

FINAL REQUIREMENT NOTICE

SKILLED PERSONS REPORT

To: The Royal Bank of Scotland Plc of 36 St Andrew Square, Edinburgh, EH2 2YB; National Westminster Bank Plc of 135 Bishopsgate, London, EC2M 3UR; Real Estate Asset Management (comprising the companies listed at Annex A of this Requirement Notice, whose registered addresses are also listed therein), and Strategic Investment Group/West Register companies (comprising the companies listed at Annex B, whose registered addresses are also listed therein) (collectively "**RBS Group**").

Date: 20 May 2014

This notice, in writing, in accordance with section 166 of the Financial Services and Markets Act 2000 ("**FSMA**") notifies RBS Group of the FCA's appointment of a Skilled Person to provide it with a report (or reports, if appropriate). The scope of the report(s) is as set out in the attached annex to this notice.

Section 166 of FSMA gives the FCA the power to require a report on any matter about which the FCA has required or could require the provision of information or production of documents under section 165 of FSMA. Section 165 of FSMA gives the FCA the power to require information and documents reasonably required in connection with the exercise by the FCA of functions conferred on it by or under FSMA.

The appointment of a Skilled Person to produce a report under section 166 of FSMA is one of the FCA's regulatory tools to supervise and monitor firms. The FCA may use the report and associated materials in connection with the exercise of its functions under FSMA, including relying on the report, or any part of it, in any subsequent enforcement action that the FCA decides is appropriate to take.

Purpose of the review

The FCA has decided to appoint an independent Skilled Person in accordance with the FCA's power under section 166 of FSMA to undertake a review consisting of Phase 1 and, in the event certain conditions set out below are satisfied, Phase 2.

Phase 1

The purpose of Phase 1 is to form a view of RBS Group's treatment of small and medium size enterprises ("**SME**") customers¹ referred to Global Restructuring Group² ("**GRG**") through a review of policies, procedures, other relevant documentation, a representative sample of customer cases, interviews and, where available and appropriate, using market comparators, and:

- 1) to assess the validity of the allegations of customer treatment in the report published in November 2013 by Dr Lawrence Tomlinson ("**the Tomlinson report**") and, where relevant, points raised by Sir Andrew Large ("**the Large report**");
- 2) if inappropriate treatment of customers is identified, to form a view on whether it was widespread and/or systematic³; and
- 3) to enter into dialogue with the FCA in relation to the FCA's decision as to whether to proceed to Phase 2. Phase 2 will only take place if [REDACTED]

Phase 2

In Phase 2 (which will only take place if the conditions set out above are satisfied), the Skilled Person shall assess and provide a view on whether:

- 1) the evidence validates the allegations relating to root causes of inappropriate behaviour made in the Tomlinson report and points raised in the Large report (in relation to which see Annex D);

[REDACTED]

[REDACTED]

¹ In this Requirement Notice, "**SME customers**" is given the meaning provided at Annex F.

² In this Requirement Notice, save where otherwise described, "**Global Restructuring Group**" means the units/business areas described at paragraph 1 of Annex F.

³ In this Requirement Notice, the use of the word "**systematic**" refers to an intentional and co-ordinated strategy.

Once Phase 1 has been completed, if a decision is taken, in accordance with this Requirement Notice, to proceed to Phase 2, the FCA may provide further details to the Skilled Person as to the scope and methodology for Phase 2.

Recommendations

The Skilled Person should provide recommendations to address any shortcomings identified.

Period of review

In conducting Phase 1 and Phase 2 of the review, the relevant period to be considered by the Skilled Person is 1 January 2008 to 31 December 2013 ("**the Relevant Period**").

Methodology and Procedures

Specific procedures must be carried out as set out in Annexes C and E.

Engaging the Skilled Person

Details of the FCA's Skilled Person Panel can be found on our website. The Lot appropriate to this Skilled Person Report is Lot 4 – Governance, Controls & Risk Frameworks.

The FCA has, under section 166 of FSMA, directly appointed Promontory Financial Group (UK) Limited ("**Promontory**") as the Skilled Person. Promontory will be supported by its sub-contractors, Mazars LLP and Mazars Ireland.

