

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

NEW YORK STATE BANKING DEPARTMENT
NEW YORK, NEW YORK

STATE OF CONNECTICUT
DEPARTMENT OF BANKING
HARTFORD, CONNECTICUT

ILLINOIS DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION
DIVISION OF BANKING
SPRINGFIELD, ILLINOIS

In the Matter of

THE ROYAL BANK OF SCOTLAND
GROUP PLC
Edinburgh, Scotland

THE ROYAL BANK OF SCOTLAND PLC
Edinburgh, Scotland

THE ROYAL BANK OF SCOTLAND N.V.
Amsterdam, The Netherlands

THE ROYAL BANK OF SCOTLAND PLC
NEW YORK BRANCH
New York, New York

THE ROYAL BANK OF SCOTLAND PLC
CONNECTICUT BRANCH
Stamford, Connecticut

ROYAL BANK OF SCOTLAND N.V.
NEW YORK BRANCH
New York, New York

ROYAL BANK OF SCOTLAND N.V.
CHICAGO BRANCH
Chicago, Illinois

Docket Nos. 11-074-B-FB1
11-074-B-FB2
11-074-B-FB3
11-074-B-FBR1
11-074-B-FBR2
11-074-B-FBR3
11-074-B-FBR4
2011-DB-35

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

WHEREAS, The Royal Bank of Scotland Group plc, Edinburgh, Scotland (“RBS Group”) is a registered bank holding company that conducts banking operations in the United States through various entities (the “U.S. Operations”);

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

WHEREAS, The Royal Bank of Scotland N.V., Amsterdam, The Netherlands (“RBS N.V.”) is a foreign bank as defined in section 1(b)(7) of the International Banking Act that conducts operations in the United States. RBS N.V. (formerly known as ABN AMRO Bank N.V.) is an indirect subsidiary of RBS Group;

WHEREAS, the U.S. Operations of RBS Group include branches of RBS plc in New York, New York and Stamford, Connecticut, and branches of RBS N.V. in New York, New York and Chicago, Illinois (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, the New York State Banking Department is the appropriate state supervisor for the branches of RBS plc and RBS N.V. that are located in New York, New York;

WHEREAS, the State of Connecticut Department of Banking is the appropriate state supervisor for the branch of RBS plc that is located in Stamford, Connecticut;

WHEREAS, the Illinois Department of Financial and Professional Regulation is the appropriate state supervisor for the branch of RBS N.V. that is located in Chicago, Illinois;

WHEREAS, the U.S. Operations also include a broker-dealer that is supervised by the U.S. Securities and Exchange Commission;

WHEREAS, effective December 19, 2005, ABN AMRO Bank N.V. and its New York and Chicago branches consented to a cease and desist order issued by De Nederlandsche Bank N.V. (“DNB”), the Board of Governors, the New York State Banking Department, and the State of Illinois Department of Financial and Professional Regulation that required improvements in compliance with U.S. statutes and regulations related to anti-money laundering (“AML”) and regulations issued by the Office of Foreign Asset Control (“OFAC”). On July 27, 2007, DNB terminated the cease and desist order as to DNB. On September 10, 2008, the Board of Governors, the New York State Banking Department, and the State of Illinois Department of Financial and Professional Regulation terminated the cease and desist order;

WHEREAS, in October 2007, a consortium that included RBS Group acquired ABN AMRO Holding N.V., the parent company of ABN AMRO Bank N.V. As part of the acquisition, RBS Group indirectly controlled the New York and Chicago branches of ABN AMRO Bank N.V. On February 5, 2010, through a statutory demerger process, the former ABN AMRO Bank N.V. was renamed RBS N.V.;

WHEREAS, after RBS Group acquired indirect control of the U.S. branches of ABN AMRO Bank N.V. (now, RBS N.V.), it began to integrate certain business lines handled by these branches into its other U.S. Operations. The integration process is not complete, and some business lines, including cross-border payment processing, continue to be conducted through the RBS N.V. branches in New York and Chicago;

WHEREAS, RBS Group is adopting a consolidated corporate governance structure to oversee its U.S. Operations and is taking steps to address deficiencies in its oversight of the U.S. Operations;

