before the Effective Date. These counterparties received a communication giving them details of the Scheme, explaining how they may come into scope of the Scheme prior to the Effective Date and how they may object. This communication was also sent to the approximately 400 counterparties who received the initial Scheme communications in error, as noted in Section 3.1.1.2.

66 of the pre-emptive communications were returned as undelivered. RBS obtained alternative contact details for each counterparty and sent a subsequent notification.

I note that any counterparty who has entered into a Derivative Transaction for the first time after 30 May 2018 will not have received the full 6 weeks' notification as required by the FCA Guidance. I do not consider this to be an issue on two grounds; firstly that RBS has provided them with as much notice as possible taking into account the date of execution, and secondly that the counterparty still has the ability to mitigate any potential Adverse Effect by either opting out of the Scheme if eligible and traded prior to 18 June 2018, or by terminating or novating their Derivative Transactions.

3.1.1.4 Conclusion

As detailed above, whilst some communications were returned and some customers were incorrectly included in the notification exercise, I am satisfied that the subsequent follow up notification to these groups of customers was reasonable.

In addition, I have reviewed the particular groups of customers affected, and I am satisfied that these groups have not suffered Adverse Effects as a result of the Scheme.

3.1.2 Indirect communications

RBS has included details of the proposed Scheme, the objections and opt-out process on its website at www.rbs.com/ring-fencing. Further information for customers of NatWest Markets and NatWest Bank has also been available at www.natwestmarkets.com and www.natwest.com.

Notices of the Scheme application were published in the following newspapers on 18 May 2018:

- London, Edinburgh and Belfast Gazettes;
- The Scotsman; and

- Financial Times (UK and international editions).

RBS also announced details of the Scheme through its Regulatory News Service (RNS) on 15 May 2018.

3.1.2.1 Conclusion

I am satisfied that RBS has executed its indirect communications in accordance with the Court Order.

3.2 Opting out of the Scheme

As described in Section 5 of my Scheme Report, RBS gave counterparties the opportunity to opt-out Eligible Derivative Transactions from the Scheme.

The booklet included in the direct mailing included an explanation of the opt-out process, key considerations for the counterparty, and definitions and examples of Eligible Derivative Transactions and Ineligible Derivative Transactions.

Counterparties who wished to exercise this opt-out right had to notify RBS in writing by completing an opt-out notice and returning it by email or post no later than 5pm UK time on 18 June 2018. This opt-out notice was included in the communications pack.

3.2.1 Opt-out queries and notifications

As at the date of this Supplementary Report, RBS had received a total of eight opt-out queries and 40 opt-out notifications, all by email. The total queries number includes counterparties that have also sent opt-out notifications.

Of the 40 opt-out notifications, nine have been confirmed to have Eligible Derivative Transactions and as a result will not transfer under the Scheme, three are counterparties with no Derivative Transactions (i.e. Secured Empty Arrangements counterparties) who have requested that they are not transferred under the Scheme, and 28 have been withdrawn following communication with RBS.

I have enquired into the opt-out process; how opt-out queries and notifications are logged by RBS, the categorisation according to the counterparty and Derivative Transaction details, the assessment as to whether the Derivative Transaction meets the eligibility criteria for an Eligible Derivative Transaction and the confirmation sent to the counterparty on the outcome of the assessment.

I have also reviewed withdrawn opt-out notifications in order to understand the information given to counterparties that resulted in a withdrawn opt-out.

I have reviewed opt-out correspondence with counterparties. I have also considered the time taken to respond to opt-out requests.

3.3 Termination or novation of Derivative Transactions

As detailed in Section 5 of my Scheme Report, RBS have offered counterparties the option to terminate Derivative Transactions at market value or to novate the Derivative Transactions to a third party. This offer and how to exercise it was set out in the communications sent to all counterparties.

As at the date of this Supplementary Scheme Report, no termination or novation requests have been received.

3.4 Objections

If any person believed that they may be adversely affected by the proposed Scheme, they had two ways of ensuring that the Court considered their views.

- Lodging formal written objections with the Court (known as "Answers"), which had to be submitted by 29 June 2018; or
- Making informal objections to the Scheme in writing or in person before or at the Final Hearing. To ensure the Court will consider an informal objection, it had to be lodged by 11 July 2018 with a copy of a written statement having been given to the Court, the PRA and NatWest Bank.

The Court may also consider any objections made after 11 July 2018 in writing, or in person at the Final Hearing, although it may not do so if the process described above has not been followed.