Contractual arrangements

RBS Group is responsible for paying the fees and related expenses of the Skilled Person in accordance with the requirements described in FEES 3.2.7(R)(zp).

Reporting arrangements - Phase 1

Once the final sample for the review has been agreed between the FCA and the Skilled Person, the FCA will notify the Skilled Person and RBS Group of dates for the delivery of the draft and final reports for Phase 1 and Phase 2 of the review.

A draft of the final report for Phase 1 must be completed. The Skilled Person must send the FCA six copies of the draft report in paper form to Emma Taggart at The Financial

Conduct Authority, 25 The North Colonnade, Canary Wharf, London, E14 5HS. An electronic copy of the report should also be sent to the RBS Group Supervision Team mailbox:

[REDACTED]

The Skilled Person must send the FCA six copies of the final report in paper form to Emma Taggart at The Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London, E14 5HS. An electronic copy of the report should also be sent to the RBS Supervision Team mailbox:

[REDACTED]

Reporting Arrangements - Phase 2

A draft of the final report for Phase 2 must be completed. The Skilled Person must send the FCA six copies of the draft report in paper form to Emma Taggart at The Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London, E14 5HS. An electronic copy of the report should also be sent to the RBS Supervision Team mailbox:

[REDACTED]

The Skilled Person must send the FCA six copies of the final report in paper form to Emma Taggart at The Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London, E14 5HS. An electronic copy of the report should also be sent to the RBS Supervision Team mailbox:

[REDACTED]

Reporting Arrangements - General

The reports may, subject to sections 348–349 FSMA, be made public. The Skilled Person should draft reports in such a way that the contents can be published without the disclosure of confidential information to third parties, for example by including all confidential information within an Annex to the report which can be withheld from publication (as to confidentiality constraints in respect of disclosing confidential information to RBS Group, also see section 7 at Annex C).

The Skilled Person should provide RBS Group with copies of any draft and/or final reports issued to the FCA.

The Skilled Person should provide the FCA with first sight of any such reports so that the FCA can confirm, before they are issued to RBS Group, that they do not contain confidential information.

The FCA may provide copies of the final reports for both Phase 1 and Phase 2 to other third parties pursuant to its public functions.

Annex A – Real Estate Asset Management Companies

Company Name	Registered Office
GRG Real Estate Asset Management (Great Britain) Limited	280 Bishopsgate, London EC2M 4RB
GRG Real Estate Asset Management (Northern Ireland) Limited	11-16 Donegall Square East, Belfast, Antrim BT1 5UB
West Register (Property Investments) Limited	24/25 St Andrew Square, Edinburgh EH2 1AF
West Register (Residential Property Investments) Limited	135 Bishopsgate, London EC2M 3UR
West Register (Realisations) Limited	24/25 St Andrew Square, Edinburgh EH2 1AF
West Register (Land) Limited	24/25 St Andrew Square, Edinburgh EH2 1AF
West Register Hotels (Holdings) Limited	24/25 St Andrew Square, Edinburgh EH2 1AF
West Register (Hotels Number 1) Limited	24/25 St Andrew Square, Edinburgh EH2 1AF
West Register (Hotels Number 2) Limited	24/25 St Andrew Square, Edinburgh EH2 1AF
West Register (Hotels Number 3) Limited	24/25 St Andrew Square, Edinburgh EH2 1AF
West Register (Northern Ireland) Property Limited	11-16 Donegall Square East, Belfast, Antrim BT1 5UB
WR (NI) Property Realisations Limited	11-16 Donegall Square East, Belfast, Antrim BT1 5UB
WR (NI) Property Investments Limited	11-16 Donegall Square East, Belfast, Antrim BT1 5UB

Annex B – Strategic Investment Group/West Register companies

Company Name	Registered Office
West Register (Investments) Limited	24/25 St Andrew Square, Edinburgh EH2 1AF
West Register Number 2 Limited	24/25 St Andrew Square, Edinburgh EH2 1AF
UB SIG (NI) Limited	11-16 Donegall Square East, Belfast BT1 5UB

Annex C

RBS Group

FSMA 2000 Section 166

Scope of Skilled Person Services

1. Background

- 1.1. The FCA has commissioned this Skilled Person Review having considered the Tomlinson and the Large reports on RBS Group. Whilst commercial lending is not a regulated activity under the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, the allegations in the reports gave the FCA concerns as to whether RBS Group has treated SME customers appropriately, in particular those in financial difficulties. If substantiated, such allegations may also indicate wider concerns in relation to governance and culture within RBS Group.
- 1.2. The Skilled Person has been commissioned to undertake a forensic examination of RBS Group's business practices during the Relevant Period in order to provide evidence and a view on the validity of the allegations in the Tomlinson and the Large reports.

