

**U.S. VULNERABILITIES TO MONEY  
LAUNDERING, DRUGS, AND TERRORIST  
FINANCING: HSBC CASE HISTORY**

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**HEARING**

BEFORE THE

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS  
OF THE

COMMITTEE ON  
HOMELAND SECURITY AND  
GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE  
ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

**VOLUME 2 OF 2**

JULY 17, 2012

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b. HSBC document prepared May 2007. <i>INFORMATION REQUESTED IN CONNECTION WITH: NORTH KOREA, CUBA, AND MYANMAR (We were notified that there are relationships with Cuban and North Korean customers.)</i> . [HSBC OCC 8876093–095] .....	914
c. HSBC internal email, dated October 2005, re: <i>GCL 050047—Compliance with Sanctions (I note HBMX continues to process USD payments involving Cuba. It is very important this is stopped immediately as the regulators are getting very tough and the cost to the Group could be considerable if a breach occurs, both in terms of the fine and in the rectification work which is likely to be a pre-requisite to any settlement. If this identifies further breaches, the cost could spiral.)</i> . [HSBC OCC 8874357–362] .....	917
d. Excerpt from Deloitte, <i>Transaction Review Progress and Results Reporting, 18th &amp; 19th October 2011 (Correspondent and other accounts . . .)</i> . [HSBC-PSI-PROD-0096628, 649] .....	923
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73. HSBC internal email, dated March 2005, re: <i>Al Rajhi Guidance Clarified (Looks like you're fine to continue dealing with Al Rajhi. You'd better be making lots of money!)</i> . [HSBC OCC 3114022] .....	926
74. HSBC internal email, dated May 2005, re: <i>Al Rajhi (After the OCC close out and that chapter hopefully finished, could we re-visit Al Rajhi again. London compliance has taken a more lenient view . . .)</i> . [OCC-PSI-00144350] .....	927
75. HSBC internal email, dated August 2005, re: <i>Al Rajhi (We've gotten push back from OCC on Al Rajhi Trading, which is less controversial than the bank.)</i> . [OCC-PSI-00343527] .....	929
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77. HSBC internal email, dated November 2006, re: <i>Al Rajhi Banking (. . . the PCM Regional Sales Manager at HBME in Bahrain . . . has called to say that Al Rajhi has now run out of patience waiting for us to re-start our banknote trading relationship . . .)</i> . [HSBC OCC 3280505] .....	936
78. HSBC internal email, dated November 2006, re: <i>Al Rajhi Banking (At the end of the day, its Compliance who's the key.)</i> . [OCC-PSI-00150795] ...	937
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80. HSBC internal email, dated December 2006, re: <i>Al Rajhi Bank (. . . the notion of 'no smoke without fire' is one we must bear in mind and any business unit dealing with this entity must acknowledge the associated risks.)</i> . [OCC-PSI-00150892] .....	942
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83. HSBC internal email, dated November 2007, re: <i>ISLAMI BANK BANGLADESH LIMITED—Bangladesh (. . . the Al-Rajhi family has been associated with Islami Bank, Bangladesh Limited, since its inception.)</i> . [OCC-PSI-00154139] .....	954
84. a. HSBC internal email, dated August 2009, re: <i>EDD Report of Findings [redacted] Bank Ltd in Bangladesh (BN-SP &amp; PCM) (I support Hersel's stance that this is such a large bank hence malfeasance is expected.)</i> . [HSBC OCC 7688017-024] .....	958
b. HSBC internal email, dated September 2005, re: <i>Report of Findings—[redacted] Bank—FIG (Yes, corruption can be rampant in this bank. . . .)</i> . [HSBC OCC 7690024-032] .....	964
85. HSBC <i>Know Your Customer Profile</i> for Al Rajhi Banking & Investment Corp, October 2010. [HSBC-PSI-PROD-0102310-324] .....	967
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88. HSBC internal email, September 2008, re: <i>Hokuriku Bank Ltd—Compliance query (Information from Hokuriku Bank regarding some of the car dealerships they do business with that we questioned. Its very limited information that took us over a month to get.)</i> . [OCC-PSI-00409214-216] .....	1005
89. HSBC internal email, dated November 2008, re: <i>Hokuriku Bank (This use of cash letter is inappropriate and the Committee has concluded that PCM should no longer allow Hokuriku to send traveler's checks through cash letter.)</i> . [OCC-PSI-00808695] .....	1017
90. HSBC internal email, dated December 2008, re: <i>Hokuriku Bank—information needed (They have been good enough to provide information so far but as you may understand from bank secrecy view point, they should not or cannot disclose customer information.)</i> . [OCC-PSI-00811358] .....	1024
91. HSBC internal email, dated December 2008, re: <i>SK Trading (. . . we uncovered huge amounts of [redacted] travelers' checks (daily averages of \$500M to \$700M per day) being processed by HSBC for their correspondent Hokuriku Bank in Japan.)</i> . [OCC-PSI-00888526] .....	1037
92. Hokuriku Bank, Ltd. responses to questions from the U.S. Senate Permanent Subcommittee on Investigations, June 26 and 29, 2012. [PSI-HokurikuBank-01-0001-005 and PSI-HokurikuBank-02-0001] .....	1038

**Documents Related to HBUS Private Bank Americas—Offering Bearer Share Accounts:**

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94. HSBC internal email, dated December 2007, re: *Bearer Share Corporation Policy (IPB Miami maintains existing accounts for 1,679 Bearer Share Corporations of which 126 are considered High Risk.)*. [OCC-PSI-00226652] ..... 1059

95. Transcript of 4/25/2007 telephone conversation between HBUS Claude Mandel and Mauricio Cohen (*Mr. Cohen: But I can't put that, otherwise I have to declare them in the United States? I can't do that, I don't want to declare . . . otherwise, I have to close the accounts with you and go to Geneva.*). [HSBC-PSI-PROD-0024791-795] ..... 1062

96. a. HSBC internal email, dated June 2007, re: *Waiver Request (The two accounts are bearer shares. The client does not want neither to register nor custodize the shares, and they do not want to sign the BOL.)*. [OCC-PSI-00214516] ..... 1067

    b. HSBC internal email, dated June 2007, re: *Waiver Request (I would do it without going to Geneva but audit wrote up DPB on a similar situation.)*. [OCC-PSI-00214534] ..... 1071

97. Documents related to Peruvian Family:

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    b. HSBC internal email, dated June and July, 2007, re: [redacted] *Family (This is too important a family in Peru for us not to want to do business with, . . .)*. [OCC-PSI-00215211] ..... 1075

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99. HSBC internal email, dated June 2009, re: *GMO business reviews—LATAM (The inherent AML risk in Mexico is still very high . . .)*. [HSBC OCC 8874895] ..... 1083

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100. Correspondence from the Comptroller of the Currency (OCC) to the Permanent Subcommittee on Investigation, September 20, 2012, on actions taken by the OCC since the Subcommittee's July 2012 hearing. [PSI-OCC-45-0000010-016] ..... 1084

101. Responses to supplemental questions for the record from HSBC, September 11 and 25, 2012. [PSI-HSBC-80-000001-006, PSI-HSBC-81-000001-003] ..... 1100

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102. Documents cited in footnotes to *U.S. Vulnerabilities to Money Laundering, Drugs, and Terrorist Financing: HSBC Case History*, the Report released in conjunction with the Subcommittee hearing on July 17, 2012. A *Document Locator List* provides Bates numbers and document descriptions of the documents cited in the Report. Not included are documents related to Subcommittee interviews, which are not available to the public, and widely available public documents ..... 1109



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***U.S. Vulnerabilities to Money Laundering, Drugs,***  
***and Terrorist Financing: HSBC Case History***  
**July 17, 2012**

**EXHIBIT #102:**

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**Permanent Subcommittee on Investigations**  
**EXHIBIT #102**

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HSBC-PSI-PROD-0198570	2081

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<b>Bates Number or Document Description</b>	<b>Page Number</b>
HSBC-PSI-PROD-0198571-572	2082
HSBC-PSI-PROD-0200315-341	Sealed Exhibit*
OCC-PSI-0000075-195	Sealed Exhibit*
OCC-PSI-00000230-259	Sealed Exhibit*
OCC-PSI-00000295-301	Sealed Exhibit*
OCC-PSI-00000317-322	Sealed Exhibit*
OCC-PSI-00000341-45	Sealed Exhibit*
OCC-PSI-00000391-394	Sealed Exhibit*
OCC-PSI-00000434-436	Sealed Exhibit*
OCC-PSI-00000445-447	Sealed Exhibit*
OCC-PSI-00000501-512	2084
OCC-PSI-00005890-904 (Printed as Exhibit 37b)	730
OCC-PSI-00107432-443	Sealed Exhibit*
OCC-PSI-00107444-462	Sealed Exhibit*
OCC-PSI-00107505-510	Sealed Exhibit*
OCC-PSI-00107522-528	Sealed Exhibit*
OCC-PSI-00107529-536	Sealed Exhibit*
OCC-PSI-00107537-542	Sealed Exhibit*
OCC-PSI-00107556-560	Sealed Exhibit*
OCC-PSI-00107567-571	Sealed Exhibit*
OCC-PSI-00107594-596	Sealed Exhibit*
OCC-PSI-00107597-602	Sealed Exhibit*
OCC-PSI-00107603-606	Sealed Exhibit*
OCC-PSI-00107607-611	Sealed Exhibit*
OCC-PSI-00107615-617	Sealed Exhibit*
OCC-PSI-00107618-620	Sealed Exhibit*
OCC-PSI-00107624-625	Sealed Exhibit*
OCC-PSI-00107628-630	Sealed Exhibit*
OCC-PSI-00107631-633	Sealed Exhibit*
OCC-PSI-00107637-654	Sealed Exhibit*
OCC-PSI-00141530-531 (Printed as Exhibit 70d)	909
OCC-PSI-00144350 (Printed as Exhibit 74)	927
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OCC-PSI-00150796	2096
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OCC-PSI-00150892 (Printed as Exhibit 80)	942
OCC-PSI-00151506 (Printed as Exhibit 37a)	729
OCC-PSI-00153253	2097
OCC-PSI-00154139 (Printed as Exhibit 83)	954
OCC-PSI-00155690	2098
OCC-PSI-00155719	2099
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<b>Bates Number or Document Description</b>	<b>Page Number</b>
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OCC-PSI-00169771	2107
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OCC-PSI-00214516 (Printed as Exhibit 96a)	1067
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OCC-PSI-00226652 (Printed as Exhibit 94)	1059
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OCC-PSI-00292367	2276



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OCC-PSI-00309434	Sealed Exhibit*
OCC-PSI-00312153	2288
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OCC-PSI-00422079	Sealed Exhibit*
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OCC-PSI-00610597	2323
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OCC-PSI-00808695 (Printed as Exhibit 89)	1017
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OCC-PSI-00823818	2391
OCC-PSI-00835851	2412
OCC-PSI-00835857	2419
OCC-PSI-00846642-647	Sealed Exhibit*
OCC-PSI-00851542-545	Sealed Exhibit*
OCC-PSI-00860859-860	2426
OCC-PSI-00863984-992	Sealed Exhibit*
OCC-PSI-00864335-365	Sealed Exhibit*
OCC-PSI-00877731-739	Sealed Exhibit*
OCC-PSI-00880181-185	Sealed Exhibit*
OCC-PSI-00885817-818	2428
OCC-PSI-00885822-826	Sealed Exhibit*
OCC-PSI-00885828-831	Sealed Exhibit*
OCC-PSI-00886601	2430
OCC-PSI-00887684-685	2431
OCC-PSI-00888526 (Printed as Exhibit 91)	1037
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OCC-PSI-00898845-857	2434
OCC-PSI-00899201	Sealed Exhibit*
OCC-PSI-00899202-210	Sealed Exhibit*
OCC-PSI-00899215-226	Sealed Exhibit*
OCC-PSI-00899227-233	Sealed Exhibit*
OCC-PSI-00899234-255	Sealed Exhibit*
OCC-PSI-00899481-485	Sealed Exhibit*
OCC-PSI-00899872-898	Sealed Exhibit*
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OCC-PSI-00904698-726	2447
OCC-PSI-00905522-523	Sealed Exhibit*
OCC-PSI-00907803-811	2476
OCC-PSI-00917881-882	Sealed Exhibit*
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OCC-PSI-00921759-760	2486
OCC-PSI-00928614-626	Sealed Exhibit*
OCC-PSI-00928756-758 (Printed as Exhibit 38)	745
OCC-PSI-00928759-761	Sealed Exhibit*
OCC-PSI-00929779-783	2488
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OCC-PSI-01263216	Sealed Exhibit*
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OCC-PSI-01358804-809	2493
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OCC-PSI-01768568	Sealed Exhibit*
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PSI-OCC-37-0004-009	Sealed Exhibit*
PSI-OCC-38-0001-002	Sealed Exhibit*
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\* Sealed Exhibits retained in the files of the Subcommittee.

*Der Spiegel***Serious Blow****A small financial institution in London apparently served as Taliban's main bank**

Oct 8, 2001 by Christoph Von Pauly

On the outside, Roger Ivett, 48, leads an inconspicuous life. The Brit lives together with his wife, a teacher, and their little son in a house in Harlington, 30 miles north of London. Their neighbors only know that he works in the City and takes the train to work every day.

What they do not know: his employer is the Taliban regime in Afghanistan. Afghan National Credit and Finance Ltd, a subsidiary of Bank Milli headquartered in ruined Kabul, belongs to the God-fearing warriors with long beards.

Ivett and his colleague, Afghan Mohammed al-Jailaki, are the bank's directors, who maintain their office on the fourth floor of a dingy brick building in the north of London. While the world is on the verge of war against the Taliban regime, each morning Ivett turns the gold combination lock to the massive steel door that secures the entrance.

An employee from a neighboring office explained that about two years ago, several mullahs stormed into the bank and demanded money. A couple of security guards were alerted and eventually pushed the bearded men out.

The doorbell missing, a knock on the door comes from a man who looks like a bodyguard. Inside offers a bleak picture: on the table are stacks of computer printouts. Most cubicles in the dismal open office have not been used for quite some time.

This may be related to the fact that the Bank of England, intelligence services, and Scotland Yard have long been interested in the Afghan National Credit companies. As of April 12, 2000, the UN asked its member countries to freeze the worldwide assets of Bank Milli, the parent company of the London bank, and several other Taliban companies.

Neither is a connection to Bin Laden excluded any longer. From records made available to *Der Spiegel*, it appears that the Afghan bank in London maintained close business relations to the Luxembourg Bank of Credit and Commerce International (BCCI), which in 1991 filed for bankruptcy as part of an international scandal. Until 1991, BCCI was the bank of Osama bin Laden, the most wanted terrorist in the world, so reported U.S. Senator John Kerry recently to the U.S. Senate Banking Committee. "When we shut it down, we dealt him a very serious economic blow," said Kerry, who then headed the BCCI investigations.