3.4.1 Answers

No Answers have been lodged in relation to the Scheme prior to 29 June 2018.

3.4.2 Objections

As at the date of this Supplementary Report, no objections have been lodged in relation to the Scheme.

3.4.3 Complaints

As at the date of this Supplementary Report, no complaints have been lodged in relation to the Scheme.

3.5 Effectiveness of communications

RBS has an obligation to satisfy the Court that it has executed its communication plan appropriately. In order to demonstrate this to the Court, RBS has performed a detailed review and verification exercise over all elements of the communications process.

I have reviewed the results of this exercise, and am satisfied that RBS will be able to demonstrate to the Court that it has fulfilled this obligation.

3.6 Conclusion

Based on my review of the communications exercise undertaken, I am satisfied that persons likely to be affected by the Scheme have been properly notified of the Scheme, and that the notifications and communication of the Scheme were reasonable and were set out in a way that is clear, fair and not misleading. I am also satisfied that RBS's communications were provided in a timely manner to inform persons likely to be affected by the Scheme of the process to inquire into, or object to the Scheme, or if applicable to exercise their opt-out rights. Although there were some circumstances where counterparties were either not included in the initial notification exercise or were incorrectly included in the notification exercise, I am satisfied that this was mitigated by RBS's subsequent follow up communication.

I will consider any objections received between the date of publication of this Supplementary Report and the Final Hearing, and I will notify the Court should these give me any reason to change my conclusions.

4 Developments since the Scheme Report

4.1 Other ring-fencing activities

As detailed in my Scheme Report, the Scheme is only one of a number of activities that the RBS Group is undertaking in order to ensure compliance by 31 December 2018 with all ring-fencing requirements.

Whilst my Scheme Reports only cover the Scheme, for information purposes I summarised in my Scheme Report my understanding of the other key activities that are taking place related to achieving compliance with the ring-fencing requirements.

Although outside the scope of my Scheme Reports, I consider it important that Stakeholders are aware of the wider reorganisation activities being carried out. To this end, I include the following updates regarding the wider ring-fencing plans of RBS.

4.1.1 RBS Group reorganisation

In my Scheme Report I set out the planned reorganisation of the RBS Group. The plan stated that during 2018, NatWest Holdings Limited ("NatWest Holdings") and its subsidiaries (including NatWest Bank and RBS plc) would be separated from NatWest Markets. NatWest Markets would become a Non Ring-Fenced Body ("NRFB") and reside outside the ring-fence along with other entities such as The Royal Bank of Scotland International (Holdings) Limited.

An important step in this separation would take place through the implementation of a capital reduction by NatWest Markets. The company therefore applied to the Court for a reduction of capital under Section 641 of the Companies Act 2006. This application sought approval to reduce share capital and certain undistributable reserves of NatWest Markets. When sanctioned by the Court, the capital would be returned to its shareholder, RBSG, through the transfer of NatWest Markets' ownership of NatWest Holdings and its subsidiaries to RBSG and also in cash, with any balance remaining in NatWest Markets as distributable reserves.

This capital reduction was sanctioned by the Court on 29 June 2018, and as a result the capital reduction and transfer of shares in NatWest Holdings took effect on 2 July 2018.

4.2 The Scheme

In Sections 5 and 6 of my Scheme Report I set out my analysis and conclusions in respect of the effects of the Scheme on various groups of stakeholders. In Sections 7 to 12, I considered the effects of the Scheme on a number of cross-stakeholder matters such as financial considerations, tax and governance.

Since the date of my Scheme Report I have asked RBS to update me on any changes to the Scheme, and to inform me of any other developments of which I should be aware. This has included any further announcements regarding the credit ratings of the Scheme Companies, updated financial information, and any further communication with the Regulators, Pension Trustees or other interested Stakeholders. In this Section of my Supplementary Report I have considered the implications of this information on the conclusions reached in the Scheme Report, and whether I am satisfied that my original conclusions are still appropriate.

4.3 Effect on transferring counterparties

In Section 5 of my Scheme Report I set out my findings in respect of the expected effect upon counterparties transferring from NatWest Bank to NatWest Markets, considering separately the various categories of counterparty transferring. As a result of the analysis performed I concluded in Sections 5.3, 5.4 and 5.5 of my Scheme Report that there are certain matters which may result in an Adverse Effect, primarily relating to the credit rating difference between NatWest Bank and NatWest Markets, although I did not believe that this was likely to be greater than was reasonably necessary in order to achieve the relevant purpose of Section 106B(3)(a) of FSMA.

