

UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

In the Matter of

THE ROYAL BANK OF SCOTLAND
GROUP PLC
Edinburgh, Scotland

THE ROYAL BANK OF SCOTLAND PLC
Edinburgh, Scotland

Docket Nos. 13-019-B-FB1
13-019-B-FB2

Order to Cease and Desist
Issued Upon Consent Pursuant to the
Federal Deposit Insurance Act, as
Amended

WHEREAS, The Royal Bank of Scotland Group plc, Edinburgh, Scotland (“RBS Group”), a registered bank holding company, controls a large complex financial organization that consists of a number of separate business lines and legal entities in many countries around the world;

WHEREAS, The Royal Bank of Scotland plc, Edinburgh, Scotland (“RBS plc”), a foreign bank as defined in section 1(b)(7) of the International Banking Act (12 U.S.C. § 3101(7)), is a wholly-owned subsidiary of RBS Group;

WHEREAS, RBS Group conducts banking operations in the United States (the “U.S. Operations”) through various subsidiary banks and offices, including branches of RBS plc in New York, New York and Stamford, Connecticut (collectively, the “U.S. Branches”), for which the Board of Governors of the Federal Reserve System (the “Board of Governors”) is the appropriate federal supervisor;

WHEREAS, RBS Group oversees compliance and risk management procedures for entities within the RBS organization;

WHEREAS, on July 26, 2011, RBS Group, RBS plc, and the U.S. Branches, consented to a cease and desist order issued by the Board of Governors and various state banking agencies (the “2011 Consent Order”) to address deficiencies in risk management and compliance at the U.S. Branches with respect to the Bank Secrecy Act (31 U.S.C. § 5311 et seq.); the rules and regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. Chapter X); the anti-money laundering requirements of Regulation K of the Board of Governors (12 C.F.R. §§ 211.24(f) and 211.24(j)); and with applicable U.S. sanctions laws, including the International Emergency Economic Powers Act (50 U.S.C. §§ 1701-06) (“IEEPA”) and Trading with the Enemy Act (50 U.S.C. §§ 1-44) (“TWEA”), and their implementing regulations administered by the Office of Foreign Assets Control of the United States Department of the Treasury (31 C.F.R. Chapter V) (the “OFAC Regulations”);

WHEREAS, the Board of Governors and OFAC have been conducting investigations into the practices of RBS plc concerning the transmission of funds to and from the United States through unaffiliated U.S. financial institutions, including by and through entities and individuals subject to the OFAC Regulations;

WHEREAS, in order to resolve the investigations, RBS Group and RBS plc have agreed to enter into a settlement agreement with OFAC;

WHEREAS, RBS plc has conducted a voluntary review of its U.S. dollar transactions and has undertaken outside the United States enhancements to its OFAC compliance systems and controls designed to address the historical deficiencies in its U.S. dollar payment processing;

WHEREAS, this Order to Cease and Desist is issued with respect to the following:

A. RBS Group and RBS plc lacked adequate risk management and legal review policies and procedures to ensure that activities conducted at offices outside the United States

comply with applicable OFAC Regulations; and

B. From at least 2005 to 2008, certain business lines within RBS plc developed and implemented policies and procedures for processing U.S. dollar-denominated funds transfers through unaffiliated U.S. financial institutions involving parties subject to OFAC Regulations that omitted relevant information from payment messages necessary for the U.S. financial institutions to determine whether these transactions were carried out in a manner consistent with U.S. law, and engaged in certain other transactions that violated applicable OFAC Regulations into 2009.

WHEREAS, to address the deficiencies described above, RBS Group continues to implement improvements in its oversight and compliance program for activities involving the offices of RBS Group, RBS plc, and their subsidiaries outside the United States that in whole or in part impact the ability of U.S. financial institutions to comply with applicable OFAC sanctions;

WHEREAS, the Board of Governors, RBS Group, and RBS plc have common goals to ensure that RBS Group, RBS plc, and their subsidiaries comply with United States laws, rules, and regulations that apply to the activities of the RBS Group organization, and that RBS Group and RBS plc foster a strong commitment towards compliance;

WHEREAS, the Board of Governors is issuing this consent Order to Cease and Desist against RBS Group and RBS plc (the “Order”);

WHEREAS, the United Kingdom’s Financial Conduct Authority (“FCA”), as the home country conduct supervisor of RBS Group and RBS plc, has agreed to assist the Board of Governors as set out in paragraphs 2(b), 2(c), 3, and 5(a) of this Order;

WHEREAS, on December 9, 2013, the board of directors of RBS Group and RBS plc authorized and directed Chris Campbell, General Counsel, of RBS Group to enter into this Order on behalf of RBS Group and RBS plc, consenting to compliance by RBS Group, RBS plc, and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(4) of the Federal Deposit Insurance Act, as amended (12 U.S.C. §§ 1813(u) and 1818(b)(4)) (the “FDI Act”), with each and every provision of this Order, and waiving any and all rights that RBS Group and RBS plc may have pursuant to 12 U.S.C. § 1818, 12 C.F.R. Part 263, or otherwise to: (i) the issuance of a notice of charges and of hearing on any matter set forth in this Order; (ii) a hearing for the purpose of taking evidence of any matters set forth in this Order; (iii) judicial review of this Order, and (iv) to challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Order or any provision hereof.