Founded in 1972 by Arabs and Pakistanis, financial resources were channeled via BCCI for the Afghan opposition against the Russians. Among the profiteers included Osama bin Laden, who maintained several accounts at BCCI, according to testimony by the U.S. senator.

BCCI went under but its partner bank, Milli, lived on. And the companies in London were not affected. Prompted by HM Treasury, the Bank of England only responded on May 3, 2000. As evidenced by the annual report, assets in the amount of 6,288 pounds, about 20 million marks [about \$11.9 million in 2000, \$15.9 million in 2012], were frozen. On May 31, 2000, Afghan National Credit finally had to give back its banking license.

But the British action against Afghan National Credit last year was half-hearted. Last year's assets of the Taliban bank did not amount to 20 million marks, rather over 50 million marks [about \$29.8 million in 2000, \$39.8 million in 2012].

Only the frozen funds could be directly associated with the Taliban regime. The remaining millions can still be paid out or moved if a legal owner comes forward.

Taliban banker, Ivett, and his colleagues continue thus to work as if nothing had happened. He did not want to discuss his bank's companies with *Der Spiegel*, questions for him were discernibly annoying. "Assume that the authorities are well informed about us," he said.

Whose suspicion is directed against the Trading Company of Afghanistan, which supposedly deals just in animal hides. "There is activity currently being explored," said an insider close to the London Treasury. One of the company's directors is bank director, Ivett.

## „Schwerer Schlag“

Ein kleines Geldhaus in London diente offenbar als Hausbank der Taliban.

Nach außen führt Roger Ivett, 48, ein unscheinbares Leben. Der Brit lebt zusammen mit seiner Frau, einer Lehrerin, und dem kleinen Sohn in einem Haus in Harlington, 30 Meilen nördlich von London. Seine Nachbarn wissen nur, dass er als Banker in der City arbeitet und jeden Tag mit dem Zug zur Arbeit fährt.

Was sie nicht wissen: Sein Arbeitgeber ist das Taliban-Regime in Afghanistan. Den gottesfürchtigen Kriegern mit den langen Bärten gehört die Afghan Na-

und drängten die Bärtigen schließlich nach draußen.

Wer wegen der fehlenden Klingel an die Stahltür klopft, wird von einem Mann empfangen, der wie ein Leibwächter aussieht. Im Inneren bietet sich ein trostloses Bild: Auf den Tischen liegen Stapel von Computerausdrucken. Die meisten Arbeitsplätze in dem tristen Großraumbüro wurden schon seit längerer Zeit nicht mehr benutzt.

Das mag damit zusammenhängen, dass sich die Bank of England, Geheimdienste und Scotland Yard seit längerem für die Geschäfte der Afghan

Senats, war bis 1991 die Hausbank von Osama Bin Laden, dem meistgesuchten Terroristen der Welt. „Als wir sie geschlossen haben, haben wir ihm einen sehr schweren ökonomischen Schlag verpasst“, sagte Kerry, der damals die BCCI-Untersuchungen leitete.

1972 von Arabern und einem Pakistaner gegründet, wurden über die BCCI die Finanzmittel für den afghanischen Widerstand gegen die Russen geleitet. Zu den Profiteuren gehörte auch Osama Bin Laden, der nach Aussage des US-Senators gleich mehrere Konten bei der BCCI unterhielt.

Die BCCI ging unter, ihre Partnerbank Milli aber lebte weiter. Und auch die Geschäfte in London waren nicht beeinträchtigt. Auf Veranlassung des britischen Finanzministeriums reagierte die Bank of England erst am 3. Mai 2000. Ausweisk des Geschäftsberichts wurden bei der Afghan National Credit Vermögenswerte in Höhe von 6,288 Millionen Pfund, rund 20 Millionen Mark, eingefroren. Am 31. Mai 2000 musste die Afghan National Credit schließlich ihre Banklizenz zurückgeben.

Doch die Aktion der Briten gegen die Afghan National Credit im vergangenen Jahr war halbherzig. Denn die Aktiva der Taliban-Bank betragen im vergangenen Frühjahr nicht 20 Millionen, sondern über 50 Millionen Mark.

Es wurden nämlich nur die Gelder eingefroren, die direkt dem Taliban-Regime zugeordnet werden konnten. Die restlichen Millionen können weiterhin ausgezahlt oder bewegt werden, wenn sich ein rechtmäßiger Besitzer meldet.

Deshalb gehen Taliban-Banker Ivett und seine Kollegen weiter zur Arbeit, als sei nichts geschehen. Zu den Geschäftsführern seiner Bank wollte er sich gegenüber dem SPIEGEL nicht äußern. Fragen sind ihm erkennbar lastig. „Gehen Sie davon aus, dass die Behörden über uns bestens informiert sind“, sagte er.

Deren Verdacht richtet sich auch gegen die Trading Company of Afghanistan, die angeblich nur mit Tierhäuten handelt. „Da wird zurzeit aktiv ermittelt“, sagt ein Insider aus dem Londoner Finanzministerium. Einer der Direktoren der Firma ist der Bankdirektor Ivett.

CHRISTOPH PAULY



Sitz der Afghan National Credit in London: Mullahs verlangten Geld

tional Credit and Finance Limited, eine Tochtergesellschaft der Bank Milli mit Hauptsitz im zerstörten Kabul.

Ivett und sein Kollege, der Afghane Mohammed al-Jailaki, sind die Direktoren der Bank, die im vierten Stock eines schmuddeligen Backsteinbaus im Norden Londons ihr Büro unterhält. Obwohl die Welt am Rande eines Krieges gegen das Taliban-Regime steht, schließt Ivett jeden Morgen die massive Stahltür auf und dreht an dem goldenen Zahlenschloss, das den Eingang sichert.

Vor etwa zwei Jahren, so erzählt ein Angestellter aus dem Nachbarbüro, stürmten mehrere aufgebrachte Mullahs in die Bank und verlangten Geld. Ein paar Sicherheitsleute wurden alarmiert

National Credit interessieren. Schon am 12. April 2000 forderte die Uno ihre Mitgliedstaaten auf, weltweit die Vermögenswerte der Bank Milli, der Muttergesellschaft der Londoner Bank, sowie mehrerer anderer Taliban-Unternehmen einzufrieren.

Auch eine Verbindung direkt zu Bin Laden ist nicht mehr auszuschließen. Aus Unterlagen, die dem SPIEGEL vorliegen, geht hervor, dass die afghanische Bank in London enge Geschäftsbeziehungen zur Luxemburger Bank of Credit and Commerce International (BCCI) unterhielt, die 1991 im Rahmen eines internationalen Skandals Konkurs anmeldete. Die BCCI, so berichtete der US-Senator John Kerry erst kürzlich dem Bankkomitee des amerikanischen

**UK Observer reports Taliban Banks Still Operating in London**

EUP20011007000099 London *The Observer* (Internet Version-*WWW*) in English 07 Oct 01[Article by Antony Barnett and Conal Walsh: "Taliban Banks Still in UK"]

Two banks owned by the Taliban government and blacklisted by the United Nations still have active operations in London, *The Observer* can reveal.

The disclosures will embarrass the British authorities and Chancellor Gordon Brown who last week pledged to clean up the City's image as a haven for outlawed regimes and terrorists.

Afghan National Credit and Finance, which runs its operations from the fourth floor of an office block on the edge of the City, still has control of more than 10 million pounds sterling of assets.

A joint investigation with German magazine *Der Spiegel* has revealed the company is run by 48-year-old British 'bank officer' Roger Ivett, who lives in Dunstable, Bedfordshire, and 51-year-old Muhammed Yailaqi, an Afghan who lives in Stanmore, Middlesex.

According to the company's latest accounts it is a "London subsidiary of Banke Millie Afghan Kabul, a nationalised company of the Islamic State of Afghanistan". Banke Millie was among seven corporations blacklisted by the UN in April 2000 as part of a sanctions regime against the Taliban. British authorities should have immediately frozen the assets of these institutions and any related companies.

Yet the Bank of England froze only 6.2m pounds sterling of the company's 16.3m pounds sterling worth of assets. The Financial Services Authority, did however, remove its British banking licence in May 2000.

Last year the company made a profit of more than 58,000 pounds sterling and Ivett and Yailaqi were paid a salary of more than 100,000 pounds sterling each. Both directors also received personal loans of more than 15,000 pounds sterling from the bank. There is no suggestion that either the directors or company have acted illegally. The group has an associate company in New York, the Afghan American Trading Co Inc.

A review of the business last year states: "The continuing unsettled situation in Afghanistan has adversely affected business activity. The directors are hopeful however that the situation in Afghanistan may improve and that the level of business will increase as a result."

Despite repeated attempts to interview Ivett, he refused to explain the activities of the company. At one stage, an employee attempted to smash the camera of an *Observer* photographer.

Ivett said: "The authorities know all about us and I am not prepared to speak to the media at all."

Ramon Lee, who runs a firm of accountants on the same floor as the Afghan bank, said the company had been in their offices for 'donkeys years'. He remembers one incident about two years ago when a group of men in Islamic robes came into the building demanding money from the bank but were ejected.

Ivett is also a director of a company called the National Trading Company of Afghanistan which shares the same registered office. Its accounts reveal this company is owned by Da Afghanistan Bank, the central bank of Afghanistan, also blacklisted by the UN last year. Yet 18 months later, the company - which appears to be in property - is still open for business. Last year the firm received over 14,000 pounds sterling in rental from its property portfolio, although it ended up making a loss of 20,000 pounds sterling

The firm, which has a bank account at the Park Royal branch of Barclays Bank, describes its main business activity as "an agent for merchants of Afghanistan".

Last month Barclays was forced to close down one account belonging to an associate of Bin Ladin after The Observer revealed it was being used by a group linked to al-Qa'ida.

As investigators track Bin Ladin's financial network across the globe it is becoming clear that the City of London has played an important role.

Gordon Brown has frozen 61m pounds sterling of suspected Taliban assets in Britain. A spokesman for the Treasury confirmed that the authorities were "actively investigating" the National Trading Company of Afghanistan.

[Description of Source: London The Observer (Internet Version-WWW) in English -- Sunday edition of The Guardian, the prominent center-left daily]



## Bank Secrecy Act Pillar Violations 2007-2011

OCC	2007	2008	2009	2010	2011	5-Yr Total	5-Yr # of BSA Exams
Internal Controls	2	4	2	3	1	12	
Independent Testing	1	0	1	0	0	2	
BSA Officer	0	0	0	1	0	1	
Training	0	1	0	0	0	1	
Totals	3	5	3	4	1	16	6,617

FRB	2007	2008	2009	2010	2011	5-Yr Total	5-Yr # of BSA Exams
Internal Controls	37	18	8	8	5	76	
Independent Testing	27	12	5	6	4	54	
BSA Officer	8	2	2	5	1	18	
Training	21	2	0	2	1	26	
Totals	93	34	15	21	11	174	4,834

OTS	2007	2008	2009	2010	2011	5-Yr Total	5-Yr # of BSA Exams
Internal Controls	15	11	11	11	10	58	
Independent Testing	11	15	9	11	6	52	
BSA Officer	3	4	5	2	2	16	
Training	6	10	8	6	3	33	
Totals	35	40	33	30	21	159	2,552

FDIC	2007	2008	2009	2010	2011	5-Yr Total	5-Yr # of BSA Exams
Internal Controls	78	55	41	34	50	258	
Independent Testing	66	49	40	44	26	225	
BSA Officer	18	18	13	15	18	82	
Training	44	32	15	29	29	149	
Totals	206	154	109	122	123	714	12,795

NCUA	2007	2008	2009	2010	2011	5-Yr Total	5-Yr # of BSA Exams
Internal Controls	1,060	636	560	425	357	3,038	
Independent Testing	1,166	678	522	438	355	3,159	
BSA Officer	253	203	121	101	98	776	
Training	907	743	694	622	614	3,580	
Totals	3,386	2,260	1,897	1,586	1,424	10,553	23,275

Source: "Federal Banking Agency Bank Secrecy Act Compliance Examination: Consolidated Quarterly Report," (2007-2011), prepared by Financial Crimes Enforcement Network (FinCEN), PSI-FinCEN-04-0063-296. Prepared by U.S. Senate Permanent Subcommittee on Investigations, July 2012.

HSBC-BNI\_E 0203510.txt

From: LESLEY MIDZAIN/HBUS/HSBC  
Sent: 11/11/2008 11:27:02 AM  
To: SUSAN A WRIGHT/HGHQ/HSBC@HSBC  
CC: DAVID W J BAGLEY/GMO/HSBC@HSBC  
Subject: Re: OFAC

It's not often that I receive instructions to ignore Mr Bagley's emails... I am happy to oblige.

Thanks Susan,

Lesley  
Lesley Midzain  
EVP & Chief Compliance Officer  
HSBC Bank USA, N.A.  
Tel: 212 525 6410  
Cel: [REDACTED]

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----

From: Susan A WRIGHT  
Sent: 11/11/2008 03:35 PM GMT  
To: Lesley Midzain  
Cc: David W J BAGLEY  
Subject: Fw: OFAC  
Lesley,

Just a quick note on behalf of David. This note should not have been sent so please ignore. John Halliday and I are already in the middle of obtaining and analysing this information.

Regards Susan

----- Forwarded by Susan A WRIGHT/HGHQ/HSBC on 11/11/2008 15:33 -----

David W J BAGLEY/GMO/HSBC  
Sent by: Marion O ROACH/HGHQ/HSBC  
Nov 11 2008 15:10  
Phone no. 7991 8645  
44 0 20 7991 8645

Mail Size: 80586

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB02545196

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0616010

1129

Confidential & Non-public OCC Information

OCC-PSI-0089789

HSBC-BNI\_E 0203510.txt

To  
Lesley Midzain/HBUS/HSBC@HSBC02  
cc  
Susan A WRIGHT/HGHQ/HSBC@HSBC  
Subject  
OFAC

Entity

Lesley

Thank you for your very clear responses.

As you know, we have just completed and are currently collating the results of a Groupwide Compliance review of compliance with our USD/OFAC policy.

Whilst some of these apparent breaches of Group policy may be rather historic nevertheless I am determined that we should enforce our policy on a consistent and Groupwide basis.

Given this, what I would like to do is at Group level track back relevant and apparently offending payments and establish root causes so as to satisfy ourselves that there can be no, or at very least, far less repetition. It is of course unrealistic to expect that no payments will pass through to HBUS, and at least our move to transparency in the form of serial payments should allow these to be caught nevertheless I would prefer that payments were rejected at point of entry.