2. RBS Group

- 2.1. If the Skilled Person needs to expand the scope of its enquiries to entities other than Royal Bank of Scotland Plc, National Westminster Bank Plc, Real Estate Asset Management Companies ("**REAM**") (and REAM's predecessors) and Strategic Investment Group/West Register companies in order to complete this review, the Skilled Person should inform the FCA immediately.

3. Key requirements of the review

- 3.1. The work undertaken by the Skilled Person is to:

Phase 1

Form a view on RBS Group's treatment of SME customers referred to GRG, through a review of policies, procedures, other relevant documentation, a representative sample of customer cases, interviews and, where available and appropriate, using market comparators, and to:

- (1) assess the validity of the allegations of customer treatment in the Tomlinson report and, where relevant, points raised by the Large report;
- (2) if inappropriate treatment of customers is identified, form a view on whether it was widespread and/or systematic; and

[REDACTED]

Phase 2

Assess and provide a view on whether:

- (1) the evidence validates the allegations relating to root causes of inappropriate behaviour made in the Tomlinson report and points raised in the Large report (in relation to which see Annex D);

[REDACTED]

[REDACTED]

Once Phase 1 has been completed, if a decision is taken, in accordance with this Requirement Notice, to proceed to Phase 2, the FCA may provide further details to the Skilled Person as to the scope and methodology for Phase 2.

4. Approach to Phase 1

4.1. Policy and procedure review

4.1.1. This includes a review of relevant documented policies and controls to form a view on:

- (1) Appropriateness of governance and oversight procedures implemented in GRG and how GRG interacts with the rest of the RBS Group in relation to financially distressed SME customers.

- (2) Reasonableness of criteria for moving customers to GRG, including the policies for inclusion on relevant watchlists and policies relating to transition to GRG. This includes the policies and procedures relating to triggers such as covenant breaches, changes to banking facilities and relating to the revaluation of assets.
- (3) Appropriateness of relevant policies and practices relating to the criteria for SME customers exiting GRG, including those being classified as "Return to Satisfactory" and returned to local management.
- (4) Appropriateness of policies and procedures governing the relationship between relationship managers and SME customers in GRG.
- (5) Appropriateness of costs imposed on businesses once in GRG, including appropriateness of RBS Group's decision making process with regard to increases in margins and fees, to include adequacy of credit risk profiling of customers as an input to decision making.
- (6) Appropriateness of processes (transparency, openness etc.) for referrals to GRG and within the GRG business, including decision making on existing facilities and related matters such as further lending requests and requests for personal guarantees and/or cash injections.
- (7) Appropriateness of complaints procedures relating to SME customers referred to GRG, including, where applicable, compliance with the FCA's Dispute Resolution: Complaints (DISP) sourcebook of rules and guidance.
- (8) Appropriateness of conflicts of interest policies and procedures, including management of conflicts with REAM and its predecessors, Independent Business Reviewers, valuers, insolvency practitioners and receivers.
- (9) Appropriateness of strategic targets, revenue targets and incentive schemes in place for relationship managers and credit officers who manage SME customers, to the extent these may influence the incidence of referrals to GRG and the behaviour of GRG management and staff.

4.1.2. The Skilled Person should ensure it identifies and takes into account changes in policies and procedures over the Relevant Period and gives due regard to relevant internal audit reports and regulators' reviews into GRG.

4.2. Customer outcomes

4.2.1. The Skilled Person will conduct a review of a representative sample of customer cases using the methodology outlined in Annex E. This review will help inform a view of the delivery of policies and procedures in practice at RBS Group.

4.2.2. The Skilled Person will use evidence from the review of policies and procedures, review of customer cases and interviews to form a view on the following (paying due regard to the allegations made in the Tomlinson Report and to relevant points raised in the Large report (key points are set out in Annex D)).