Having made enquiries of RBS, I am satisfied that there have been no significant amendments to the Scheme since the date of my Scheme Report. I note the following update in respect of credit ratings. As explained below, this does not affect my conclusions.

4.3.1 Update on credit ratings

In my Scheme Report I discussed both the current ratings and the ratings outlook for NatWest Bank and NatWest Markets.

Since the date of my Scheme Report, there have been further publications and announcements by three ratings agencies with regard to NatWest Bank and NatWest Markets.

In relation to the long-term unsecured debt ratings of NatWest Bank and NatWest Markets, one agency has upgraded NatWest Bank by one notch whilst affirming the rating of NatWest Markets, resulting in a one notch differential between the two companies. Another rating agency has affirmed its ratings, confirming the one notch differential between the two companies. A third rating agency has also affirmed its ratings, confirming a three notch differential between the two companies. This agency has also changed the outlook for both entities from stable to positive.

Although these announcements are generally positive for both NatWest Bank and NatWest Markets, as there remains a ratings differential of at least one notch between NatWest Bank and NatWest Markets, I still consider my conclusions as set out in Sections 5.3 to 5.5 of my Scheme Report to be appropriate.

4.4 Effect on other stakeholders

In Section 6 of my Scheme Report I set out my findings in respect of the expected effect upon the other Stakeholders, such as remaining NatWest Bank customers, existing NatWest Markets customers, suppliers, creditors and bondholders. I concluded that I was satisfied that there are no Adverse Effects as a result of the Scheme in respect of these Stakeholders.

Having made enquiries of RBS, I am satisfied that there are no changes to the Scheme for other Stakeholders. As a result, my conclusion in the Scheme Report remains unchanged. As noted in 4.3.1 above, there have been certain announcements in respect of credit ratings. These do not affect my conclusions in respect of other stakeholders.

4.5 Financial considerations

In Section 7 of my Scheme Report I set out my findings in respect of the financial effect of the Scheme on NatWest Bank and NatWest Markets. My analysis was based on profitability projections and forecast capital and liquidity calculations covering the period immediately before and immediately after the Scheme, and also a period of time following the Effective Date.

I concluded that due to the small size of the transferring business, the Scheme has a very limited effect on the capital ratios and liquidity position of both NatWest Bank and NatWest Markets. Therefore I do not consider that the Scheme will have an Adverse Effect in terms of capital adequacy or liquidity for either entity.

I have reviewed further financial updates regarding the position of NatWest Bank and NatWest Markets before and after the transfer.

As a result of this analysis, I am satisfied that the conclusions in my Scheme Report remain unchanged.

The main developments that I have considered in my Scheme Report are discussed below.

4.5.1 Update on settlement with the US Department of Justice ("DoJ")

On 10 May 2018 RBS announced that it had reached a settlement in principle with the DoJ to resolve its investigation into RBS's issuance and underwriting of US residential mortgage-backed securities between 2005 and 2007.

Under the terms of the proposed settlement, RBS agreed to pay a civil monetary cash penalty of US \$4.9 billion (approximately £3.6bn). Of this amount, US\$3.46 billion is covered by existing provisions, with an additional provision of US\$1.44 billion being taken in the second quarter of 2018. The announcement stated that the incremental charges would be booked in NatWest Markets and US subsidiaries of RBS.

Although a significant amount, I note that a major portion of the settlement has previously been provided for. RBS has also provided me with further information on any subsequent financial impact of the final settlement amount, including any additional provisioning required by NatWest Markets. I also note that the overall impact of the settlement was envisaged for regulatory capital purposes and this has formed an important part of the forecast information I have reviewed. As a result, I am satisfied that this settlement does not change the conclusions of my Scheme Report.

4.6 Governance and risk management considerations

In Section 8 of my Scheme Report I set out my findings in respect of the expected effect of the Scheme on the governance and risk management of the Scheme Companies. As a result of the analysis performed I concluded in Section 8.3 of my Scheme Report that I was satisfied that there are no Adverse Effects as a result of the Scheme.

Having made enquiries of RBS, I am satisfied that there are no changes to the governance arrangements which affect my Scheme Report and hence my analysis remains unchanged. I do note the following updates regarding governance changes, however, as explained below, they do not affect my conclusions.