In order to do this, and assuming I am not asking everyone to do something that is already in hand, I would be grateful if you would:-

Provide Susan with details of the relevant payments so that we know which offices to track back to.

Keep me informed as to how matters progress.

Provide any additional information that you think would be helpful to Susan and her team tracking this issue back.

Regards

Page 2

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1130

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OCC-PSI-0089789

HSBC-BN1\_E 0203510.txt

David Bagley

----- Forwarded by Marion O ROACH/HGHQ/HSBC on 07/11/2008 11:01 -----

Lesley Midzain/HBUS/HSBC@HSBC02  
Nov 06 2008 13:18

Mail Size: 66889

To  
david w j bagley  
cc  
Janet L Burak  
Subject  
Fw: OFAC analysis

Entity

David,  
The short story is that we have not had additional communication on the full collection of 'at risk' items. There have been two specific 'closures' (one is reflected in the spreadsheets below; the other occurred just two days ago), but nothing more comprehensive. Note, though, that the OCC examination of PCM, which will include a separate and distinct exam of our OFAC-related compliance, commences on 12NOV08.

In addition to the detail below, there is also a contextual point about relative volumes of payments which might be helpful, in order to compare the number of misses (total of 79, as of late-OCT, when the attached sheets were prepared) in the past 5 years:  
- HBUS processes approximately 600,000 wire transfers on a weekly basis. Approximately 5% (30,000) generate possible matches which require review prior to releasing.  
- During the period from 9/03 through 9/08 HBUS rejected and reported 1,213 transactions valued at \$100 million.

Page 3

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HSBC-BN\_E 0203510.txt

I hope you find this helpful - I'd be happy to answer any questions you might have.  
Lesley

Lesley Midzain  
Executive Vice President & Chief Compliance Officer | HSBC BANK USA, N.A.  
452 5th Ave. 7th Fl.  
New York, NY 10018

Phone 212-525-6410  
Fax 212-525-5769  
Mobile [REDACTED]  
Email Lesley.Midzain@us.hsbc.com

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

----- Forwarded by Lesley Midzain/HBUS/HSBC on 11/06/2008 08:08 AM -----

Lesley Midzain/HBUS/HSBC  
11/03/2008 02:21 PM

To  
Janet L. Burak/HBUS/HSBC  
cc  
  
Subject  
Fw: OFAC analysis

Janet,  
I am emailing this, but also printing a hard copy of both the email and the attachment which I will hand to you.

You asked for certain details about the OFAC items that we've self-reported, and what corrective actions we've taken over the years.

The attached document contains spreadsheets with that detail. There are three categories of items:

- 'Cautionary' items - referring to the 12 items noted in OFAC's recent

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HSBC-BNI\_E 0203510.txt

letter.

2. 'Closed' items - referring to 6 items about which OFAC has specifically advised that it has closed the matter with no further action. Note that one such closure occurred recently which took one of the items off the Pending list.
3. 'Pending' items - items that have been reported over the years which have not been specifically closed by OFAC and which are not included in the Cautionary Letter and for which we are therefore 'at risk' of enforcement by OFAC (at the time of filing the Reportable Event, there were 61 such items. As noted above, one has since been closed by OFAC).

These spreadsheets will be used to track any disposition of existing or addition of new items as these occur.

Each of these categories (Cautionary, Closed and Pending) has been analyzed to determine the reasons for the errors over each of the years (2003-08), and an additional spreadsheet provides this information in total (the "Total Items Analysis" sheet).

Some items to note: For the Cautionary items, 8 of the 12 (75%) were attributed to human error; for the Pending items, this rate is quite a bit lower at 22% (13 of 60), and reflects still a relatively low 29% across all Total Items.

In Total Items, reasons attributed to Systems and to 'No Sanctioned Interest' are just as prevalent, with a recent increase in Systems-related causes. Recall that the automated filter used for OFAC scanning was replaced in JUL07 and some of the issues have arisen subsequent to that, as gaps are identified as the system is refined.

FYI, 'No Sanctioned Interest' refers to incidents where the information attached to a payment did not include details sufficient to identify it as being subject to sanction and so it was not captured by the filter (eg, where we get a cover payment that does not include details). Typically, we learn about these from other banks that have more information and stop the payment, or from OFAC who has been alerted from another source.

You had also asked about actions taken to address issues. The document includes a final spreadsheet with this information (Corrective Actions Working Draft), identifying the number of items missed within each reason each year and the action(s) taken over the years.

As previously advised, further review and assessment is also being undertaken

Page 5

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In an effort to recommend additional ameliorative and preventative actions. The analysis contained in these spreadsheets will assist in this undertaking.

[attachment "OFAC analysis.xls" deleted by Susan A WRIGHT/HGHQ/HSBC]

Lesley Midzain  
Executive Vice President & Chief Compliance Officer | HSBC BANK USA, N.A.  
452 5th Ave. 7th Fl.  
New York, NY 10018

Phone 212-525-6410  
Fax 212-525-5769  
Mobile [REDACTED]  
Email Lesley.Midzain@us.hsbc.com

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

----- Forwarded by Marion O ROACH/HGHQ/HSBC on 07/11/2008 11:01 -----

David W J BAGLEY/GMO/HSBC  
Nov 06 2008 14:34  
Phone no. 7991 8645  
44 O 20 7991 8645  
Mail Size: 2703

To  
Lesley Midzain/HBUS/HSBC@HSBC02  
cc  
Janet L Burak/HBUS/HSBC@HSBC  
Subject  
Re: Fw: OFAC analysis

Entity

Lesley,

Thanks and I agree that the context helps.

Page 6

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Were the 61 and 12 spread across various categories within the OFAC sanctions ie different countries, SDNs etc or was there any pattern.

Separately did the payments emanate from across the Group , and if not were particular Group offices involved, these were obviously not cover payments and so were any of them sent after the reiteration of the Group policy on OFAC,

Regards

----- Forwarded by Marion O RDACH/HGHQ/HSBC on 07/11/2008 11:01 -----

Lesley Midzain/HBUS/H/HSBC@HSBC02  
Nov 06 2008 23:56  
Mail Size: 8764

To  
David W J BAGLEY/GMO/HSBC@HSBC  
cc  
Janet I Burak/HBUS/HSBC@HSBC, Mary A Caskin/HBUS/HSBC@HSBC02, anne liddy  
Subject  
Re: Fw: OFAC analysis

Entity

David,

Regarding patterns, there is some concentration in Iran and Sudan:  
Of the 61, there were 18 for Iran and also 18 for Sudan. Otherwise scattered among Cuba, Syria, Zimbabwe, Iraq and SDNs.  
Of the 12, Iran had 3, Sudan 4. Remainder were 2 for Cuba and 3 total from SDN list.

Regarding Group members, since Group policy was issued JUL05, we have nonetheless received a fairly notable number of payments that suggest HSBC banks have not been consistently applying the policy. We looked at the population that we have self-reported (the 79) and isolated those which were issued subsequent to the policy (approx 57), which were contrary to sanction requirements and for which HSBC was the originating bank (ie, not including those where HSBC was beneficiary bank).

Page 7

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We found 21 payments sent by an HSBC bank that resulted in a 'miss' of a payment that should have been stopped. Of these 21, about 5 fall into the category of 'no sanctioned interest' - on these, we'd need to do a deeper dive to determine if, eg, they were cover payments or what particular circumstances arose. But it does appear that about 1/3 of the missed payments originated from Group members. Note that these are just from the population of misses - we haven't examined the the population of payments that we successfully stopped over the years to see the percentage originating from HSBC members.

Lesley

Lesley Midzain  
Executive Vice President & Chief Compliance Officer | HSBC BANK USA, N.A.  
452 5th Ave. 7th Fl.  
New York, NY 10018

Phone 212-525-6410  
Fax 212-525-5769  
Mobile [REDACTED]  
Email Lesley.Midzain@us.hsbc.com

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

David W J BAGLEY/GMO/HSBC@HSBC  
11/05/2008 09:34 AM

To  
Lesley Midzain/HBUS/HSBC@HSBC02  
cc  
Janet L Burak/HBUS/HSBC@HSBC  
Subject  
Re: Fw: OFAC analysis

Lesley,

Page 8

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HSBC-BNI\_E 0203510.txt

Thanks and I agree that the context helps.

Were the 61 and 12 spread across various categories within the OFAC sanctions ie different countries, SDNs etc or was there any pattern.

Separately did the payments emanate from across the Group , and if not were particular Group offices Involved, these were obviously not cover payments and so were any of them sent after the reiteration of the Group policy on OFAC,

Regards

\*\*\*\*\*  
HSBC Holdings plc  
Registered Office: 8 Canada Square, London E14 5HQ, United Kingdom  
Registered in England number 617987  
\*\*\*\*\*

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Cardinality Items Analysis

	A	B	C	D	E	F	G	N
1		2003	2004	2005	2006	2007	2008	2009
2	Total Cardinality Items	1	1	1	1	1	1	1
3	HSBC	1	1	1	1	1	1	1
4	HSBC Group	1	1	1	1	1	1	1
5	HSBC USA	1	1	1	1	1	1	1
6	HSBC Bank, USA, N.A.	1	1	1	1	1	1	1
7	No. of Items	0	0	0	0	0	0	0
8	Total	2003	2004	2005	2006	2007	2008	2009
9	\$ Value	11,477,221	92,487,440	92,000,000	84,735,248	80,207,255	316,670,000	573,175,237
10	Total	2003	2004	2005	2006	2007	2008	2009
11	HSBC Group	11,477,221	92,487,440	92,000,000	84,735,248	80,207,255	316,670,000	573,175,237
12	HSBC Bank, USA, N.A.	0	0	0	0	0	0	0
13	HSBC USA	0	0	0	0	0	0	0
14	HSBC Group and other number of transactions	11,477,221	92,487,440	92,000,000	84,735,248	80,207,255	316,670,000	573,175,237
15	HSBC Group	11,477,221	92,487,440	92,000,000	84,735,248	80,207,255	316,670,000	573,175,237
16	HSBC Bank, USA, N.A.	0	0	0	0	0	0	0
17	HSBC USA	0	0	0	0	0	0	0
18	Group Entities Involved in	1	1	1	1	1	1	1
19	Total Items	1	1	1	1	1	1	1

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Closed Item Analysis

	A	B	C	D	E	F	G	H	I	J
1	Closed Item	2007	2007	2007	2007	2007	2007	2007	2007	2007
2	Reason	0	0	0	0	0	0	0	0	0
3	Material Error	0	0	0	0	0	0	0	0	0
4	No Exception System	0	0	0	0	0	0	0	0	0
5	Exception System	0	0	0	0	0	0	0	0	0
6	Other	0	0	0	0	0	0	0	0	0
7	3 Years	2007	2004	2004	2004	2007	2007	2007	2007	2007
8	HSBC Loans and related	207,721.50	0.00	0.00	59,014.43	551.44	153,005.00	267,785.37		
9	number of transactions	2007	2004	2004	2004	2007	2007	2007		
10	HSBC Finance (BIS) 7									
11	HSBC Finance (BIS) 7									
12	HSBC Finance (BIS) 7									
13	HSBC Finance (BIS) 7									
14	HSBC Finance (BIS) 7									
15	HSBC Finance (BIS) 7									
16	HSBC Finance (BIS) 7									
17	HSBC Finance (BIS) 7									
18	HSBC Finance (BIS) 7									
19	HSBC Finance (BIS) 7									
20	HSBC Finance (BIS) 7									

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Pending Items Analysis

	A	B	C	D	E	F	G	H
1	Total Pending Items	11	2004	2003	2002	2001	2000	1999
2	Returned	0	0	0	0	0	0	0
3	Human error	0	0	0	0	0	0	0
4	System error	0	0	0	0	0	0	0
5	No response from	0	0	0	0	0	0	0
6	Outgoing - human	0	0	0	0	0	0	0
7	Outgoing - system	0	0	0	0	0	0	0
8	Other	0	0	0	0	0	0	0
9	Total	11	2004	2003	2002	2001	2000	1999
10	Total	1,428,022,000	\$85,472,271	\$4,170,309,251	\$1,738,051,137	\$7,857,207,716	\$170,292,771	\$19,782,720,411
11	HSBC Client and a direct	1	2004	2003	2002	2001	2000	1999
12	Number of transactions	1	1	1	1	1	1	1
13	HSBC Client	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)
14	HSBC Client	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)
15	HSBC Client	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)
16	HSBC Client	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)
17	HSBC Client	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)
18	HSBC Client	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)
19	HSBC Client	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)
20	HSBC Client	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)
21	HSBC Client	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)
22	HSBC Client	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)
23	HSBC Client	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)	HSBC Bank (USA) (C0000)
24	Group Entities Involved	4	4	4	4	4	4	4
25	in Transactions	11	11	11	11	11	11	11
26	Total Items	11	11	11	11	11	11	11

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Total Items Analysis

	A	B	C	D	E	F	G	H
1								
2	All Total Items	14	2004	2004	2004	2004	2004	2004
3								
4	Reserves	14	2004	2004	2004	2004	2004	2004
5	Human Error	3	2004	2004	2004	2004	2004	2004
6	For Services (Including Labors)	9	2004	2004	2004	2004	2004	2004
7	Other	2	2004	2004	2004	2004	2004	2004
8								
9								
10	\$ 76444	2004	2004	2004	2004	2004	2004	2004
11	\$ 1,641,547.74	2004	2004	2004	2004	2004	2004	2004
12	\$ 1,641,547.74	2004	2004	2004	2004	2004	2004	2004
13								
14	HSBC Citicorp and related number of transactions							
15								
16								
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Page 4 of 7

October 15, 2008

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Total Items Analysis

30	A	Group Entities	15	B	15	C	6	D	6	E	14	F	22	G	21	H	42
31		Group Entities	15		15		6		6		14		22		21		42
		All Total Items															

Page 5 of 7

October 15, 2008

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Corrective Actions Working Draft

	A	B	C	D	E	F
1						
2	CEMIS	2002	2002	2002	2002	2002
3	Human Error	Conducted annual staff training	Conducted annual staff training	Conducted annual staff training	Conducted annual staff training	Conducted annual staff training
4						
5						
6						
7						
8						
9						
10	Systems	Completed BIC tests EP for	Completed BIC tests EP for	Completed BIC tests EP for	Completed BIC tests EP for	Completed BIC tests EP for
11						
12						
13						
14	No instructions released	Accepted BIC tests for Arab Bank for Economic Development	Accepted BIC tests for Arab Bank for Economic Development	Accepted BIC tests for Arab Bank for Economic Development	Accepted BIC tests for Arab Bank for Economic Development	Accepted BIC tests for Arab Bank for Economic Development
15						
16						
17						
18						
19						
20						
21	Done	Terminated an employee	Terminated an employee	Terminated an employee	Terminated an employee	Terminated an employee
22						
23						
24						

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Corrective Actions Working Draft

	G	H
1	2008-01-17	2008-01-17
2		
3		
4	Conduct a special audit of the company	5
5	Conduct a special trading session for	
6	Review the company's trading records to	
7	Identify any trading activities that are	
8	Identify any trading activities that are	
9	Identify any trading activities that are	
10	Identify any trading activities that are	
11	Identify any trading activities that are	
12	Identify any trading activities that are	
13	Identify any trading activities that are	
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24	Identify any trading activities that are	

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OCC-PSI-0089805

HSBC-OCC\_E 0093860.txt

From: MIKE EBBS/HBUS/HSBC  
 Sent: 1/25/2008 8:53:38 PM  
 To: "MARK VOIGT" <MARK.R.VOIGT@US.HSBC.COM>; MICHAEL J HAHN/HBUS/HSBC  
 CC: DAVID DEW/HBUS/HSBC@HSBC; JANET L BURAK/HBUS/HSBC@HSBC; ANNE LIDDY/HBUS/HSBC@HSBC;  
 MICHAEL B GALLAGHER/HBUS/HSBC@HSBC; "CAROLYN WIND" <CAROLYN.M.WIND@US.HSBC.COM>; "BOB  
 SCHLIEPER" <ROBERT.SCHLIEPER@US.HSBC.COM>  
 Subject: Re: Myanmar-related payment - Missed by filter ("Yangon")

Mark/Mike,

What do we know about this?