WHEREAS, RBS Group, RBS plc, RBS N.V., and the U.S. Branches are taking steps to address deficiencies in the branches' risk management and compliance with applicable federal and state laws, rules, and regulations relating to BSA/AML compliance including compliance with the Bank Secrecy Act ("BSA") (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); and the AML requirements of Regulation K of the Board of Governors (12 C.F.R. §§ 211.24(f) and 211.24(j)) (collectively, "BSA/AML") and with applicable regulations issued by OFAC (31 C.F.R. § 500 *et seq.*) and guidelines issued or administered by OFAC (collectively, "OFAC Requirements");

WHEREAS, affiliates of the U.S. Branches perform certain BSA/AML and OFAC compliance functions for the U.S. Branches;

WHEREAS, it is the common goal of the Board of Governors, the Federal Reserve Bank of Boston, the Federal Reserve Bank of New York, the New York State Banking Department, the State of Connecticut Department of Banking, the Illinois Department of Financial and Professional Regulation, RBS Group, RBS plc, RBS N.V., and the U.S. Branches to ensure that RBS Group maintains effective corporate governance and oversight over the U.S. Operations, including the establishment and maintenance of robust risk management and compliance programs on a consolidated basis, and that RBS Group, RBS plc, RBS N.V., and the U.S. Branches fully address all deficiencies in the U.S. Branches' risk management, BSA/AML compliance, and OFAC Requirements compliance functions;

WHEREAS, RBS Group, RBS plc, RBS N.V., the U.S. Branches, the Board of Governors, the New York State Banking Department, the Connecticut Department of Banking, and the Illinois Department of Financial and Professional Regulation have mutually agreed to enter into this consent Cease and Desist Order (the "Order"); and

WHEREAS, on June 28, 2011, pursuant to delegated authority, Stephen A.M. Hester, Group Chief Executive Officer, is authorized to execute this Order on behalf of RBS Group, RBS plc, and RBS plc's New York and Connecticut branches, respectively, and consenting to compliance with each and every applicable provision of this Order by RBS Group, RBS plc, and RBS plc's New York and Connecticut branches, and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(4) of the Federal Deposit Insurance Act, as amended (the "FDI Act") (12 U.S.C. §§ 1813(u) and 1818(b)(4)), and waiving any and all rights that RBS Group, RBS plc, and RBS plc's New York and Connecticut branches may have pursuant to sections 8 of the FDI Act (12 U.S.C. § 1818), and, as to the Connecticut branch, Section 36a-53 of the Connecticut General Statutes, including, but not limited to: (i) the issuance of a notice of charges; (ii) a hearing for the purpose of taking evidence in any matters set forth in this Order; (iii) judicial review of this Order; (iv) contest the issuance of this Order by the Board of Governors and the appropriate state supervisors; and (v) challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of the Order or any provision hereof;

WHEREAS, on June 24, 2011, pursuant to delegated authority, Stephen A.M. Hester, Group Chief Executive Officer, is authorized to execute this Order on behalf of RBS N.V. and RBS N.V.'s New York and Chicago branches, respectively, and consenting to compliance with each and every applicable provision of this Order by RBS N.V., RBS N.V.'s New York and Chicago branches, and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(4) of the FDI Act, and waiving any and all rights that RBS N.V. and RBS N.V.'s New York and Chicago branches may have pursuant to sections 8 of the FDI Act and, as to the Chicago branch, 38 Ill. Adm. Code 392, including, but not limited to: (i) the issuance of a notice of charges; (ii) a hearing for the purpose of taking evidence in any matters set forth in this Order; (iii) judicial

review of this Order; (iv) contest the issuance of this Order by the Board of Governors and the appropriate state supervisors; and (v) challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of the Order or any provision hereof.