4.6.1 Governance – recruitment

On 30 May 2018 RBS announced the resignation of Ewen Stevenson, the current Chief Financial Officer ("CFO"). Although a successor has not as yet been announced, the recruitment process is underway, and, should he depart prior to the appointment of a successor, suitable delegates would be identified to cover any interim period and a handover process will take place in line with the firm's obligations under the Senior Managers & Certification Regime.

Further, I note that Mr Stevenson's departure does not directly impact the governance of NatWest Markets; the board and senior management structures of which are already in place and operating.

As a result, I consider my previous conclusion to remain unchanged.

4.7 Operational considerations

In Section 9 of my Scheme Report I set out my findings in respect of the expected effect of the Scheme from an operational perspective. As a result of the analysis performed I concluded in

Section 9.4 that I was satisfied that there is no Adverse Effect as a result of the Scheme in respect of operational considerations.

Having made enquiries of RBS, I am satisfied there are no operational changes to the Scheme. As a result, my analysis and conclusions in the Scheme Report remain unchanged. I do note the following update regarding the testing of the planned migration.

4.7.1 Update on migration testing

Since the time that the Scheme Report was prepared, RBS has undertaken and completed two 'dress rehearsals' for the activities required on the weekend immediately ahead of the Effective Date, i.e. on Saturday 11 and Sunday 12 August 2018. I have enquired into the dress rehearsals and RBS has confirmed that these have been completed successfully, proving the ability to execute the schedule of events required for the Effective Date. I have also reviewed the findings of the RBS Internal Audit function following their review of the dress rehearsals, and these findings supported the conclusions of RBS Management with regard to the completion of the dress rehearsals.

4.8 Resolvability considerations

In Section 10 of my Scheme Report I set out my findings in respect of the expected effect of the Scheme from a resolvability perspective. As a result of the analysis performed I concluded in Section 10.4 of my Scheme Report that I was satisfied that there is no Adverse Effect as a result of the Scheme in respect of resolvability considerations.

Having made enquiries of RBS, I am satisfied that there are no changes to the resolvability considerations of the Scheme. As a result, my analysis and conclusions in the Scheme Report remain unchanged.

4.9 Tax considerations

In Section 11 of my Scheme Report I set out my findings in respect of the expected effect of the Scheme from a tax perspective. As a result of the analysis performed I concluded in Section 11.6 of my Scheme Report that I was satisfied that there is no Adverse Effect as a result of the Scheme in respect of tax considerations.

Having made enquiries of RBS, I am satisfied that there is only one change to the tax considerations of the Scheme since the date of my Scheme Report.

In my Scheme Report I noted that although the Scheme could potentially result in a realisation event for any US counterparty, at that date no US counterparties had been identified as being in scope of the Scheme. Since the date of my Scheme Report, one US counterparty has been identified by RBS as being in scope.

Although the Scheme could potentially trigger a realisation event for the US counterparty, as set out in my Scheme Report, there are a number of other factors that would also be needed for a realisation event to arise. As also noted in my Scheme Report, should a realisation event appear likely, a number of mitigation options were made available to any counterparty, such as opting out of the Scheme if eligible, or terminating the Derivative Transaction at market value.

RBS has since contacted the US counterparty to ensure they have had an opportunity to review the Scheme communications and also the mitigation options available to them should the counterparty have any concerns.

As a result, my analysis and conclusions in the Scheme Report remain unchanged.

5 Conclusion

In my Scheme Report I concluded that, save in respect of certain matters, (a) persons other than the Transferor are not likely to be adversely affected by the Scheme and, in relation to the matters where I have identified an Adverse Effect, (b) if they are likely to be adversely affected, the Adverse Effect is not likely to be greater than is reasonably necessary in order to achieve the specific purpose of enabling a UK authorised person to carry on core activities as a ring-fenced body in compliance with the ring-fencing provisions (Section 106B(3)(a) of FSMA).

For the reasons set out in this Supplementary Report, this conclusion is unchanged.

In setting out my opinions in my Scheme Reports, I confirm that I understand my duty to the Court and that I must help the Court on matters within my expertise. I believe that I have complied, and will continue to comply, with this duty. I confirm that I have made clear which facts and matters referred to in my Scheme Reports are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

This conclusion should be read in conjunction with the limitations I have set out in Section 1.4 of this Supplementary Report.