Status?

Pls advise.....mike

From: Carolyn M Wind  
 Sent: 01/25/2008 07:43 PM EST  
 To: Mike Ebbs  
 Cc: David Dew; Janet Burak; Anne Liddy; Michael Gallagher  
 Subject: Fw: Myanmar-related payment - Missed by filter ("Yangon")

Mike,

Concerning the below, we must get this filter fix in immediately. We are running too much risk that these misses will cause OFAC to start questioning the effectiveness of our controls. OFAC requires the bank to explain the cause of each miss. Having an effective OFAC compliance program is a mitigating factor when OFAC considers fines. Thanks in advance for your assistance on this matter.

Regards,  
 Carolyn

From: Anne Liddy  
 Sent: 01/25/2008 05:17 PM EST  
 To: Rhonda Holler  
 Cc: Mike Ebbs; Janet Layton; Michael Hahn; Monica Thomas; Barbara  
 Voornan/HBUS/HSBC@HSBC02; Stephen Tedeschi; Nancy Hedges; Elizabeth Protomastro;

Page 1

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1146

Confidential & Non-public OCC Information

OCC-PSI-0089805

HSBC-OCC\_E 0093860.txt

Mary Caskin; Carolyn Wind; Thomas Igiel  
Subject: Fw: Myanmar-related payment - Missed by filter ("Yangon")

Rhonda, this is the second payment involving Yangon that has passed through our filter, in contravention of OFAC sanctions, whereby a second US financial institution has appropriately stopped the payment and reported the item to OFAC.

HBUS now faces a potential penalty of \$30,000 for processing this payment. I understand that Fundtech release issues have delayed implementation of the fix to resolve the GPS wrapping issue resulting in the filter not recognizing Yangon as a match.

We cannot wait until 2/22/2008 to get this fixed. Can we pls discuss this at Tuesday's GPS call. Thank you.

From: Elizabeth Protomastro  
Sent: 01/25/2008 04:46 PM EST  
To: Anne Liddy  
Cc: Mary Caskin; Donald W McPherson/HBUS/HSBC@HSBC02  
Subject: Fw: Myanmar-related payment - Missed by filter ("Yangon")

Anne, wanted to alert you to the fact that BONY has stopped another payment for "Yangon" that went straight through our filter.

We are working on getting all the facts. It appears to be the same filter problem that we are waiting to get fixed.

----- Forwarded by Elizabeth Protomastro/HBUS/HSBC on 01/25/2008 04:39 PM -----

Camille Muzalewski/HBUS/HSBC@HSBC02  
01/25/2008 04:00 PM

To  
Jose Matias/HBUS/HSBC@HSBC02  
cc  
Donald W McPherson/HBUS/HSBC@HSBC02, Elizabeth Protomastro/HBUS/HSBC@Republic,  
Mary A Caskin/HBUS/HSBC@HSBC, Monica A Thomas/HBUS/HSBC@HSBC, Nancy  
Hedges/HBUS/HSBC@HSBCAMERICAS, Susan Cruz/HBUS/HSBC@HSBC  
Subject  
Re: Myanmar-related payment.

Page 2

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HSBC-OCC\_E 0093860.txt

Jose  
I have requested the data from HTSU, I will advise once I receive it.

Thanks and regards,

Camille Muzalewski  
Manager-General Compliance | HSBC Bank USA, National Association  
One HSBC Center, Floor 24, Buffalo, New York 14203, USA

Phone. 716-841-2440  
Fax. 716-841-2000  
Mobile. [REDACTED]  
Email. camille.muzalewski@us.hsbc.com

[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations

Jose Matias/HBUS/HSBC  
01/25/2008 03:53 PM

To  
Elizabeth Protomastro/HBUS/HSBC@Republic, Mary A Caskin/HBUS/HSBC@HSBC  
cc  
Camille Muzalewski/HBUS/HSBC, Monica A Thomas/HBUS/HSBC@HSBC, Donald W  
McPherson/HBUS/HSBC, susan cruz, Nancy Hedges/HBUS/HSBC@HSBCAMERICAS  
Subject  
Myanmar-related payment.

Elizabeth,

The attached payment was stopped by Bank of New York due to the mention of

Page 3

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1148

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OCC-PSI-0089805

HSBC-OCC\_E 0093860.txt

Yangon in the ordering field. The payment was scanned by the filter, but not stopped. No operator intervention took place as can be appreciated in the accompanying Audit Trail. Bony has requested purpose of the payment. In addition they have requested full detail of the relationship between ordering party and beneficiary.

Camille: Can you check the reason the payment was not stopped by the filter and directed to the OFAC Unit's queues.

Jose A. Matias  
Assistant Vice President, OFAC Unit  
Global Payments and Cash Management  
HSBC Bank USA, NA  
90 Christiana Road  
Newark, Delaware 19720  
Tel: 302-327-2383  
Fax: 302-327-2363  
email: jose.matias@us.hsbc.com

Page 4

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February 4, 2008

Mr. Dennis P. Wood, Chief  
OFAC Compliance  
Office of Foreign Assets Control  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue, N.W.  
Washington, D.C. 20220

[Redacted by the Permanent  
Subcommittee on Investigations]

Dear Mr. Wood:

Re: Disclosure of Facts - Wire payment USD 15,000 (Burma)

Please note the details of the following transaction processed by HSBC Bank USA, N.A. (HBUS) in possible violation of government sanctions against Burma:

Amount: USD 15,000  
Value date: 18 Jun 2008  
Sending Bank: HSBC Singapore  
Originator: [Redacted] Yangon  
Intermediary Bank: [Redacted]  
Beneficiary Bank: United Overseas Bank Ltd.  
Beneficiary: [Redacted]

On 18-Jan-2008, the above transaction (Exhibit 1) was processed as a straight-through payment, i.e., it did not stop in our OFAC filter. On 22-Jan-2008, Bank of New York (BONY) notified HBUS via SWIFT (Exhibit 2) that it was holding the funds due to a possible Burma interest and requested information on the originator and beneficiary as well as the purpose of the payment.

On 30-Jan-2008, HBUS received information on the transaction from the remitter bank, HSBC Singapore, and provided that information to BONY via authenticated SWIFT (Exhibit 3). We stress that the information indicated that the payment did not involve an SDN and was for the benefit of non-U.S. persons. However, the underlying transaction, from a buyer located in Burma to a supplier in Singapore, was meant to pay for the purchase of computer accessories and is prohibited under sanctions against Burma. We confirmed today with OFAC Compliance that, based upon details provided, BONY must reject and report the transaction in compliance with sanctions against Burma.

Our research of this incident has determined that our filter identified a potential OFAC match, but a formatting issue caused the filter to misread the entry, thus permitting the payment to go straight through. It was determined that a concatenation of the word "Yangon" into the next line of text caused the filter to misread "Yangon" and allow the payment to be processed straight through. Corrective action required a technical fix to the payments processing system and

HSBC Bank USA, National Association  
432 Fifth Avenue, New York, New York 10018

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OCC-PSI-0089806

involved rewriting specifications so as to prevent future errors. This fix is presently being tested and expected to be implemented by February 8, 2008.

An immediate/temporary fix was incorporated into the payments process to detect references to "Yangon" and "Burma" until the permanent solution is implemented.

As always, it is our intention to be in full compliance with all U.S. sanctions, and we regret that this item was not identified at our end.

As an integral part of its OFAC compliance program, HBUS maintains interdiction software to scan its USD funds transfer instructions. This software scans funds transfer payments to detect the presence of, or reference to, sanctioned countries and Specially Designated Nationals/Entities. HBUS also maintains a software filter to scan our customer information files in order to determine if accounts maintained at HBUS involve Specially Designated Nationals/Entities or sanctioned countries. Procedures are in place to review, investigate and report to OFAC "matched" transactions and/or accounts.

In closing, we contend that the Bank's overall Compliance program and its focus on automated processing, staff training, and open communication and cooperation with OFAC, attest to its good-faith efforts to comply with the regulations.

If you need any further information on the above transaction, please contact me at (212)525-6692.

Very truly yours,



Elizabeth Protomastro, VP/Compliance  
HSBC Bank U.S.A., N.A.

cc: Carolyn Wind, E.V.P.  
Sandra Peterson, S.V.P.  
Anne Liddy, S.V.P.  
Nancy Hodges, F.V.P.  
Mary Ann Cuskin, F.V.P.

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EXHIBIT (1)

Monday, Feb 04, 2010 03:46 PM  
RONNIE VIEO

System: Search by  
Date Range: 1/1/2009 - 1/1/2010  
Page: 1/1  
Total Records: 1

System	Search by	Date Range	Page	Total Records
System	Search by	Date Range	Page	Total Records

EXHIBIT (1)

Monday, Feb 04, 2010 03:46 PM

RONNIE VIEO

System: Search by  
Date Range: 1/1/2009 - 1/1/2010  
Page: 1/1  
Total Records: 1

System	Search by	Date Range	Page	Total Records
System	Search by	Date Range	Page	Total Records

Monday, Feb 04, 2010 03:46 PM  
RONNIE VIEO

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EXHIBIT (2)



Jose Matias [Jose.Matias@HSBC@HSBC](mailto:Jose.Matias@HSBC@HSBC)  
2  
01/25/2008 04:49 PM

To Elizabeth Protomastro [Elizabeth.Protomastro@HSBC@HSBC](mailto:Elizabeth.Protomastro@HSBC@HSBC)  
cc Donald W McPherson [Donald.W.McPherson@HSBC@HSBC](mailto:Donald.W.McPherson@HSBC@HSBC), Mary A Caskin [Mary.A.Caskin@HSBC@HSBC](mailto:Mary.A.Caskin@HSBC@HSBC), Nancy Hedges [Nancy.Hedges@HSBC@HSBC](mailto:Nancy.Hedges@HSBC@HSBC), Susan Cruz [Susan.Cruz@HSBC@HSBC](mailto:Susan.Cruz@HSBC@HSBC)  
bcc

Subject: Fw: Myanmar-related payment.

[REDACTED]

Per your request, attached please find MT199 received from Bank of New York requesting clarification related to the previously sent payment instructions.

...:DEST:SWF/MRMO0533MXXX...:MT:199...:ORG:SWF/IRVITUS3N9XX  
:TE LTR: ...:TEST RESULT: UNKNOWN...:ISH: ...:TS:OFAC COMPLIANCE, REPORT OF OUR MESSAGE, DATED, 22-03-08, PLS BE ADVISED THE ABOVE TRANSACTION APPEARS TO INVOLVE A POSSIBLE OFAC ENTITY UNDER BURMA SANCTION AND REGULATION, THE ENTITY IN THIS QUESTION IS Y ANGCN. PLS PROVIDE FULL DETAILED PURPOSE OF PAYM. ALSO PROVIDE FULL DE PTIL OF THE BANK AND THE RELATIONSHIP BETWEEN THE BANK AND ORDERING CUS TOMER. PLS. QUOTE RE. 2JANGOR IN YOUR REPLY TEXT. REGARDS, MR THE N. ET - OFAC, . PAYM. TRN. . PAYM VIA .BOOK TRANSFER INSTR DATE .080121. VALUE DATE .080122. METHOD .CHES 072406 AM CUNT .14,975.00 DND. ORG REF. . ORDERING CU ST . ORDERING BANK .HSBC SINGAPORE GENERAL ACCOUNT. DR E ARTY .HSBC BANK USA. CR PARTY .UNITED OVERSEAS BANK LIMITED. CR ADDR .SI NGAPORE . SINGAPORE .

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Jose A. Matias  
Assistant Vice President, OFAC Unit  
Global Payments and Cash Management  
HSBC Bank USA, NA  
50 Christiana Road  
Newark, Delaware 19720  
Tel: 302-327-2383  
Fax: 302-327-2383  
email: jose.matias@us.hsbc.com

Forwarded by Jose Matias@HSBC on 01/25/2008 04:47 PM

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EXHIBIT (3)  
 CLAIMS -- Correspondence Display OFAC1 JOM 04-FEB-08 16:16:28  
 template name OFACPREFORM corr type SWF queue 0 verify flag Y  
 iid 0604-25JAN08 party name HSBC SINGAPORE GENERAL ACCOUNT role DBT

(If the MT type is 999, erase the Test amount.)

:CMAP:TP  
 :DBST:SWF/IRVTU63N  
 :MT: 299  
 :ORG: [REDACTED]  
 :TESTAMT: 15,000.00/USD  
 :TEXT:

[REDACTED] = Redacted by the Permanent  
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:20:MMB604-25JAN08  
 :21:MK14981-22JAN08  
 :79:<FILL-ON:50<ATTENTION - MARY DERR. (PAGE 1  
 OF 2) (Please type free format information below)  
 PER CONV W/B. PROTOMASIRO. We have read following  
 info from HSBC Singapore. HSBC Singapore custo  
 mer Mr [REDACTED] born on [REDACTED] sta  
 y and work in Myanmar and he owns three busines  
 ses, namely

[REDACTED] He is the chairman of a c  
 ompany called [REDACTED] The  
 beneficiary [REDACTED] in a  
 Singapore-registered company which supplies  
 computer accessories to [REDACTED] company.