- (1) Whether RBS Group appropriately identified customers for transfer to GRG.
- (2) The transparency of the referral process (both into and out of GRG) to customers and other parts of the RBS business (such as the Business & Commercial team) who may have owned the original customer relationship.
- (3) Whether the actions of RBS Group distressed otherwise viable businesses, including by: increased margins, excessive fees, reassessment of loan to value, breaches of covenants, removal of/changes to banking facilities and asset based finance.
- (4) Whether the practices of relevant third parties (such as the Independent Bank Reviewer) affected the viability of businesses transferred to GRG and/or the bankruptcy of its owners, including by adversely affecting the directors' ability to operate the business effectively.
- (5) Whether the property valuation methodologies employed by GRG, deliberately or otherwise, undervalued properties.
- (6) Whether increases in fees/loan interest charged for businesses in GRG or requests for information were appropriate and contributed to the subsequent failure of businesses, for the benefit of GRG or otherwise.
- (7) Whether GRG requested personal guarantees and/or cash injections when it had already determined that it had no intention of supporting such businesses.
- (8) Whether GRG failed to manage conflicts of interest appropriately (to include consideration of Independent Bank Reviewers, REAM and REAM's predecessors, insolvency practitioners and valuations).

- (9) The appropriateness of the complaint handling process for GRG customers, including, where applicable, compliance with the FCA's Dispute Resolution: Complaints (DISP) sourcebook of rules and guidance.

4.3. Sampling

- 4.3.1. The approach to sampling is set out in Annex E. The Skilled Person is expected to undertake a detailed review of a representative sample of customer experiences to form a view on the validity of the allegations.

4.4. Interviews

- 4.4.1. The Skilled Person should consider as part of its evidence gathering for Phase 1 interviews with relevant GRG staff, customers from the case sample; and third parties that conduct work for/on behalf of GRG (e.g. valuers, insolvency practitioners). Phase 2 may require further interviews.

5. Approach to Phase 2

- 5.1. In order to make the assessments and provide its views for the purpose of Phase 2, the Skilled Person will need to consider the root causes of inappropriate customer treatment identified in Phase 1. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

- 5.2. [REDACTED] This may

include, but is not limited to, whether there is/was an intent or strategy to:

- (1) distress viable businesses to create revenue;
- (2) assess businesses for their potential value to GRG, not their level of distress;
and
- (3) not fully disclose information to customers.

6. Recommendations

6.1. The Skilled Person should make recommendations to address any shortcomings identified. The Skilled Person should consider the relevance of recommendations in the Large report to address shortcomings.

7. Confidentiality Constraints

7.1. The Skilled Person shall endeavour to obtain the consent of customers included in the sample to disclose to RBS Group the detail of (a) any asserted facts, (b) allegations, and (c) complaints by the customer. Save where the Skilled Person has obtained such consent, the Skilled Person shall take appropriate measures to avoid such information becoming identifiable by RBS Group.

7.2. There may also be other information received by the Skilled Person for the purposes of this review that will be provided on a confidential basis. The Skilled Person should also take appropriate measures to avoid this information becoming identifiable to RBS Group and/or to third parties⁴.

7.3. In the event that it is not possible for the Skilled Person to obtain an informed response from RBS Group in respect of a specific allegation(s) without disclosing confidential information, the Skilled Person should be aware that it is unlikely to be appropriate to reflect that allegation(s) in the report. The Skilled Person should still consider whether it is appropriate to reflect that allegation(s) in the report in light of what is fair in all the circumstances. If the Skilled Person considers it appropriate to reflect that allegation(s) in the report, then, without prejudice to the Skilled Person's independence, the Skilled Person should:

- (1) discuss with RBS Group the nature of the confidential information in broad terms, taking into account the need to respect confidentiality;

⁴ For the avoidance of doubt, the FCA is not a third party.

- (2) explain to RBS Group why the allegation(s) should be included in the report; and consider RBS Group's response; and
- (3) ensure that if the allegation(s) is/are included in the report an appropriate mechanism is adopted to reflect the allegation(s) in the report in light of what is fair in all the circumstances which will include confirming in the report that RBS Group has not had a chance to make an informed response to the relevant allegations.