NOW, THEREFORE, before the filing of any notices, or taking of any testimony or adjudication of or finding on any issues of fact or law herein, and solely for the purpose of settling this matter without a formal proceeding being filed and without the necessity for protracted or extended hearings or testimony, it is hereby ordered, pursuant to sections 8(b)(1) and (4) of the FDI Act (12 U.S.C. §§1818(b)(1) and 1818(b)(4)), that:

U.S. Law Compliance Program

1. Within 90 days of this Order, RBS Group and RBS plc shall submit to the Federal Reserve Bank of Boston (the “Reserve Bank”) an acceptable program to ensure compliance with the OFAC Regulations by RBS Group’s and RBS plc’s global business lines, including a timetable for implementation (the “OFAC Compliance Program”), that shall, at a minimum, provide for:

(a) An annual assessment of OFAC compliance risks arising from the global business activities and customer base of RBS Group and RBS plc subsidiaries, including risks arising from transaction processing and trade finance activities conducted by or through RBS Group's global operations;

(b) policies and procedures to ensure compliance with OFAC Regulations by RBS Group's global business lines, including screening with respect to transaction processing and trade financing activities for the direct and indirect customers of RBS Group and RBS plc subsidiaries;

(c) the establishment of an OFAC compliance reporting system that is widely publicized within the global organization and integrated into RBS Group's and RBS plc's other reporting systems in which employees report known or suspected violations of OFAC Regulations, and that includes a process designed to ensure that known or suspected OFAC violations are promptly escalated to appropriate compliance personnel for appropriate resolution and reporting;

(d) procedures to ensure that the OFAC Compliance Program is adequately staffed and funded;

(e) training for RBS Group and RBS plc employees in OFAC-related issues appropriate to the employee's job responsibilities that is provided on an ongoing, periodic basis; and

(f) an audit program designed to test for compliance with OFAC Regulations.

2. (a) During the term of this Order, to ensure that the OFAC Compliance Program is functioning effectively to detect, correct, and report OFAC sanction transactions when they occur, RBS Group and RBS plc shall conduct on an annual basis: (i) a review of

OFAC compliance policies and procedures and their implementation for RBS Group's and RBS plc's global business lines, and (ii) an appropriate risk-focused sampling of U.S. dollar payments (the "OFAC Compliance Review").

(b) The OFAC Compliance Review, the first of which shall commence one year after the date of this Order, shall be conducted by an independent consultant acceptable to the Reserve Bank and the FCA. No later than 30 days before the scheduled commencement of the OFAC Compliance Review, RBS Group shall submit an engagement letter acceptable to the Reserve Bank and the FCA that details the independent consultant's scope of work.

(c) Each OFAC Compliance Review shall be conducted in accordance with generally accepted auditing standards and the results of each review shall be submitted to the Reserve Bank and the FCA within 90 days of the anniversary date of this Order.

3. Within 60 days of the Reserve Bank's approval of the OFAC Compliance Program required by paragraph 1, RBS Group and RBS plc shall complete a global OFAC risk assessment with particular attention to transactions involving group affiliates. A copy of the risk assessment shall be submitted to the Reserve Bank and the FCA upon its completion.

Compliance with the Order

4. Within 30 days after the end of each calendar quarter following the date of this Order, RBS Group and RBS plc shall submit to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with this Order and the results thereof.

Approval and Implementation of Program

5. (a) RBS Group and RBS plc shall submit the written OFAC Compliance Program that is acceptable to the Reserve Bank within the time period set forth in paragraph 1 of

this Order. An independent consultant acceptable to the Reserve Bank and the FCA shall be retained within the time period set forth in paragraph 2(b) of this Order. An engagement letter acceptable to the Reserve Bank and the FCA shall be submitted within the time period set forth in paragraph 2(b) of this Order.

(b) Within 10 days of approval by the Reserve Bank, RBS Group and RBS plc shall adopt the approved OFAC Compliance Program. Upon adoption, RBS Group and RBS plc shall promptly implement the approved program, and thereafter fully comply with it.

(c) During the term of this Order, the approved program and engagement letter shall not be amended or rescinded without the prior written approval of the Reserve Bank.

Notices

6. All communications regarding this Order shall be sent to:

(a) James T. Nolan
Senior Vice President
Director of Supervision, Regulation, and Credit
Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston, Massachusetts 02210

(b) Chris Campbell
Group General Counsel
The Royal Bank of Scotland Group plc
36 St. Andrew Square
Edinburgh, Scotland EH2 2YE

(c) Chris Campbell
Group General Counsel
The Royal Bank of Scotland plc
36 St. Andrew Square
Edinburgh, Scotland EH2 2AD

Miscellaneous

7. Notwithstanding any provision of this Order to the contrary, the Reserve Bank may, in its sole discretion, grant written extensions of time to RBS Group and RBS plc to

comply with this Order.

8. The provisions of this Order shall be binding upon RBS Group and RBS plc and its institution-affiliated parties, in their capacities as such, and their successors and assigns.

9. Each provision of this Order shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank.

10. The provisions of this Order shall not supersede the Order dated July 26, 2011.

11. The provisions of this Order shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, or any other federal or state agency from taking any other action affecting RBS Group, RBS plc, any subsidiary thereof, or any of their current or former institution-affiliated parties and their successors and assigns.

By order of the Board of Governors of the Federal Reserve System, effective this 11th day of December, 2013.

THE ROYAL BANK OF SCOTLAND
THE GROUP PLC

BOARD OF GOVERNORS OF
FEDERAL RESERVE SYSTEM

By: /s/ Chris Campbell
Chris Campbell
Group General Counsel

By: /s/ Robert deV. Frierson
Robert deV. Frierson
Secretary of the Board

THE ROYAL BANK OF SCOTLAND PLC

By: /s/ Chris Campbell
Chris Campbell
Group General Counsel