(Continue page 2)  
 PLEASE QUOTE OUR FIELD 20 REFERENCE IN FIELD 21  
 ON YOUR FUTURE CORRESPONDENCE.  
 KIND REGARDS,OFAC PROCESSING UNIT HSBC GLOBAL  
 PAYMENTS AND CASH MANAGEMENT  
 HSBC BANK USA  
 CASE REFERENCE MMB604-25JAN08

action p1 p2 p3 on 43  
 Please review details

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EXHIBIT (3) CONT. 04-FEB-08 16:16:43  
 CLAIMS -- Correspondence Display CFAC1 JCM  
 template name OFACPREFORM corr type SWZ queue 0 verify flag Y  
 iid 0604-25JAN08 party name HSBC SINGAPORE GENERAL ACCOUNT role DBT

{If the MT type is 999, erase the test amount.}  
 :CMAP:TF  
 :DEST:SWF/IRVTUS3N  
 :MT: 299  
 :ORG: [REDACTED]  
 :TESTAMT: 15,000.00/USD  
 :TEXT:

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

:20:MMB604-25JAN08  
 :21:SKT4981-22JAN08  
 :79:-<PILL-ON:50-ATTN: MARY DERR (PAGE 2 OF 2)  
 (Please type free format information below)  
 Pex conv.w/Elizabeth Protomastro. (continue)  
 [REDACTED] is paying [REDACTED] for database supplies. The  
 relationship between the customer and [REDACTED] is  
 one of buyer and supplier. A check with YellowP  
 ages (local business directory) shows the follow  
 ing information on the company:

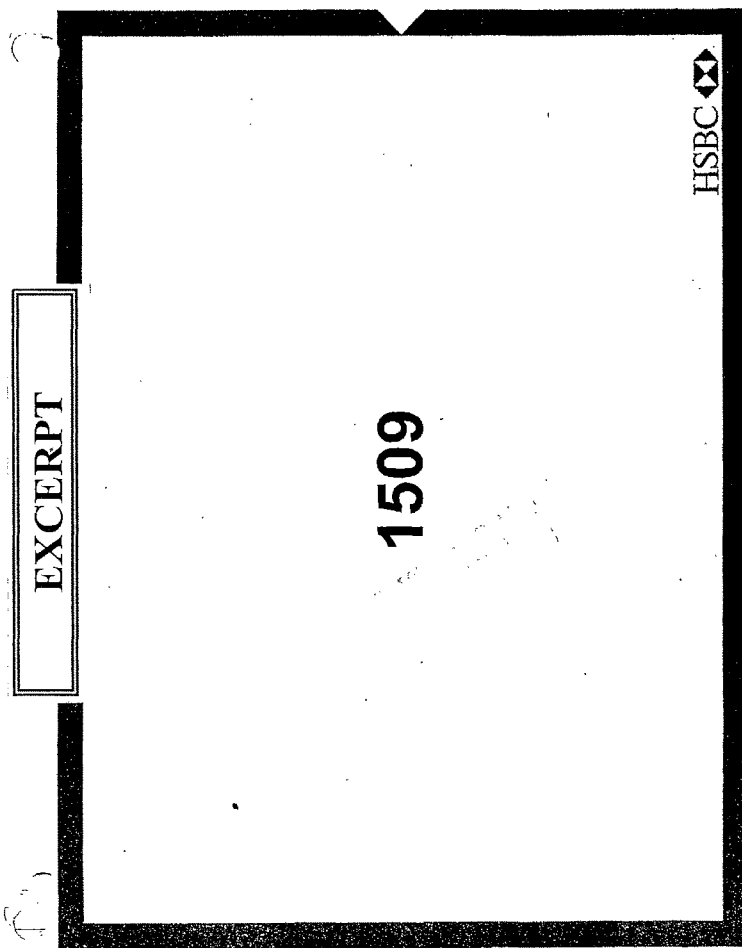
[REDACTED]  
 Singapore Category: Computer-Data  
 Recovery Services. (and page 2 of 2).  
 PLEASE QUOTE OUR FIELD 20 REFERENCE IN FIELD 21  
 ON YOUR FUTURE CORRESPONDENCE.  
 KIND REGARDS,CFAC PROCESSING UNIT HSBC GLOBAL  
 PAYMENTS AND CASH MANAGEMENT  
 HSBC BANK USA  
 CASE REFERENCE MMB604-25JAN08

action p1 p2 p3 <more>  
 Please review details on 44

TOTL P.06

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**Outline**

- Recap of 1509
- Highlights of 2Q07 1509 efforts
- Finance Update
- \$100mm Cost Challenge
- Talent Management
- 1509 Metrics

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### 1509 – Objectives

- **Right-sized and joined up to serve Group's purpose**
  - Legitimate and credible competitive positioning
  - Leveraging Group advantages with focus on international requirements of customers
  - Clearly defined business propositions and strategies
- **Seek LOB asset growth opportunities and manage liability mix**
- **Maximize synergistic values with HBIO**
- **Achieve metrics targets**
  - 15% ROE
  - Double digit PBT growth
  - >5% Jaws
  - 50% Cost income ratio

2006		▶	2009	
ROE	8.7%		ROE	15.3%
C/I Ratio	61.2%		C/I Ratio	50.5%
Jaws	-12.0%		Jaws	7.0%

\* 2009 Jaws are calculated from 2008-09 CAGR



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## 1509 – Strategic Issues and Initiatives

- **Balance Sheet and Capital Management**
  - HBUS ALCO currently undergoing revamp
  - HBUS Finance conducting balance sheet optimization study
  - Leverage ratio constraint unique to US
  - Current balance sheet has been liability driven given strong deposit gathering efforts
- **Role of Buffalo**
  - Lower cost utility center
- **Joining Up with HBIO**
  - Establishing governance and parameters to facilitate and control asset transfers
  - Exploring infrastructure synergies – common platforms, Support services and policies
- **People**
  - Building a culture with a sense of urgency
  - Succession planning and talent management
- **\$100mm\* Cost Challenge for 2007**
  - People
  - Property
  - Automation, IT and Infrastructure

\* Run rate basis



\$100mm Cost Challenge Update

**David Dew**  
Chief Operating Officer



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### Tactical Cost Reductions – Line by Line Expense Review

- Expense Summary
  - Customer Groups
    - PFS \$15M below plan (good savings from Project Earth)
    - CIBM \$30M below plan (tighter controls around headcount)
  - People Costs
    - \$21M below plan spread across HBUS/HMUS (including GSC recharges \$15M below plan)
- Tactical Initiatives Implemented:
  - Travel and Entertainment
  - Wireless
  - Approved Suppliers
  - DHL web-based service
  - Corporate Card
- Tactical Initiatives Under Review:
  - Inter/Intra-company charges
  - Pager cancellation
  - FDR charges
  - External Training Policy
- Convey recommended reductions to 2008 AOP by line item

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OCC-PSI-0089814

HSBC-OCC\_E 0093229.txt

From: JEANNE EBERSOLE/HBUS/HSBC  
 Sent: 1/17/2008 4:22:49 PM  
 To: CHRIS P DAVIES/HBUS/HSBC@HSBC; DAVID DEW/HBUS/HSBC@HSBC; GERARD  
 MATTIA/HBUS/HSBC@HSBC;  
 JANET L BURAK/HBUS/HSBC@HSBC; KEVIN NEWMAN/HBUS/HSBC@HSBC; MARLON  
 YOUNG/HBUS/HSBC@HSBC;  
 PAUL J LAWRENCE/HBUS/HSBC@HSBC  
 CC:  
 Subject: Draft Materials for EXCO

Dear All:

Attached is a draft of the non-hiring freeze note to be sent to all GCBS 0, 1, 2 and the final headcount report for 2007 which we will discuss tomorrow at EXCO.

Last year, through prudent management of the headcount, we were able to reduce the salary line by more than \$28M for the HUSI entity. This year, in light of the unusual economic circumstances and cost challenges in the business, the executive team has again agreed to curtail hiring to reduce the salary run rate, however, would like more rigorous management of the hiring process. It is important that this not be communicated as a freeze, but rather as prudent management of the ROP to reduce costs and maintain alignment with the P and L throughout the year. Positions may be filled as indicated below:

CIBM: Existing approval process including London and Paul Lawrence approvals will continue to be followed.

GPB: Hiring of currently budgeted and ROP approved roles to be approved by Marlon Young and Leona Scott before active recruitment takes place. Existing proposal processes will be followed before an offer is extended.

HBUS:

Revenue generating roles:

PFS: Hiring of currently budgeted and ROP approved roles to be approved by respective Regional President and Suzanne Brienza. (should mortgage corp be listed separately?)

CMB: Hiring of currently budgeted and ROP approved roles to be approved by Ian MacAlester and Javier Evans. (should GTB be listed separately?)

Non-revenue generating roles: replacements and additions should be placed on hold until 1 June 2008. Exceptions must be approved by the respective EXCO member and EVP HR prior to search initiation or continuation.

Regards,

Jeanne Ebersole  
 EVP, Human Resources | HSBC BANK USA, N.A.  
 452 Fifth Avenue, New York, NY 10018

Phone: 212-525-7599  
 Email: jeanne.ebersole@us.hsbc.com

Page 1

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Attachment: HUSI Hdct vs Forecast Dec07 w-offshore.xls.zip

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HSBC-OCC\_E 0081155.txt

From: DAVID DEW/HBUS/HSBC  
Sent: 9/14/2007 8:58:06 AM  
To: CAROLYN M WIND/HBUS/HSBC@HSBC  
CC: JANET L BURAK/HBUS/HSBC@HSBC; KATHRYN A HATEM/HBUS/HSBC@HSBC  
Subject: HEADCOUNT

Carolyn,

According to my records, Compliance's actual FTE was 199 at 31 Dec 06 and 198 at 31 Aug 07. Thank you for holding headcount flat during the course of the year; however, I understand that there are currently 6 open positions in Compliance and that the current forecast held by HR indicates total FTE of 204 by year-end.

This increase will be almost impossible to justify and therefore I must ask you to please cancel the open positions and ensure that your FTE as at 31 Dec 07 does not exceed 199.

Thanks for your support during these challenging times.

Regards,

David Dew  
SEVP, Chief Operating Officer  
HSBC Bank USA  
452 Fifth Avenue | 10th Floor | New York, NY 10018

---

Phone. 212-525-6951  
Fax. 212-525-8688  
Email. david.dew@us.hsbc.com

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OCC-PSI-0089815

HSBC-DCC\_E 0043711.txt

From: CAROLYN M WIND/HBUS/HSBC  
 Sent: 2/12/2008 11:26:51 AM  
 To: ANTHONY R GIBBS/HBUS/HSBC@HSBC02  
 CC: CURT X CUNNINGHAM/HBUS/HSBC@HSBC02; DENISE A REILLY/HBUS/HSBC@HSBC; KAREN K GROM/HBUS/HSBC@HSBC02;  
 LESLEY MIDZAIN/HBCA/HSBC@HSBC02  
 Subject: Re: Organizational Changes

Anthony,

I have my own differing views on what should be put into shared services but I think the main point that has to be dealt with ASAP is how to rationalize the HBUS FTE involved in this discussion. As I mentioned on the call, HBUS compliance has been required to manage down overall FTE while at the same time redeploying resources to priority needs. We also are in the midst of a "hiring pause" which means that approval from appropriate EXCO members is required to fill any open position. I do not expect a lot of support for overall HBUS compliance headcount increasing even if a portion of the time is allocated to other affiliates. I look forward to you and Denise reaching a workable solution for both short term and longer term needs.

Carolyn

Carolyn M Wind  
 EVP, Compliance & AML Director | HSBC BANK USA, N.A.  
 452 Fifth Avenue, T-7,  
 NY, NY 10018

Phone: 212-525-5503  
 Fax: 212-382-5963  
 Email: carolyn.m.wind@us.hsbc.com

Anthony R Gibbs/HBUS/HSBC@HSBC02  
 02/12/2008 10:06 AM

To: Denise A Reilly/HBUS/HSBC@HSBC  
 CC: Carolyn M Wind/HBUS/HSBC@HSBC, Curt X Cunningham/HBUS/HSBC@HSBC02, Karen K Grom/HBUS/HSBC@HSBC02, Lesley Midzain/HBCA/HSBC@HSBC02  
 Subject: Re: Organizational Changes

Good morning Denise,

I am still confident we can find a coasian v.s. King Solomon solution here.....

Your note is very helpful because I think it helps me understand that you and I need to catch up on some of the developments from the CPD project, over the past couple months and through today. Once we get on the same page regarding objectives, mandates, legacy discussions and legacy decisions, I think we will be at a much better pace to talk future.

Page 1

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1166

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OCC-PSI-0089815

HSBC-OCC\_E 0043711.txt

I know we need to get the announcements ASAP and my day is rather booked as I am sure yours is, but I will make time that works with you to chat.

Best regards and until we talk, have a good morning.

Anthony R. M. Gibbs  
Managing Director, Chief Operating Officer  
HSBC North America Legal and Compliance  
Phone (847) 564-6500

Senior Executive Assistant:  
Jennifer Czaplewski (847) 291-2059

Integrity - Our Tradition and Our Future

Privileged/confidential information may be contained in this message. If you are not the addressee indicated in this message (or responsible for delivery of the message to such person), you may not copy or deliver this message to anyone. In such cases, you should delete this message and kindly notify the sender by reply email. Please advise immediately if you or your employer does not consent to internet email for messages of this kind. Opinions, conclusions and other information in this message that do not relate to the official business of HSBC shall not be understood as neither given or endorsed by it.

Denise A Reilly/HBUS/HSBC@HSBC  
02/11/2008 01:31 PM

To  
Anthony R Gibbs/HBUS/HSBC@HSBC02  
cc  
Carolyn M Wind/HBUS/HSBC@HSBC, Curt X Cunningham/HBUS/HSBC@HSBC02, Lesley Midzain/HBCA/HSBC@HSBC02, Karen K Grom/HBUS/HSBC@HSBC02  
Subject  
Re: Organizational Changes

As you may anticipate, I disagree with the attached. The proposed organization structure embeds specific HBUS AML operational functions that are not shared services but specific functions, similar to specific functions that exist throughout the HNAH Compliance teams. The absence of any comparable moves of other legal entity specific operations is noteworthy.

Additionally, as indicated last week, now that the build-out of compliance risk systems is complete there is excess capacity that was intended to be redeployed to urgently needed areas in the AML teams (note the organization chart with names was not shared until last week). From an institutional view this certainly warrants consideration to avoid incremental cost, which is contrary to corporate direction. Examination results and discussions with regulators have made it clear that the AML programs need to be further built out immediately. The challenge is that this needs to be done in the context of flat or below plan financial targets.