7.4. Prior to reflecting an allegation in the report in relation to which, due to confidentiality constraints, the Skilled Person has not been able to obtain an informed response from RBS Group but which the Skilled Person considers appropriate to so reflect, the Skilled Person should consult the FCA in relation to the decision to and the method of incorporating that allegation in the report.

7.5. Where a case in the sample is or has been subject to litigation⁵ the case may be included in the sample but due consideration shall be given to legal privilege and issues of confidentiality.

8. Report Structure

8.1. The report (a report being required for Phase 1, and a separate report for Phase 2, if the decision is taken to proceed to Phase 2) should be structured as follows:

- (1) An executive summary of the report findings and recommendations, including the Skilled Person's view on the key issues to be addressed in Phase 1/2.
- (2) An outline of the work that was undertaken to fulfil the requirements of the scope of the report, including where appropriate:
 - (a) the nature and extent of documentation examined;
 - (b) the nature and extent of reliance on customers', RBS Group's and third parties' staff;
 - (c) the people interviewed; and
 - (d) whether the Skilled Person found it necessary to conduct further work not originally planned in order to meet the report requirements and, if so, the nature and extent of such further work.

⁵ "Subject to litigation" includes cases where a formal notification of an intention to sue RBS Group or a pre-action letter of claim has been served by or on RBS Group

- (3) A section providing details of each of the matters examined under the terms of the report's scope, providing summary results of testing, expressing an opinion on the outcomes of such testing, and providing detail and recommendations in any areas where weaknesses were identified.
- (4) An annex documenting detailed testing carried out by the Skilled Person.
- (5) Any other of the matters detailed in SUP 5.5.1 R(1)(b) of the FCA Handbook.
- (6) A breakdown of the total cost of the report.

9. Communication between the Skilled Person and the FCA

- 9.1. The Skilled Person will be required to meet and hold discussions with the FCA prior to the review in order to discuss its scope and to obtain a full briefing of the background and objectives of the review.
- 9.2. Once the scope and sample methodology of the review has been agreed between the FCA and the Skilled Person, the Skilled Person should provide the FCA and RBS Group with a breakdown of estimated costs for Phase 1 and Phase 2 of the review.
- 9.3. The Skilled Person will be required to meet and hold discussions with the FCA during the review to discuss the progress of the report and any emerging findings. A timetable for ongoing progress meetings/calls will be agreed at the outset of the review.
- 9.4. The FCA expects to maintain an open line of communication with the Skilled Person throughout the review. In addition, the FCA must be kept informed by the Skilled Person of any significant developments as and when they occur. This should include notification of any material changes (greater than 10%) in the estimated cost of commissioning the report.

Annex D – Allegations arising from the Tomlinson report, supplemented by additional points from the Large Report

Tomlinson report

Strategic Aims/Performance of GRG

- 1) GRG is a profit centre for RBS, as opposed to a turnaround division aimed at improving business performance to recovery.
- 2) There are very few examples of businesses entering GRG and moving back out into local management.

Customer Mistreatment Allegation

The process/criteria for moving businesses to GRG

- 3) The criteria/process for deciding on whether a business should be moved to GRG inappropriately considers the value of such a move for RBS.
- 4) Businesses are assessed for transfer to GRG on the basis of the potential value to GRG and not their level of distress.
- 5) Businesses which are demonstrating similar levels of performance are treated differently in an inappropriate way, with the treatment depending upon whether there is more value to be made by RBS through a transfer to GRG.
- 6) Technical breaches of covenants with no bearing on the performance or viability of the business are used to transfer a business to GRG.
- 7) The actions of RBS, through the removal or change to facilities and/or the move to asset based finance, triggers the move to GRG in an inappropriate/unfair manner.
- 8) The decisions taken by RBS to change lending criteria for businesses whose performance and growth potential has not changed are unfair and/or inappropriate.
- 9) Banks manipulate the financial position of businesses that are profitable but not generating any additional fees or profit for the bank.
- 10) If there was more transparency businesses would be better protected from the banks' opportunistic behaviour.
- 11) Customers with an interest rate derivative product with a maturity date that is longer than their other banking facilities are unable to move banks as their assets

are all secured against the swap and there is no security available for the new lender so they cannot meet the risk profile of the potential new bank. RBS unfairly uses this lack of ability to move facilities as part of the renegotiation process.