NOW, THEREFORE, 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), Section 39 of the New York Banking Law, Section 48 of the Illinois Banking Act (205 ILCS 5/48), and Section 36a-53 of the Connecticut General Statutes, as applicable, that RBS Group, RBS plc, RBS N.V., and the U.S. Branches shall cease and desist and take affirmative action as follows:

Corporate Governance and Board Oversight

1. Within 60 days of this Order, the board of directors of RBS Group shall submit to the Federal Reserve Bank of Boston an acceptable written plan to strengthen board and senior management oversight of the corporate governance, management, risk management, and operations of the U.S. Operations on an enterprise-wide and business line basis. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the board of directors will take to establish a consolidated framework for the U.S. Operations' corporate governance and the maintenance of effective control over and supervision of the U.S. Operations' senior management and major operations and activities, including, but not limited to, compliance with BSA/AML and OFAC Requirements, risk management, and information technology;

(b) enhancements to management information systems to provide information to the board of directors and senior U.S. management necessary to effectively oversee the U.S. Operations;

(c) a description of the information and reports that will be regularly reviewed by the RBS Group's board of directors and U.S. senior management in the oversight of the U.S. Operations; and

(d) an evaluation of staffing needs of the U.S. Branches to ensure that the branches are adequately staffed by qualified personnel with the ability, experience, and other qualifications necessary to ensure that the branches comply with applicable laws and regulations, maintain the branches in a safe and sound condition, and comply with the requirements of this Order.

2. Within 60 days of this Order, the board of directors of RBS Group shall submit to the Federal Reserve Bank of Boston an acceptable written enterprise-wide risk management program for the U.S. Operations. The program shall, at a minimum, address, consider, and include:

(a) The structure and composition of RBS Group's and, as applicable, the U.S. Operations' compliance program, including any committees, and a determination of the optimum structure and composition needed to provide adequate oversight of the U.S. Operations' consolidated risk management program;

(b) written policies, procedures, and risk management standards;

(c) enhanced credit risk management policies and procedures, including loan review and grading, that are consistent with U.S. standards;

(d) measures to ensure the effective oversight of any U.S. Operations functions that are outsourced to affiliates of the U.S. Branches or third-party vendors; and

(e) procedures to require the escalation of significant matters related to risk management to appropriate senior officers of RBS Group and board committees, and the U.S. region risk committee and risk management group.

3. Within 60 days of this Order, RBS Group shall submit to the Federal Reserve Bank of Boston an acceptable written plan to oversee compliance by the U.S. Operations with all applicable U.S. laws, rules, regulations, and supervisory guidance.

BSA/AML Compliance

4. Within 60 days of this Order, RBS Group shall submit to the Federal Reserve Bank of Boston and the Federal Reserve Bank of New York (collectively, the “Reserve Banks”), an acceptable written BSA/AML compliance program for the U.S. Branches on a consolidated basis. RBS N.V. shall subscribe to the acceptable program to the extent that the program applies to the RBS N.V. New York and Chicago branches. At a minimum, the program shall address, consider, and include:

- (a) The structure of the consolidated U.S. branch BSA/AML compliance program, including reporting lines;
- (b) standards for BSA/AML compliance for the U.S. Branches;
- (c) the required elements of a BSA/AML compliance program described in section 208.63 of Regulation H of the Board of Governors (12 C.F.R. § 208.63), which are required elements for U.S. branches of foreign banks under section 211.24(j) of Regulation K of the Board of Governors;
- (d) oversight and effective management of any BSA/AML compliance functions that are outsourced to affiliates of the U.S. Branches or third-party vendors; and
- (e) BSA/AML related risk assessments.

5. Within 90 days of this Order, RBS plc, RBS N.V., and the U.S. Branches shall jointly submit to the Reserve Banks, the New York State Banking Department, the Connecticut Department of Banking, and the Illinois Department of Financial and Professional Regulation (collectively, the “Supervisors”), an acceptable written plan to improve the branches’ compliance with all applicable provisions of the BSA and the rules and regulations issued thereunder, and the requirements of Regulation K of the Board of Governors. The plan shall include provisions for updates on an ongoing basis as necessary to incorporate amendments to the BSA and the rules and regulations issued thereunder. At a minimum, the plan shall include:

(a) Enhancements to the independent testing of the BSA/AML compliance program at each of the U.S. Branches through regular, comprehensive, and timely audits that are fully documented and conducted by qualified parties who are independent of RBS Group’s, RBS plc’s, and RBS N.V.’s BSA/AML compliance function. At a minimum, the independent testing shall provide for:

(i) the evaluation of the overall adequacy and effectiveness of the BSA/AML compliance program, including policies, procedures, and processes;

(ii) the review of U.S. Branches’ risk assessment for reasonableness given the U.S. Branches’ risk profile (products, services, customers, entities, and geographic locations);

(iii) appropriate risk-based transaction testing to verify the U.S. Branches’ adherence to the BSA recordkeeping and reporting requirements; and

(iv) the evaluation of management’s efforts to resolve violations and deficiencies noted in previous audits and regulatory examinations, including progress in addressing outstanding supervisory actions; and

(b) effective training for all appropriate U.S. Branches' personnel and for appropriate personnel of affiliates that perform BSA/AML compliance-related functions for the U.S. Branches in all aspects of AML regulatory requirements and internal policies and procedures, and updating of training on a regular basis.

Suspicious Activity Reporting and Customer Due Diligence

6. Within 60 days of this Order, RBS plc, RBS N.V., and the U.S. Branches shall jointly submit to the Supervisors an acceptable written customer due diligence program designed to reasonably ensure the identification and timely, accurate, and complete reporting by any of the U.S. Branches of all known or suspected violations of law or suspicious transactions to law enforcement and supervisory authorities, as required by applicable suspicious activity reporting laws and regulations. At a minimum, the program shall include:

- (a) The scope and frequency of transaction monitoring;
- (b) a methodology for assigning risk ratings to account holders, including affiliates, that considers factors such as type of customer, type of product or service, and geographic location;
- (c) appropriate risk-based customer due diligence with respect to all customers, including affiliates, and as applicable, enhanced due diligence procedures;
- (d) monitoring and investigation criteria and procedures to ensure the timely detection, investigation, and reporting of all known or suspected violations of law and suspicious transactions;
- (e) a timetable to implement improvements to suspicious activity monitoring systems and processes; and

(f) measures to ensure that transaction monitoring and suspicious activity reporting functions that are outsourced to affiliates of the U.S. Branches or third-party vendors are performed as to meet regulatory requirements.

Office of Foreign Assets Control Compliance

7. Within 60 days of this Order, RBS plc, RBS N.V., and the U.S. Branches shall jointly submit to the Supervisors an acceptable written plan designed to enhance each branch's compliance with OFAC Requirements. At a minimum, the written plan shall include:

- (a) A methodology for assessing OFAC risks presented by the specific product lines (including cross-border payment processing), customer base, and nature of transactions conducted at, by, or through each branch;
- (b) appropriate screening procedures for identified high-risk areas;
- (c) procedures to ensure that customer files contain complete documentation of all OFAC checks performed;
- (d) oversight and effective management of any OFAC compliance functions that are outsourced to affiliates of the U.S. Branches or any third-party vendors;
- (e) effective training for all appropriate U.S. Branches' personnel and for appropriate personnel of affiliates that perform OFAC compliance-related functions for the U.S. Branches in all aspects of OFAC Requirements and internal policies and procedures, and updating of training on a regular basis; and
- (f) independent testing of compliance with OFAC Requirements.

Approval, Implementation, and Progress Reports

8. (a) RBS Group, RBS plc, RBS N.V., and the U.S. Branches, as applicable, shall jointly submit written plans and programs that are acceptable to the appropriate Supervisors within the applicable time periods set forth in paragraphs 1, 2, 3, 4, 5, 6, and 7 of this Order.

(b) Within 10 days of approval by the appropriate Supervisors, RBS Group, RBS plc, RBS N.V., and the U.S. Branches, as applicable, shall adopt the approved plans and programs. Upon adoption, RBS Group, RBS plc, RBS N.V., and the U.S. Branches, as applicable, shall implement the approved plans and programs and thereafter fully comply with them.

(c) During the term of this Order, the approved plans and programs shall not be amended or rescinded without the prior written approval of the appropriate Supervisors.