The absence of detailed, thorough discussion of shared services vs the functions actually performed by this team over the past several months or consideration of changes that have occurred since issuance of CPO recommendations (end Aug) is disappointing to say the least. All other CPO

Page 2

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HSBC-OCC\_E 0043711.txt  
recommendations have had project teams put against them to further vet the recommendations before making any organizational or process changes, whereas this recommendation has had no follow-up discussion. To be clear, given the sensitivity of the proposals, I am not suggesting formation of a large team, but minimally some serious dialog based on a true understanding of functions and priorities that are competing for finite resources. Putting all spin aside, this is essentially a transfer of HBUS staff with roles and responsibilities to be determined.

Denise A Reilly  
SVP Compliance  
7th Floor  
432 5th Ave, NY 10018

Redacted by the Permanent Subcommittee on Investigations

Phone. 212-525-2606  
Mobile. [REDACTED]  
Email. denise.a.reilly@us.hsbc.com

Anthony R Gibbs/HBUS/HSBC@HSBC02  
02/09/2008 02:58 PM

To Denise A reilly/HBUS/HSBC@HSBC  
CC Carolyn M Wind/HBUS/HSBC@HSBC, Curt X Cunningham/HBUS/HSBC@HSBC02, Karen K Grom/HBUS/HSBC@HSBC02, Lesley Midzain/HBCA/HSBC@HSBC02  
Subject  
Re: Organizational Changes

Hello colleagues. I apologize I did not get back to everyone yesterday as promised, but I spent the majority of Friday with Deloitte debriefing on ICRM.

I have now been able to complete my research and give this more thought as I promised I would when we met Thursday. It is my conclusion that we need to continue with the alignment as originally planned and keep the five individual in our shared services team for a couple key reasons. The tasks performed by the five team members are largely the functional tasks that would be in a shared services function. I recognize there are some specialized tasks that may be more appropriate in AML, but there are also tasks in AML and other HNW compliance teams that will be rolled into the shared services function as this initiative evolves through the year and we move down the path of centralizing general knowledge functions to take advantage of specialization and economies of scale.

I also cannot determine the optimum people organization and task alignment before I have the opportunity to learn in greater detail what, how and why we do what we do. Re-alignment now would be done without thoughtful consideration to the shared services objective on my part and may result in re-work and be disruptive to our team members. In my experience the effectiveness and morale of org changes seems to be maximized when reporting lines are done first, followed by more detailed analysis and then task re-alignment as determined appropriate all overlaid with open and continuous communication with employees.

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ultimately, the current alignment is critical to our success at meeting the shared services goal set to us by Janet and the COOs which will be a material component of our score cards this year. I cannot see how we can achieve the objectives and deliverables of the shared services without the organization as originally envisaged.

At the risk of sounding too corny, please know my motives are 100% to the success of the department and company and by nature I am not an empire builder and I always look for ways to accommodate others before my own interests. I have given this a lot of thought framing it from everyone's different perspectives and tried my best to make the proposal below work, but I feel very strongly that this is the only way for us to succeed as a team in this initiative.

Please let me know if you have any questions or comments. Best regards, Anthony.

Anthony R. M. Gibbs  
Managing Director, Chief Operating Officer  
HSBC North America Legal and Compliance  
Phone (847) 564-6500

Senior Executive Assistant:  
Jennifer Czaplewski (847) 291-2059

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Denise A Reilly/HBUS/HSBC@HSBC  
02/07/2008 06:07 PM

To  
Anthony R Gibbs/HBUS/HSBC@HSBC02  
CC  
Carolyn M Wind/HBUS/HSBC@HSBC, Lesley Midzain/HBCA/HSBC@HSBC02, Curt X Cunningham/HBUS/HSBC@HSBC02, Karen K Grom/HBUS/HSBC@HSBC02  
Subject  
Organizational Changes

As discussed at our meeting today the following are the current HBUS Risk and Support functions and their disposition.

Armbrust - HNAH  
Jannicelli - HNAH  
Gibbs - HNAH

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Buscaglia - HNAH  
Dellaneve-Reuvain - HNAH

Carbone - AML  
Grasso - AML Atchley system  
Kowalski - AML Info Security

Moore - PTA support - to be discussed if more appropriate to move to CIBM support team (Bill Wong)

Martino - has transferred out and position being re-deployed to AML Correspondent banking

Additional Positions

Braniecki - HNAH  
Beckage - HNAH  
Barkle - HNAH  
Vasquez - HNAH  
Adams - HNAH  
Guzier - HNAH  
Macgaffey - HNAH

Denise A Reilly  
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[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

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HSBC-BNI\_E\_0592516.txt  
 From: CAROLYN M WIND/HBUS/HSBC  
 Sent: 2/1/2007 10:26:18 AM  
 To: TERESA PESCE/HBUS/HSBC@HSBC  
 CC:  
 Subject: Fw: MIP overages - URGENT

Carolyn M. Wind  
 EVP, General Compliance  
 452 5th Avenue, T7  
 New York, New York 10018  
 Phone: 212-525-5503 / Fax: 212-382-5963  
 E-mail: carolyn.m.wind@us.hsbc.com  
 ----- Forwarded by Carolyn M Wind/HBUS/HSBC on 02/01/2007 10:21 AM -----

Carolyn M Wind/HBUS/HSBC  
 01/31/2007 07:05 PM

To  
 David W J BAGLEY/HGHQ/HSBC, "Alan RAMSAY" <alan.ramsay@hsbcib.com>  
 cc

Subject  
 Fw: MIP overages - URGENT

Here's Terry's message. Sandy Derickson called us today and continued to push us on bonuses. I pushed back and as of this moment, I think we will be able to pay out our recommendations for last year. But we are facing a major problem for this year. Sandy's message is that we should be paying out at the low end of our range (average 1.2 per cent pay out versus this year's 1.59 for AML and 1.69 for me) and that our objectives for 2007 will be under close scrutiny. This whole discussion is more complicated than it should be but here's the bottom line. We are not at market with our current comp, particularly in NYC, so if we roll back bonuses to Sandy's desired level we will be even further behind market and have lots of unhappy employees. Butcher is trying to get a comp market study done this quarter but we have been pushed so hard on our AOP that we have no money for salary adjustments. Terry and I spoke to Gibbons and Karen Grom tonight about this issue and they are supportive but it's going to be a fight to try to hold comp at current levels and we really need to be increasing to stay competitive. Alan, all our private banking and investment banking compliance officers are on the bank comp plan. These officers and AML officers can get new jobs in a heart beat. People seem to forget how hard and costly it is to have to replace people and stabilize teams. Given all the change going on the businesses, our compliance risk is going up. Absolutely critical to keep experienced compliance teams stable and focused. I intend to go speak to Paul Lawrence tomorrow about this situation. I am not sure how many more of these fights I can go through. Want to start a resort hotel business with your US compliance colleagues? We try to keep some sense of humor but no one's having fun  
 Carolyn

From: Teresa Pesce  
 Sent: 01/29/2007 01:01 PM  
 To: Jeanne Ebersole  
 cc: Carolyn Wind; Gareth POWELL; Karen Grom; Kathryn Hatem; Robert Butcher; David Gibbons  
 Subject: Re: MIP overages - URGENT

Page 1

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HSBC-BNI\_E 0592516.txt

Jeanne -

We have reviewed our numbers. While some anomalies need to be accounted for (including one HBIO employee who sits on our books and whose entire compensation is charged back pursuant to SLA), and while we have made some minor adjustments, we do not believe that we are justified in making greater changes at this late date. Each employee's target and stretch goals were established and approved long ago, and each spent the last year striving to achieve those goals. It does not surprise me that we have many who achieved their stretch goals as we have had a challenging year. The BSA/AML program was again under constant examination; compliance officers have spent a tremendous amount of time shepherding examiners throughout the institution with exams in CIS, Trade Finance, Retail Banking, Retail Transaction monitoring, Private Banking, and multiple exams in Embassy Banking. Indeed, 2006 saw the lifting of the Written Agreement. The increased demand of our regulators has necessitated the review of more and more transactions, requiring mandatory overtime in virtually every monitoring center. Group mandates pertaining to OFAC, cover payments, and Iranian U Turn payments have required the work of US employees to support other Group offices. Our support of global resourcing has increased US workload up front to train, create systems, and assist in the actual off shoring. In addition we have met our financial challenges -- we were tasked with coming in under budget and did so. And we did all of the above short handed as the recruiting environment has been challenging to say the least. In light of all the above, my managers have carefully and thoughtfully reviewed their people and have provided an honest assessment. Indeed, if we are at 155% of target, assuming stretch is 200%, we are somewhere in the middle, which is what I would expect.

I remain a bit puzzled as to what we are, or were, expected to achieve. If there was an accrual, or an amount over which we were not intended to go, that was never communicated to us. If it had been, we might have been able better to manage expectations by telling our people/managers that they should rarely expect to receive the full payout -- minus the corporate factor. Those expectations were compounded by the fact that no such ceiling was set last year, and I expect that our percentages this year are comparable to last. We are also challenged by the fact that our colleagues at HBIO, with whom bank employees regularly communicate, will receive full payout as there is no corporate factor. Indeed, I had to bend over backward to justify taking a single point off the maximum of an HBIO employee who reports directly to me -- the expectation there seemingly you start at the top and work backwards.

To further remove points at this time would be rather arbitrary. In an environment where many of our people are already below their midpoints, and where midpoints are below market (we have a new market data study commissioned) this will be very bad for morale, especially considering how hard we have worked as a whole. In a competitive market where we have seen several resignations in recent history for higher pay, this is ill advised. This is particularly true when one considers the over all dollar impact. I expect that, were we to cut our percentages, we would actually be providing back very little in the way of absolute dollars. These amounts would be unlikely to put a dent in any corporate shortfalls, but are meaningful to employees -- especially lower level employees -- on an individual basis.

Thus, at this point, I believe our numbers are justified and should stand.

Terry

Teresa A. Pesce  
EVP/Managing Director  
Anti-Money Laundering Compliance

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HSBC North America Holdings  
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New York, NY 10018  
ph - (212) 525-6099  
Fax- (212) 525-3769

HSBC-BNI\_E 0592516.txt

Jeanne Ebersole/HBUS/HSBC  
01/26/2007 10:19 AM

To  
Carolyn M Wind/HBUS/HSBC@HSBC, Teresa Pesce/HBUS/HSBC@HSBC  
cc  
Kathryn A Hatem/HBUS/HSBC@HSBC, Gareth POWELL/HBUS/HSBC@HSBC, Karen K  
Grom/HBUS/HSBC@HSBC  
Subject  
MIP overages - URGENT

As a whole, the bank is over it's 2006 MIP accrual and so we've been doing some research to understand how the payouts stack up. As you know, we had a big push at the beginning of last year to make sure that MIP goals were constructed so that doing all elements of an individual's role, including regular responsibilities would result in target payout. Payouts for over target performance should be reserved and constructed in such a way that individuals must consistently outperform in an unusual way to get top payout.

In reviewing the summaries, Compliance and AML are two of the highest payout percentages, ahead of all line groups except one. Overall, AML is at 159 percent of target and Compliance at 188 percent of target. What we need at this point is for you to go back and review the individual goals to ensure that 1) they were set appropriately and 2) the payouts are commensurate with what was produced by each individual. You have and should take the discretion to reduce awards if the MIP goals were ambiguous or turned out to be very easily accomplished. In the end, we want to reward our people appropriately for their performance and contribution to the company.

Unfortunately, we are in a time crunch and this needs your immediate attention.

Thanks

Jeanne

Jeanne G. Ebersole, SPHR  
Executive Vice President Human Resources  
HSBC Bank, USA, N.A.  
452 Fifth Avenue, New York, NY 10018  
Tel: 1-212-525-7599 Fax: 1-212-525-7576  
jeanne.ebersole@us.hsbc.com

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From: KAREN K GROM/HBUS/HSBC  
Sent: 2/27/2007 8:42:58 PM  
To: CAROLYN WIND; DENISE REILLY; TERESA PESCE  
Cc: DAVID D GIBBONS/HBUS/HSBC@HFN; DAVID DEW; DAVID AVDUL; PATRIKICIA  
MCCAULEY-FABRIZI; SARAH PANCZYKOWSKI; KATHRYN HATEM  
Subject: HUSI Compensation Review

We completed the first phase of the compensation review as requested. I am providing a summary of the meetings we had, basic findings and next steps.

We met in person with John Hudson, Cam Hughes, Kevin Quinn, Irene Stern, Gloria Strazza, Alexine von Keszycski, Denise Reilly, Carolyn Wind. We had phone conversations with Anne Liddy and Terry Pesce. Pat McCauley and Michele Coppa also participated in all of these conversations to provide their insight from an HR support perspective as well as a recruiting perspective.

In summary, here are the main discoveries:

Most of the leaders we met with have been contacted personally by head-hunters. Most of the leaders also indicated their employees are frequently contacted by head-hunters.

The offers from head-hunters are in some cases double base salaries and double bonuses.

The banks who are approaching our employees have deep pockets and are willing to pay to get the talent.

HSBC is well thought of in the industry so this does assist our recruiting efforts, however other banks offer more TOP days and better benefits.

Our competitors are willing to pay substantially more in base salary, match our bonus and even guarantee first year maximums in order to get our folks.

In many cases, we are paying under the "market data point" (50th percentile) in rare cases, we are paying under the 25th percentile - which is not consistent with our "pay for performance" philosophy.

Based on the conversations held the past two days, HR's experience and our experience with the current market - we do anticipate that the review will likely show an increase in market for these jobs.

Some of the leaders we spoke with felt the bonus payouts are/will be an issue for our employees. However, some of the leaders did not feel this was an issue at all and believed their employees were pleased with their payouts and understood the philosophy.

We did also hear that "environment" was an issue for some groups. Workspace has become smaller, having no storage or sharing desks in tight spaces is

giving employees reason to question their value to the department and/or the organization.

David and I have determined the jobs which will be reviewed based on our conversations with you and your management teams. We are committed to providing an update and final report by end of March.

As David reviews the jobs, he may reach out to some of you to get additional information.