- 12) The process of the default that triggers the move to GRG is inadequately explained to the customer.
- 13) Relationship Managers are disciplined if they contact customers transferred to GRG.

Treatment of customers in GRG

- 14) GRG artificially distresses otherwise viable businesses. Through such actions GRG places businesses on a journey towards administration, receivership and liquidation.
- 15) Businesses within GRG are not supported in a manner that is consistent with good turnaround practice. Such an approach has a catalytic effect on the journey of businesses towards insolvency.

Property Valuation

- 16) Property valuation methodologies unquestionably undervalue properties.
- 17) GRG significantly undervalues the assets of businesses, with the consequence that this puts such businesses in breach of their covenants.
- 18) GRG deliberately engineers defaults of otherwise viable businesses through the removal of, or change to, facilities, reassessment of loan to value and the move to asset based finance.
- 19) There is an inherent conflict of interest with regard to the relationship between valuers employed by GRG and GRG's aims and objectives.
- 20) The valuers employed by GRG inappropriately act in the interest of the bank in their valuation of properties.
- 21) GRG's property valuation methodology is based upon a fire sale of property, which is unfair.
- 22) GRG inappropriately revalues properties, undertaking insufficient work.
- 23) GRG is incentivised to undervalue properties, which triggers insolvency. West Register is then able to cheaply acquire such properties.

Increase in Margins and Fees

- 24) Otherwise viable businesses become increasingly distressed by the level of fees, bureaucracy and restrictions on trading capabilities.
- 25) Businesses are fined on entry into GRG for breaching their covenants.
- 26) Upon transfer to GRG interest on loans will be inappropriately/unfairly increased and the term of loan may be shortened dramatically.
- 27) Such changes are unjustified based upon the performance of the business.

Independent Business Reviews

- 28) Businesses are not allowed to read Independent Bank Reviews which is unfair.
- 29) Businesses are not allowed to challenge Independent Bank Reviewers' conclusions, which is unfair.
- 30) The company which conducts the Independent Bank Review gets much of its high value work from RBS Group and may also later become the business' administrator. This process presents a conflict of interest which GRG does not manage appropriately.

Requests for Information

- 31) The process whereby businesses receive requests for information is so laborious that it means that the Directors of such businesses are unable to run their business effectively.

Shadow Directors

- 32) Decisions made by the bank and Independent Business Reviewer whilst the business is in GRG can have detrimental impacts on the business' ability to operate effectively as a business.
- 33) The bank has actively prevented some businesses from taking action that would prevent the business from going into default or would pay off the debt e.g. a direction for businesses to delay or stop paying their suppliers.

Personal Guarantees

- 34) GRG asks for cash injections and/or security over loans through personal guarantees when it has no intention of supporting or helping the business in question.
- 35) GRG misrepresents its intentions to businesses, stating its willingness to support businesses and then quickly placing businesses into administration, leaving the business owner bankrupt as a result.

Selling the debt

- 36) The fact that a business is in support is used as a validation for the sale of the debt and transfer of personal guarantees to a different financial institution with whom they have close connections enabling those colleagues to buy the debt, put the business into administration to dissolve the equity of the owner and then call on the personal guarantees.

The Insolvency Process

- 37) There are no Chinese walls in place to prevent conflicts occurring when the Independent Bank Reviewer who works with the business whilst in business support is also the business' administrator.
- 38) Administrators of businesses in GRG do not act in an independent manner and as such they do take appropriate action against other parties involved in the insolvency when these parties are acting unjustly/illegally.
- 39) GRG does not appropriately manage the potential conflict of interest presented by West Register's activities.

Complaints

- 40) The complaints handling process for GRG customers is not working effectively.

Large Report

Governance

- 41) RBS's governance structures do not do enough to address the potential conflict of interest raised by the fact GRG retains the ultimate authority over which customer

relationships are transferred to it and there are no procedural checks and balances in place.

- 42) Due to different reporting lines B&C has limited ability to see or influence what happens to customers in GRG when they may be appropriate for future return to B&C.
- 43) B&C has limited visibility over the actions taken and decisions made by GRG and the governance process for the critical decision of whether a business has reached the point of non-viability is therefore opaque both to B&C and to the SME itself.