9. Within 30 days after the end of each calendar quarter following the date of this Order, RBS Group's board of directors shall submit to the appropriate Supervisors written progress reports detailing the form and manner of all actions taken to secure compliance with the provisions of this Order and the results thereof. The appropriate Supervisors may, in writing, discontinue the requirement for progress reports or modify the reporting schedule.

Notices

10. 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) Zahra El-Mekkawy
Senior Vice President
Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045
- (c) Regina Stone
Acting First Deputy Superintendent
New York State Banking Department
One State Street
New York, New York 10004
- (d) Howard F. Pitkin
Banking Commissioner
Connecticut Department of Banking
260 Constitution Plaza
Hartford, Connecticut 06103
- (e) Scott D. Clarke
Assistant Director
Illinois Department of Financial and Professional Regulation
320 W. Washington
Springfield, Illinois 62786
- (f) Group General Counsel
The Royal Bank of Scotland Group plc
42 St. Andrew Square
Edinburgh, Scotland EH2 2YE
- (g) Group General Counsel
The Royal Bank of Scotland plc
36 St. Andrew Square
Edinburgh, Scotland EH2 2AD
- (h) Company Secretary
Royal Bank of Scotland N.V.
Gustav Mahlerlaan, 350 1082 ME
Amsterdam, The Netherlands

- (i) Branch Manager
The Royal Bank of Scotland Group plc
New York Branch
101 Park Avenue
10th Floor
New York, New York 10178

- (j) Branch Manager
The Royal Bank of Scotland Group plc
Stamford Connecticut Branch
600 Washington Boulevard
Stamford, Connecticut 06901

- (k) Branch Manager
Royal Bank of Scotland N.V.
New York Branch
101 Park Avenue
New York, New York 10178

- (l) Branch Manager
Royal Bank of Scotland N.V.
Chicago Branch
71 South Wacker Drive, 28th Floor
Chicago, Illinois 60606

Miscellaneous

11. The provisions of this Order shall be binding on RBS Group, RBS plc, RBS N.V., the U.S. Branches, and each of their institution-affiliated parties in their capacities as such, and their successors and assigns.

12. Each provision of this Order shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the appropriate Supervisors.

13. Notwithstanding any provision of this Order, the appropriate Supervisors may, in their sole discretion, grant written extensions of time to RBS Group, RBS plc, RBS N.V., and the U.S. Branches to comply with any provision of this Order.

14. The provisions of this Order shall not bar, estop, or otherwise prevent the Board of Governors, the Supervisors, or any other federal or state agency from taking any further or other action affecting RBS Group, RBS plc, RBS N.V., the U.S. Branches, or any of their current or former institution-affiliated parties or their successors or assigns.

By Order of the Board of Governors, the New York State Banking Department, the State of Connecticut Department of Banking, and the Illinois Department of Financial and Professional Regulation effective this 26th day of July, 2011.

THE ROYAL BANK OF SCOTLAND
GROUP PLC

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By: /s/ Stephen Hester
Stephen Hester
Authorized Signatory

By: /s/ Jennifer J. Johnson
Jennifer J. Johnson
Secretary of the Board

THE ROYAL BANK OF SCOTLAND PLC

NEW YORK STATE BANKING
DEPARTMENT

By: /s/ Stephen Hester
Stephen Hester
Authorized Signatory

By: /s/ Regina A. Stone
Regina A. Stone
Acting First Deputy Superintendent

THE ROYAL BANK OF SCOTLAND N.V.

CONNECTICUT DEPARTMENT OF
BANKING

By: /s/ Stephen Hester
Stephen Hester
Authorized Signatory

By: /s/ Howard F. Pitkin
Howard F. Pitkin
Banking Commissioner

ROYAL BANK OF SCOTLAND PLC
NEW YORK BRANCH

By: /s/ Stephen Hester
Stephen Hester
Authorized Signatory

ILLINOIS DEPARTMENT OF
FINANCIAL AND PROFESSIONAL
REGULATION

By: /s/ Manuel Flores
Manuel Flores
Director
Division of Banking

ROYAL BANK OF SCOTLAND PLC
CONNECTICUT BRANCH

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