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FROM: MICHAEL B GALLAGHER/HBUS/HSBC  
Sent: 10/31/2006 4:16:10 PM  
To: TONY MURPHY/HBUS/HSBC  
CC:  
Subject: FW: Additional Compliance headcount needed to support PCM

add to discussion pile

Michael B. Gallagher  
EVP, Head GTB Corporates, NAFTA  
452 5th Avenue  
New York, NY 10018  
Tel: 212-525-5680

----- Forwarded by Michael B Gallagher/HBUS/HSBC on 10/31/2006 04:15 PM -----

Charles G DeBusto/HBUS/HSBC  
Tel: 302-636-2030  
10/31/2006 04:07 PM

To  
Michael B Gallagher/HBUS/HSBC@HSBC  
CC  
"Tony Murphy" <tony.murphy@us.hsbc.com>  
Subject  
Re: FW: Additional Compliance headcount needed to support PCM

AML Compliance is being held to a flat headcount and any additional headcount required needs to be approved by the business and paid for directly. For the ADP process, PCM is fine with the existing AML Compliance allocation but will need to plan directly for any of these 'new' heads

Michael B Gallagher/HBUS/HSBC  
10/31/06 02:22 PM

To  
Charles G DeBusto/HBUS/HSBC@HSBC  
CC  
"Tony Murphy" <tony.murphy@us.hsbc.com>  
Subject  
Re: FW: Additional Compliance headcount needed to support PCM

Compliance should be reimbursed with one model, not 2. Find out from finance which way to go and if all to direct we need to flag in 07 plan.

From: Charles G DeBusto  
Sent: 10/31/2006 12:31 PM  
To: Michael Gallagher  
Cc: Sandra Peterson  
Subject: Re: FW: Additional Compliance headcount needed to support PCM  
Page 1

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We pay through an allocation today but I believe Alan is looking for PCM to pick up the bill directly for these new headcount as this is something that happened earlier in the year. Is 4 the right number? Based on compliance's view that 1,000 items can be processed it is without any projected growth

Michael B Gallagher/HBUS/HSBC  
10/31/06 09:44 AM

To  
Charles G DeBusto/HBUS/HSBC, Sandra Peterson/HBUS/HSBC@HSBC  
cc  
Subject  
Fw: Additional Compliance headcount needed to support PCM

do we fund existing resources? Do we agree 4 is the right number?

Michael B. Gallagher  
EVP, Head G78 Corporates, NAFTA  
452 5th Avenue  
New York, NY 10018  
Tel: 212-525-5680

----- Forwarded by Michael B Gallagher/HBUS/HSBC on 10/31/2006 09:43 AM -----

Alan T Ketley/HBUS/HSBC  
Tel: 212-525-6147  
10/31/2006 09:37 AM

To  
Michael B Gallagher/HBUS/HSBC@HSBC  
cc  
Teresa Pesce/HBUS/HSBC@HSBC, Denise A Reilly/HBUS/HSBC@HSBC, Charles G  
DeBusto/HBUS/HSBC@HSBC  
Subject  
Additional Compliance headcount needed to support PCM

Michael

Appropriate transaction monitoring of customer activity is essential if we are to manage and control the risks inherent in PCM. The foreign financial institution portion of the business is designated high risk by our Regulators whose expectations continue to rise necessitating continual enhancements to our program.

Current staffing levels are insufficient to handle the growing monitoring requirements and this memo lays out the justification for requesting an additional 4 headcount to be funded by PCM. This note follows on the discussions we held earlier in the year.

PCM Monitoring of third party payments is split between the automated processes  
Page 2

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run through Wire CAMP (covering high and cautionary risk clients) and manual monitoring specific to individual customers/products. Increasingly the process has also included client and product due diligence.

Wire CAMP alerts have increased from 11,000 alerts for April to 15,300 for August mainly due to the impact of the cover-to-serial conversion. This increase is despite an accelerating implementation of 'rules' to exclude transactions previously determined to be acceptable. The top portion of the attached spreadsheet gives details of this.

Future Wire CAMP alert volume is expected to trend upwards due to:  
The continuing effect of the cover to serial conversion.  
Organic growth projected at 20% by the PCM Product manager.  
Better KYC analysis leading to identification of political involvement in existing clients requiring their reclassification as SCCs with attendant closer monitoring.  
Feeds being built to facilitate the automated monitoring of ACH and demand draft activity as recently mandated by the regulators.  
New high risk clients being added to the customer base (e.g., [REDACTED]).

Expansion of monitoring into Medium Risk clients not currently covered by the systematic Wire CAMP process - the desirability of this expansion was alluded to by our examiners and is needed to cover a more significant proportion of wire activity flowing over our books.

Manual monitoring requirements have also increased with recent examples being the:

Non wire activity flowing over SCC accounts.

[REDACTED] payable through account.

Credit card services provided to Banco Africano de Investimentos.

Various stored value card initiatives.

Based on dialog with the PCM teams we expect to see more of these manual monitoring requirements. We also have to satisfy new requirements under Section 312 of the USA PATRIOT Act that mandates comparison of expected vs. actual account activity.

We also see a steady increase in new product development, applications of existing products in ways that change the AML risk and more comprehensive client due diligence reviews. These efforts are all in support of PCM but draw compliance resources away from monitoring.

In the past 12 months we have implemented an automated workflow system to improve monitoring efficiency and are deploying a growing number of rules to exclude transactions previously deemed acceptable - alert volumes have continued to grow. We consider our processes to be very efficient compared to the rest of the market and research indicates that an experienced researcher can handle 1,000 alerts a month - our team is currently handling an average of 3,800 per person and is becoming overwhelmed thus potentially placing the business and the bank at risk.

A Global Resourcing project is underway to add 6 new staff in India but an additional 4 is needed to handle the Wire CAMP and manual monitoring requirements outlined above. The attachment below provides additional information and metrics for this conclusion.

[attachment "2007 AML Resource Estimate.xls" deleted by Charles G DelBusto/HBUS/HSBC]

Your agreement to this proposal is requested.

Alan T. Ketley  
Senior Vice President, Anti Money Laundering  
Page 3

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HSBC OCC 0616342

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Tel: 212 525 6147 / Fax: 212 382 7580

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OCC-PSI-0089827

HSBC-BNI\_E 0565108.txt  
From: ALAN T KETLEY/HBUS/HSBC  
Sent: 9/17/2007 7:43:43 AM  
To: CHARLES G DELBUSTO/HBUS/HSBC@HSBC; GILLIAN E BACHSTEIN/HBUS/HSBC  
CC: "ALAN WILLIAMSON" <ALAN.P.WILLIAMSON@US.HSBC.COM>  
Subject: Fw: Correspondent survey

Charlie, Gillian

Attached below you will see the results of a series of conversations I had with some of my compliance peers at other banks about KYC approvals and allocation of resources.

I hope you find the information beneficial.

Alan T Ketley  
SVP AML Compliance  
452 Fifth Avenue, New York, NY10018

Phone. 212-525-6147  
Fax. 212-382-7580  
Email. alan.t.ketley@us.hsbc.com

----- Forwarded by Alan T Ketley/HBUS/HSBC on 09/17/2007 08:41 AM -----

Alan T ketley/HBUS/HSBC

09/06/2007 10:16 AM

To  
Alan Williamson  
cc  
"Judy Stoldt" <judy.p.stoldt@us.hsbc.com>, "George Tsugranes"  
<george.tsugranes@us.hsbc.com>  
Subject  
Correspondent survey

Alan

Attached is the result of the conversations I have had with our peers where I have contacts. It is my intention to provide this to Charlie when we have our discussion about the KYC process that Michael requested.

Some general themes:

Every bank that responded and provided information about monitoring staff has more than HBUS. By way of context, if we treat CHIPS volumes as a proxy for correspondent banking market share (this is not completely reliable given differing allocations of activity between CHIPS and Fed between banks) HBUS's market share is 8.36% while JPMC is 18.74%, Deutsche is 7.62%, Wachovia 6.03% and Amex 3.63%. Our competitors all acknowledge filing more SARs than do we. ABN's ratio of KYC staff to accounts is similar to ours; Deutsche's looks very

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(too?) low.  
Absent the EDD RoF process we also can get a high risk account opened in 24-48 hours (if all the correct information has been provided.) 'Challenging' KYCs can also take months though I'm not sure where Charlie gets his figure of over a year as a worst case.

Let me know if you have any thoughts on this before I share it with the business.

Alan T Ketley  
SVP AML Compliance  
452 Fifth Avenue, New York, NY10018

Phone.. 212-525-6147  
Fax. 212-382-7580  
Email. alan.t.ketley@us.hsbc.com

- Corbanking KYC support.xls.zip

Attachment: Corbanking KYC support.xls.zip

Page 2

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March 20, 2009

Mr. Dennis P. Wood, Chief  
 OFAC Compliance  
 Office of Foreign Assets Control  
 U.S. Department of the Treasury  
 1500 Pennsylvania Avenue, N.W.  
 Washington, D.C. 20220

Dear Mr. Wood:

Ref: Self-Disclosure

HSBC Bank USA, N.A. (HBUS) has a Banknotes business which transacts with our affiliate in the United Kingdom, HSBC Bank plc (HBEU).

During an internal review, two purchases of U.S. dollars were identified by the London branch of HBUS, conducted on 12/5/2008 and 2/5/2009, between HBEU and HBUS that involved Iran. HBEU purchased a total of USD 2,587 from The Embassy of Iran in the United Kingdom and subsequently resold the U.S. dollars to HBUS. The transactions were conducted through the Kensington branch of HBEU located at 16 Princes Gate, London.

We further note that, from 7/22/2008 through 2/12/2009, HBUS sold a total of Euros 459,124 to HBEU (31 transactions). Subsequently, the Euros were purchased from HBEU by The Embassy of Iran in the U.K. The funds were used to meet salary obligations.

As a result of this incident, HBEU has ceased this activity.

As an integral part of its OFAC compliance program, HBUS maintains interdiction software to scan its USD funds transfer instructions. This software scans funds transfer payments to detect the presence of, or reference to, sanctioned countries and Specially Designated Nationals/Entities. HBUS also maintains a software filter to scan our customer information files in order to determine if accounts maintained at HBUS involve Specially Designated Nationals/Entities or sanctioned countries. Procedures are in place to review, investigate and report to OFAC "matched" transactions and/or accounts.

In closing, we contend that the Bank's overall Compliance program and its focus on automated processing, staff training, and open communication and cooperation with OFAC, attest to its good-faith efforts to comply with the regulations.

HSBC Bank USA, National Association  
 452 Fifth Avenue, New York, New York 10018

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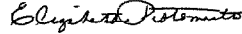
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March 20, 2009

Page 2

If there is any further information that we may provide to the above transaction, please do not hesitate to contact me at 212-525-6692 or via email at elizabeth.protomastro@us.hsbc.com.

Very truly yours,



Elizabeth Protomastro, Compliance  
HSBC Bank U.S.A., N.A.

Enclosures

cc: Lesley Midzain  
Anne Liddy  
Mary Ann Caskin  
Denis O'Brien

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**CIBM - Institutional Banking****Part One - Medium Risk**

<p>— = Redacted by the Permanent Subcommittee on Investigations</p>
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OECD FATF web site

KYC Profile Reference Number: [REDACTED]

Institutional Client Name: Al Rajhi Banking and Investment Corporation

**A Basic Identification Details**

Address: Head Office, Al Akariya Building, Oleya Street  
P O Box 28, Riyadh 11411

Country/Territory: Saudi Arabia

Telephone: 966 - 1 - 4601000

Facsimile: 966 - 1 - 4600922

WebSite: www.alrajhibank.com.sa

HSBC Entity: United Arab Emirates

Industry Sector: Banks

Type of Client: Privately held

What is the client's principal line (s) of business? (Please click here to see Explanatory Note 22)

Operating through an extensive network of 382 branches, it offers a wide range of retail, commercial and investment banking services in accordance with Islamic Shari'a principles.

Country/Territory in which the client is incorporated: Saudi Arabia

Confirm that the client is regulated: Yes

By which body is the client regulated: Saudi Arabian Monetary Agency [ SAMA ]

Certified copy of banking licence/certificate of incorporation is: Not required

Please provide explanation: (Please click here to see Explanatory Note 20)

Since it is a prime financial institution from the Kingdom of Saudi Arabia, included in SAMA's list of licensed commercial banks and has been a longstanding relationship for HSBC Group, the requirement for a certified copy of banking license / certificate of incorporation has been waived.

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Confirm that is is not a Shell Bank: (A Shell Bank has no physical presence in any jurisdiction, and no affiliation to a regulated bank which does)	We confirm it has a physical presence and is not a Shell Bank
Year in which the client was established:	1988
Client's rank in country:	3rd [ Assets ]
Is the client traded on an exchange?	Yes
Which exchange? (Please click here to see Explanatory Note 6)	Saudi Stock Market
Date Relationship commenced (dd/mm/yyyy):	1990

**B Ownership/Management**

Do the activities and or/reputation of any disclosed shareholder(s) increase the risk profile of the client: (Please click here to see Explanatory Note 1)

Yes

Confirm that you have verified the identity of each principal owner, and confirm that an appropriate level of due diligence with regard to such owners has been performed: (Please click here to see Explanatory Note 2)

In view of the spotlight on this bank in western media post 9/11, we have answered the above question as 'Yes'. However, we would like to add here that a Reuter's report dated 20 January 2005 indicates that Al Rajhi Bank has been dismissed by US courts as defendant in a lawsuit resulting from 9/11 attacks. We also draw comfort from the fact that both the CEO HSBC Amanah and DCH HBME know the Al Rajhi family well, and remain comfortable with their ownership in the bank.

The Al Rajhi Group with substantial business interests in the Kingdom remains the dominant shareholder in the bank. The main owners of the bank include Sheikh Sulaiman Abdul Aziz Al Rajhi (23.16%), Sheikh Saleh Abdul Aziz Al Rajhi (13.67%), Sheikh Abdullah Abdul Aziz Al Rajhi (8.20%), New Founders of the bank (5.0%) and Employees Fund (2%). The Head of FI in the bank advised that New Founders are actually the four Al Rajhi brothers, who acquired these shares when the

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bank was established through a merger in late 1980's. He added that Al Rajhi brothers together have a 52% shareholding, although total Al Rajhi family stake in the bank is higher. The bank also has some public ownership through domestic stock exchange.

Since this counterparty was classified by GHQ CMP as SCC, the relevant SCC forms on two shareholders with ownership >10% were completed on a "best effort" basis, and submitted to GHQ CMP for review / sign-off as requested.

[ Note: As CEO Amanah and DCH HBME have known the Al Rajhi brothers for many years, and have met them on several occasions, we have not obtained the passport copies to verify their identity for SCC purposes ].

Would any of the principal owners/controllers of the client be classified as special category clients (SCC) ?