Annex E – Phase 1: Sampling methodology

Glossary of terms

- **Starting Population:** SME customers (as defined in Annex F)
- **Review Period:** Cases referred in to GRG from 1 January 2008 to 31 December 2013 inclusive.
- **Outcome Pools:**
 - Cases that resulted in winding-up, administration, liquidation or receivership;
 - Cases that returned to the **main bank**;
 - Cases that **exited** RBS borrowings; and
 - Cases that remain **in GRG as at 01/01/2014**.

Methodology / Approach

In order to answer the questions posed in the Requirement Notice and to assess the validity of the allegations as set out in Annex D, the Skilled Person should consider the following (although some elements will only be relevant to Phase 2 – to be determined by the Skilled Person):

- A representative sample of cases (see below for more detail);
- Policies/procedures⁶ used in GRG, including, where relevant, related internal communications;
- Interviews with:
 - GRG staff;
 - Customers from the case sample; and
 - Relevant third parties that conduct work for/on behalf of GRG (e.g. valuers, insolvency practitioners).
- Any other information the Skilled Person may determine as relevant to enable them to answer the questions in the Requirement Notice.

⁶ From the 'review period' – with particular regard to current versions in operation (where relevant).

Phase 1: Selection of cases for initial sample

In order for the Skilled Person to determine a representative sample size for the initial case review in Phase 1, RBS Group should provide numbers of the Starting Population (by number of customers) for each 12 month period from 1 January to 31 December in the Review Period, broken down by the number of cases in each Outcome Pool. RBS Group should also identify the number of customers in each pool (in the Review Period) that lodged a complaint with RBS Group.

RBS Group should provide the figure for the Starting Population as a percentage of the total population of all GRG customers.

Once this data has been provided, the Skilled Person will determine a representative sample of cases for review. The sample size will be agreed with the FCA.

Where a case is selected for the sample, and it is subsequently found that it is inappropriate to include that case in the sample, the Skilled Person shall replace that case by an appropriate alternative.

Before agreeing the sample size with the FCA, the Skilled Person will determine an appropriate timeframe for this part of Phase 1 with consideration of the potential impact on serving existing customers.

Phase 1: Case review

Case review parameters

- **Start point:** First signs of customer financial distress (i.e. when still managed by the main bank).
- **End point:**
 - Appointment of insolvency practitioner; or
 - Customer returned to main bank; or
 - Customer exited from RBS borrowings; or
 - If none of the above, conduct the review of the case up to 1 January 2014.

Case review to include, but not be limited to, consideration of the following (from within the review period and within the review parameters):

- customer correspondence;
- call recordings (including any internal calls if relevant);

- notes, minutes of meetings (internal and external) and internal correspondence that relates to the case (including correspondence to/from other parts of the RBS Group);
- where relevant, to include the above in relation to any customer complaint; and
- where appropriate (to be determined by the Skilled Person) meetings with: staff (including, but not limited to, relationship managers and credit officers), customers and/or third parties.

Annex F – Definition of GRG and SME Customers

1. The Global Structuring Group ("**GRG**") means the following units/business areas within RBS Group:
 - a. Business Restructuring Group ("**BRG**");
 - b. Strategic Relationship Management Unit ("**SRM**");
 - c. Strategic Management Unit ("**SMU**");
 - d. GRG Recoveries Unit ("**GRGr**") (but only where cases originated from SMU, SRM GRG, or BRG);
 - e. REAM (which comprises the companies listed in Annex A)(but only where cases originated from SMU, SRM, GRG, BRG or GRGr (as defined above));
 - f. Northern Ireland Business Restructuring Group and Strategic Relationship Management Units;
 - g. the predecessors of the above business units/business areas as appropriate.
2. For the purposes of the review "**SME customers**" is defined as all customers who were directly or indirectly transferred to and/or managed by GRG during the Relevant Period with debt levels of between £1million and £20million, and where that transfer and/or management was carried on from an establishment in the United Kingdom.
3. If the Skilled Person considers it necessary to amend the definition of SME customers in order to complete the review, the Skilled Person should inform the FCA immediately. The Skilled Person should consult with RBS Group and the FCA. Any change to the definition of SME customers shall require the prior approval of the FCA.