Oliver Grundy MA, FCA
24 July 2018

Appendix 1 - Glossary

Term	Means
Adverse Effect	Has the meaning as described in section 1.4 of the Scheme Report
Answers	Formal written objections lodged with the Court at Parliament House, Parliament Square, Edinburgh EH1 1RQ, by 29 June 2018
Companies	RBSG plc, NatWest Bank and NatWest Markets
Court	The Court of Session in Scotland
Deloitte	Deloitte LLP
Derivative Transaction	A transaction entered into under an ISDA Master Agreement or equivalent agreement, which is a contract between two or more parties where the value of the contract is determined by fluctuations in one or more underlying assets. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes.
DoJ	United States Department of Justice
EAPO	The Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014 as amended by The Financial Services and Markets Act 2000 (Ring-fenced Bodies, Core Activities, Excluded Activities and Prohibitions) (Amendment) Order 2016
Effective Date	Expected to be 00:01 on 13 August 2018
Eligible Derivative Transactions	Derivative Transactions which satisfy the criteria set out in Articles 9, 10, 11 and 12 of the EAPO and are therefore permitted for ring-fenced banks. Also includes prohibited Interest Rate Derivative Transactions that satisfy the 'Grandfathering' provisions.
FCA	The Financial Conduct Authority or such successor governmental department, regulatory authority or other official body from time to time exercising supervisory powers in relation to financial services in the UK
FCA Guidance	FCA Finalised Guidance 16/1 "Guidance on the FCA's approach to the implementation of ring-fencing and ring-fencing transfer schemes" published in March 2016
Final Hearing	The hearing at the Court at which the final decision whether or not to approve the Scheme is made
First Hearing	The preliminary hearing at the Court of the application relating to the Scheme

Term	Means
FSMA	The Financial Services and Markets Act 2000
Ineligible Derivative Transactions	Derivative Transactions other than Eligible Derivative Transactions
Litigant	Counterparties to litigation in connection with the transferring derivative business who have no live Derivative Transactions
NatWest Holdings	NatWest Holdings Limited, the intermediate holding company heading up the RFB Subgroup which is registered in England and Wales with registration number 10142224
NatWest Bank or NWB	National Westminster Bank Plc which is a licensed bank registered in England and Wales with registration number 929027
NatWest Markets or NWM	NatWest Markets Plc, which is a licensed bank registered in Scotland with registration number SC090312. NatWest Markets Plc was previously named The Royal Bank of Scotland plc.
NRFB	Non Ring-fenced Body or Non Ring-fenced Bank
PRA	The Prudential Regulation Authority or such successor governmental department, regulatory authority or other official body from time to time exercising prudential regulatory and supervisory powers in relation to financial services in the UK
RBS or RBS Group	RBSG plc and its subsidiaries and subsidiary undertakings
RBS plc	The Royal Bank of Scotland plc, which is a licensed bank registered in Scotland with registration number SC083026. RBS plc was previously named Adam & Company PLC.
RBSG plc	The Royal Bank of Scotland Group plc, which is the ultimate parent company of the RBS Group and is registered in Scotland with registration number SC045551
RBSI	The Royal Bank of Scotland International Limited, which is a licensed bank registered in Jersey with registration number 2304
Regulators	Together the PRA and the FCA
Remaining NatWest Bank Customers	Remaining customers and counterparties of NatWest Bank
RFTS	A ring-fencing transfer scheme under Part VII of FSMA
Scheme	The proposed transfer of business from NatWest Bank to NatWest Markets under Section 106B of FSMA, in its present form or with any modification thereof, or addition thereto, or condition approved or imposed by the Court.

Term	Means
Scheme Companies	The companies participating in the Scheme; namely NatWest Bank and NatWest Markets
Scheme Report	The report on the Scheme prepared by the Skilled person pursuant to Section 109A of FSMA and submitted to the Court to assist the Court in its decision whether or not to approve the Scheme
Scheme Reports	Supplementary Report and the Scheme Report
Skilled person	Oliver Grundy of Deloitte LLP whose appointment has been approved by the Regulators. The skilled person and Deloitte LLP have prepared the Scheme Reports pursuant to Section 109A of FSMA.
Stakeholders	All persons potentially affected by the Scheme including depositors, customers, counterparties and other affected persons
Supplementary Report	A report produced in advance of the Final Hearing, to consider the effect on the Skilled person's conclusions of events that have happened subsequent to the release of the Scheme Report.
Transferor	NatWest Bank
Transferring Counterparties	Counterparties in respect of their business transferring from NatWest Bank to NatWest Markets under the Scheme



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