

Sir William Blackburne
Independent Third Party
Maitland Chambers
7 Stone Buildings
Lincoln's Inn
London WC2A 3SZ

Sir Howard Davies
Chairman, Board of Directors
The Royal Bank of Scotland
RBS Gogarburn
Edinburgh EH12 1HQ

31 March 2017

Dear Sir Howard,

Royal Bank of Scotland ('RBS'): Review of treatment of SME customers by Global Restructuring Group ('GRG').

I am pleased to provide the RBS Board of Directors with the first quarterly report on my Assurance and Appeals roles in relation to the RBS GRG Complaints process. A copy of this report has also been provided to the Financial Conduct Authority.

As you may have been informed, I have reviewed the design of the Complaints process, and will hereafter assure its execution and consider Appeals against its outcomes. My findings from those activities will form the contents of subsequent quarterly reports.

I do hope this report is helpful in informing you of my progress to date, and of my next steps.

Yours sincerely,



Sir William Blackburne
Independent Third Party

Enclosure

cc: Michael Shaw
Mark Spurin

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Independent Third Party
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**Royal Bank of Scotland ('RBS'): Review of treatment of SME customers
by Global Restructuring Group ('GRG')**

I am pleased to provide the first quarterly report on my Assurance and Appeals roles in relation to the RBS GRG Complaints process.

Since my appointment on 02 November 2016 as the Independent Third Party, I have benefited from many helpful discussions with a number of interested parties, including the FCA. In these early stages of my engagement, I have also met a number of times with RBS to clarify the scope of the review and to discuss the principles which would apply both to the Complaints process and to any subsequent Appeals. Much time was helpfully devoted to drawing up and refining those principles, which have been agreed and made public. I also appointed a team from The Boston Consulting Group on 12 December 2016 to assist me with my work, and they have provided me with much valuable help.

I (together with my team) have devoted considerable effort to helping RBS establish a Complaints process that I feel able to validate, the method by which I will seek to assure it, and the process I intend to follow in considering any Appeals. Beyond that, we have worked through the sheer logistics of setting up the ITP operation. All of this is addressed in this first report.

Much inevitably remains unknown, particularly the number of Complaints and subsequent Appeals that will be received. I have thus sought to design processes able to accommodate all reasonably foreseeable circumstances.

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Setup of ITP infrastructure and programme office

To ensure that I am adequately prepared and resourced to discharge my role, the ITP team has:

- Developed a programme plan and governance structure for the day-to-day management of the ITP office, and prepared clear ground-rules for our ongoing engagement with RBS. This was a significant time commitment.
- Estimated the ITP team's resource needs. The ITP team will necessarily comprise a mix of skills, in order to maximise our effectiveness at a reasonable level of efficiency: Programme Managers to run our operations; Assurers for the review of individual Complaints process steps; a cohort of recently qualified barristers for the detailed review of documents underlying each Appeal; and Banking Subject Matter Experts to provide counsel on certain technical matters. I have given much thought to the appropriate mix and number of ITP team-members, as well as to selecting suitable candidates.

- Managed the complex logistics of establishing ITP offices, providing access to the necessary technology, and making sure workable safeguards are put in place – such as those relating to data security.

Review of RBS's Complaints process

My Assurance role embraces two elements: to establish whether RBS's Complaints process is appropriately designed, and to assess whether that process is working in practice. I have now tested the design of that process in a number of ways. I have reviewed process documents prepared by RBS, conducted several detailed 'walk-throughs' of the process, and attended training sessions held by RBS to prepare its team.

My initial impression of the RBS Complaints process is that it is robustly designed, includes an appropriate number of checks and balances, and is conducted by an experienced team. How accurate these impressions are can only be determined once I begin Assurance in earnest. In the course of my reviews, I suggested a number of amendments to the Complaints process, some minor and some more material. All substantial amendments were adopted by RBS. More broadly, I take comfort from the fact that RBS has engaged constructively in our discussions. I have no reason to believe that this will not be sustained as my work progresses.

Design of Assurance process

At the same time as reviewing the design of the RBS Complaints process, I have worked on developing the process for its ongoing Assurance. In doing so, I broke down the Complaints process into its constituent steps, and have established an appropriate level of scrutiny for each step. In doing so, I intend to rely on the advice of Banking Subject Matter Experts on matters related to banking and restructuring practice prevailing in the market during the relevant period.

Assurance will require me periodically to select and test a sample of Complaints for adherence to the agreed Complaints process. I will seek to do so in a statistically robust and randomised way. I am working under the assumption that RBS might receive up to 2,500 Complaints, and as such I expect Assurance to require a total sample of approximately 200 Complaints. These numbers may change materially over time in response to a number of factors, including the actual number of Complaints received and the quality, in practice, of RBS's Complaints process. I do not, however, expect to sample fewer than 150 Complaints under any foreseeable scenario.

Each Complaint I sample will be tested for adherence to the agreed Complaints process. I will periodically review my findings with the RBS team to allow it to modify the process, as required.

My team has documented in detail the Assurance process, incorporating helpful feedback from RBS. To move from paper to practice, we have developed the electronic tools to support the secure conduct of Assurance, and to allow me to report on my findings. To test the robustness of our process design, we are in the process of conducting a review of a 'pilot' sample of Complaints, and will amend, where appropriate, the Assurance process to reflect what we learn. We will thereafter be prepared to start Assurance in earnest. The results will be the subject of subsequent reports.

Design of Appeals process

Similar to Assurance, we have designed and documented in detail our proposed approach to considering Appeals. By necessity, this approach will be informed by the number of Appeals I will need to consider. While it is too early to know that number, it is apparent that the



consideration of each Appeal will require a detailed review of underlying documents and a series of discussions. So, should the volume of Appeals prove to be substantial, it will represent a very significant undertaking, one that will exceed my personal capacity.

I will therefore be supported by a number of recently qualified barristers, and by one or more 'ITP Delegates'. For the majority of Appeals, the barristers will review documents related to that Appeal, discuss matters of banking practice with one or more Banking Subject Matter Experts, and put forward a recommendation for my review and determination. If the number of Appeals reaches a level requiring me to appoint a delegate, I will appoint a retired senior circuit judge, in whom I have the utmost confidence for this role.

I shall soon be in a position to consider the first Appeals and expect to receive them soon after the issuance to Customers of the first Complaint decisions.

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I hope this report is helpful in setting out my progress to date, and my next steps. In my next report, I expect to address the number of Complaints and Appeals received, the key themes therein, the number reviewed by my team, our summary findings, and the quality of our engagement with RBS.

Sincerely,

A handwritten signature in blue ink that reads "William Blackburne".

Sir William Blackburne
Independent Third Party