Yes

Confirm that the Group SCC form issued by Group Compliance has been completed on each principal owner as appropriate. (Please click here to see Explanatory Note 25)

Yes

---

#### C Money Laundering Control Policy, Procedures and Controls

Confirm that measures are taken by the client to ensure that they do not provide financial services to listed terrorists and/or sanctioned names notified by competent Authorities (Please click here to see Explanatory Note 23)

Yes

Please provide details:

As GRM for Islamic banks, I visited this bank in October 2004 and had the opportunity to discuss in detail the KYC / AML issues with Mr M Raju, Chief Manager International Banking Department, and James Wilkins, Head of Compliance. In our view, their KYC / AML procedures and controls are as good as any other bank in the Kingdom.

The management appeared fully cognisant of the

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reputational risks associated with terrorism financing, and confirmed Al Rajhi Bank's strong commitment to combat it. They advised that the bank remains in full compliance with the SAMA Guidelines on Anti-Money Laundering/ Combating Terrorist Financing, and their compliance is monitored through routine inspections from the regulatory authority.

As stipulated by SAMA directives, the bank has streamlined procedures in place to establish the identity of all customers (including the FI clients) satisfactorily before an account is opened. They perform necessary due diligence at relationship inception stage as part of their account opening process.

There are automated systems in place to screen all new clients against the listed names. The bank also undertakes periodic reviews of the entire customer base to ensure that financial services are not provided to listed terrorists / sanctioned names notified by the competent authorities. The existing accounts that do not bear scrutiny are closed immediately.

Confirm that measures are taken by the client to ensure that they do not make funds available to listed terrorists and/or sanctioned names notified by competent Authorities (Please click here to see Explanatory Note 24)

Yes

Please provide details:

As stated earlier, Al Rajhi Bank recognises money laundering as a significant reputational risk. The management has confirmed that they monitor client payments, as required in SAMA / FATF guidelines to ensure that funds are not made available to Listed Terrorists / Specially Designated Names notified by the competent authorities. The bank has a real-time payment monitoring system to screen payments against the listed names. As required by the regulatory authority, suspicious payments are investigated internally and, if required, reported to the Police / SAMA without alerting the customer.

All inward remittances go through an automated screening process, and are paid through an account only. Under exceptional cases, which the bank advised are extremely rare, it may also pay in cash provided the client is well known to the senior management of the bank.

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The Head of Compliance in Al Rajhi Bank advised that they currently use Proactive Risk Manager software called 'Prison', which interfaces with the bank's main system. We were informed that NCB - the largest commercial bank in Saudi Arabia - also currently relies on the same software. A US company had developed the original platform, and Al Rajhi Bank got it through their licensed firm 'ACI Bahrain'. The SDNs / sanctioned names advised by SAMA, other competent authorities and those identified through their own research are fed into the system. The bank also enters the payment/ transaction thresholds in the system.

Does the client's country endorse "The Recommendations of the Financial Action Task Force on Money Laundering"? (even though it may not be a member of FATF, see explanatory note 7 and the OECD web site)

Yes

Confirm that FATF principles regarding client identification; anonymous accounts; client activity monitoring; a risk-based approach to products/geographies; employee training; and audits of controls are incorporated in the client's policy, procedures and controls:

SAMA endorses the FATF Recommendations and has the reputation of being among the toughest regulators in the region.

During our meeting with the management, they confirmed that the bank has implemented KYC / AML procedures and controls in full compliance with SAMA guidelines, which incorporate the FATF principles regarding customer identification, anonymous accounts, suspicious transactions and staff training.

The management stressed that they do not provide banking services to new customers without proper identification. As per their KYC policy, a copy of proper identification is obtained and kept on file when a new account is opened, a major service is rendered or a large transaction (i.e. >SAR100k) is carried out. They also require other information relating to customer, including the street address, employer / business details.

As a policy, Al Rajhi Bank does not offer banking services to non-account holders except in the following circumstances:

- payment of utility bills, Government dues, fines
- encashment of a reasonable number of TCs / Drafts by tourists against proper identification
- encashment of Haj / Umrah cheques / TCs
- inward remittances provided they are paid through an account with another Saudi bank
- outward remittances for walk-in customers after checking customer identity, obtaining personal data of client and getting the required level of comfort. It is as per SAMA guidelines.

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For amounts in excess of SAR100k threshold, the branch manager's approval is also needed after he has verified the source of funds. In addition the bank has to provide full information on the client and transaction to the regulatory authority.

For establishing a new correspondent banking relationship, the bank obtains information as per SAMA's checklist. It includes copies of the Memorandum of Understanding / Articles of Association, certificate of incorporation / central bank license, information on principal owners of the bank, background information on directors / senior management and list of authorised signatories. In addition the bank also obtains information on the prospective client's KYC / AML procedures through a questionnaire, which includes all the key questions we have in the KYC Profile for High Risk Countries. Based on its own screening and due diligence process, SAMA may still advise the bank not to establish relationship with a particular institution.

As regard to their relationship with correspondent banks in Sudan, the Head of FI confirmed that their main correspondent in that country is Bank of Khartoum, which also maintains a GBP account with HSBC London. Relationship with other Sudanese banks is either inactive or insignificant. The management advised that Al Rajhi Bank's policy has been to primarily deal with the largest local bank in each country. They also informed that the bank is reviewing its entire correspondent banking relationship portfolio with a view to close the dormant / inactive accounts.

The management confirmed that transactions with Sudanese banks mainly comprise of low value remittances from Sudanese expatriates working in the Kingdom. It may be noted that Al Rajhi Bank has been a dominant player in remittance business, primarily due to its track record in providing efficient remittance services, extensive branch network, convenient timings and lower charges compared to most other banks.

It may also be noted that regulatory guidelines require banks to obtain approval from SAMA prior to opening any SAR account. The banks also need to provide SAMA full details when entering into any other relationship with a correspondent bank. If there are some concerns, SAMA will ask them to obtain additional information. Al Rajhi Bank keeps a separate file on each correspondent bank, which has an internally approved KYC / AML profile and all other important documents. These files are regularly checked by internal auditors and SAMA inspectors to ensure that the required due diligence had been performed by the bank before establishing a correspondent banking relationship.

The Head of FI also confirmed that it is the bank's policy not to open accounts for persons using fictitious names, and they have also implemented guidelines to monitor suspicious activity in accounts. They have a transaction monitoring system to detect unusual activity in the account and provide daily reports, which are reviewed by

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compliance. If there is suspicion about an account, the matter is immediately reported to the regulators and the account is put under surveillance. If it is established that the account was indeed being used for money laundering purposes, the relationship is immediately exited.

The bank retains in original form the account opening documents, customer identification records and agreements relating to the operation of customer's accounts for at least 10 years.

As per the bank's AML guidelines, and confirmed by the Head of FI, anti-money laundering training is provided to all managers, controllers, operations and counter staff of the bank.

The management also advised that Al Rajhi Bank is an obligatory member of SAMA's Financial Crimes Laundering Committee, which recommends the adoption of best practices and ways to strengthen the AML controls in the banking sector.

Describe how the policy, procedures and controls are communicated and enforced effectively in the client's network of domestic and international offices: (Please click here to see Explanatory Note 3)

The bank has confirmed that KYC / AML controls and procedures are applied across its network. There is an established AML Unit within Internal Audit, which has a dedicated AML Compliance Officer to coordinate the anti-money laundering activities within the bank, monitor unusual activities in customer accounts, scrutinise the accounts of clients under suspicion of money laundering and alert SAMA / other authorities if necessary. He is also responsible to review and ensure the adequacy of AML policies and procedures periodically. There are also regular external audits and routine inspections from SAMA to ensure that AML guidelines are strictly followed across the branches.

Confirm specifically that client's policy prohibits relationships with, and payment processing for, Shell Banks: (Please click here to see Explanatory Note 4)

Yes

---

#### D Client Visiting

Confirm that a visit/contact will be made by the Global Relationship Manager, Regional Relationship Manager or a Product Specialist in the first year of the relationship: (Please click here to see Explanatory Note 5)

Visited by Shariq Siddiqi (GRM) in October 2004

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**E Additional Local Regulatory Requirements**

If applicable: (Please click here to see Explanatory Note 19) N / A

**F Global Relationship Manager**

Global Relationship Manager Shariq Siddiqi

Has the IB one-way consent letter been sent out ? (Please click here to see Explanatory Note 29) Yes

Date sent: 08/2004

**Part Two - Transaction Activity****A Transactional Details**

Nature of account/relationship (tick where appropriate): Trade, Treasury, Swift BKE

Other, please state: Asset Management

Is this a Banknote Client? No

Client's stated use/purpose of the account/relationship: It is an existing relationship for HSBC.

[ Note: The Banknotes relationship with HBUS London was exited on the advice from CMP ].

Confirm that the client will be the only operator of the relationship. (Please click here to see Explanatory note 21) Yes

**B Transactional Activity**

The Know Your Customer policy requires a listing of the client's approximate business activity with HSBC, and subsequent monitoring of actual business against it. (Please click here to see Explanatory Note 17)

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Please Note that it is against policy to accept payment Instruction from Shell Banks direct, or via relationships with us.

Type of Transaction:	Export DC / BP / BC MM / FX Transactions
Frequency:	Transaction Count (Units):  Export DC / BP / BC - 83 p.a MM / FX Transactions - 222 p.a
Volume/value:	Turnover (USD Millions):  Export DC / BP / BC - 7.6 p.a MM / FX Transactions - 276.9 p.a

---

**C Additional Information required for Banknote clients**

---

**D Approval Section**

Name of Relationship Manager recommending: Ihsen Khelef, Associate

I have reviewed the information provided above, in the context of HSBC's KYC policy and due diligence criteria. I am satisfied that the client's money laundering deterrence policy, procedures and controls are of a sufficient standard for me to recommend this client for banking business and that transactions are consistent with the customer's known legitimate business activity. Please click here to see Explanatory Note 18

If approval is subject to certain conditions, include details here: N / A

Date completed: 18 May 2005

Date for next review (mm/yyyy) Please click here to see Explanatory Note 28: 05/2006

Senior Manager/Regional Manager Institutional Banking approving: Name and date: Shariq Siddiqi, 18 May 2005

Head of Institutional Banking/Regional Sector Head concurring: (Only required for High Risk countries, where one or more of the principal owners/controllers are classified as an SCC, or for Offshore Banks/Financial Institutions) Asad Zafar, Managing Director HSBC Amanah

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Name and date: Please click here to see Explanatory Note 26

Compliance officer (RMLCO in Asia Pacific) concurring: (Only required for High Risk countries)  
Name and date:

Please indicate if the profile has been declined or approved :  Approved

Date form completed: 18/05/2005

**F Author Details**

Document Edit history

Revision No.	Editor	Date and time
10	Shariq Z SIDDIQI	05/18/2005 14:46:35 GDT
9	Shariq Z SIDDIQI	05/18/2005 14:20:12 GDT
8	Shariq Z SIDDIQI	05/18/2005 12:53:34 GDT
7	Shariq Z SIDDIQI	05/17/2005 14:06:53 GDT
6	Shariq Z SIDDIQI	05/17/2005 08:51:45 GDT
5	Shariq Z SIDDIQI	05/16/2005 14:44:43 GDT
4	Shariq Z SIDDIQI	05/16/2005 14:33:18 GDT
3	Shariq Z SIDDIQI	05/15/2005 11:29:56 GDT
2	Shariq Z SIDDIQI	05/15/2005 09:47:19 GDT
1	Shariq Z SIDDIQI	05/12/2005 14:16:15 GDT
0	Shariq Z SIDDIQI	05/12/2005 09:19:13 GDT

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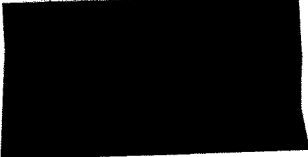
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Principal: CN=Stephen J ALLEN/OU=HBMD/O=HSBCMERIDIAN  
SECUREMAIL:  
DATABASESIZE: 610.8  
Form: Reply With History

Redacted by the Permanent  
Subcommittee on Investigations



InheritedFrom: CN=Alan T Ketley/OU=HBUS/O=HSBC  
InheritedFromDomain:



DocType: Memo  
EntityName: HSBC Bank USA. London Branch (Treasury and Capital Markets - TCM)  
OurRef:  
YourRef:  
DisplaySubject: Re: AL Rahji  
SenderTag:

Body:  
Thanks Alan, anything that you can do is appreciated as, with the summer heat approaching, this client becomes very active and is commercially extremely important to us - if we can ever get to re-start our business with them that is! You may recall me telling you that we dealt with Al Rajhi for 30 years prior to being obliged to desist!

regards  
Steve

From: Alan T Ketley/HBUS/HSBC on 21 Mar 2006 13:49

To: Stephen J ALLEN/HBMD/HSBCMERIDIAN@HSBC  
cc: Gordon BROWN/BEU/HSBC@HSBC  
bcc:

Subject: Re: AL Rahji

Steve

Lynda did not share her thoughts with any of us so I'm afraid that this will need to await her return, though i will see if any of our contacts in DC can make inquiries. I may also run it by the OCC.

Alan T. Ketley  
First Vice President, Anti Money Laundering  
Tel: 212 525 6147

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Fax: 212 382 7560

Stephen J ALLEN/HBMD/HSBCMERIDIAN  
03/21/06 07:39 AM

To  
Alan T Ketley/HBUS/HSBC@HSBC  
cc  
Gordon BROWN/IBEU/HSBC@HSBC  
Subject  
Memo: Re: AL Rahji

Alan,

After our meeting in early Feb, Lynda volunteered to let me have a note of what Compliance would additionally wish to know from and regarding Al Rajhi that would provide sufficient comfort for us to resume the banknote relationship and shortly before her holiday, Lynda admitted to Gordon that she still owed us that note.

You are correct in identifying them as a buyer only and we can approach them for the items that you noted but, as I recall, the principal open subject was whether they are still 'persona non grata' in the US as regards their potential involvement in terrorist financing and how we achieve comfort on that topic. You may recall that I advised the meeting that, according to Al Rajhi, their senior management had been advised by the US State Department that they were no longer considered to be under suspicion and I was wondering whether HBUS Compliance or Security may have a contact at State (perhaps through the due diligence process re taking over the Riggs embassy accounts) that could be explored to verify this statement? I didn't and don't regard the suggestion that we ask Al Rajhi to supply written proof of this as a reasonable request to make.

Steve

From: Alan T Ketley/HBUS/HSBC on 20 Mar 2006 22:35

To: Stephen J ALLEN/HBMD/HSBCMERIDIAN@HSBC  
cc: Gordon BROWN/IBEU/HSBC@HSBC  
bcc:

Subject: AL Rahji

Steve

Gordon has been chasing me with regard to Al Rajhi and a note that Lynda was supposed to be sending you. She is now on vacation and note of the rest of us can recall what it was that she was going to ask you. I suspect that it would have included a request for the latest AML Policy & Procedures from Al Rajhi as well as some information about who their customers are - the relationship used

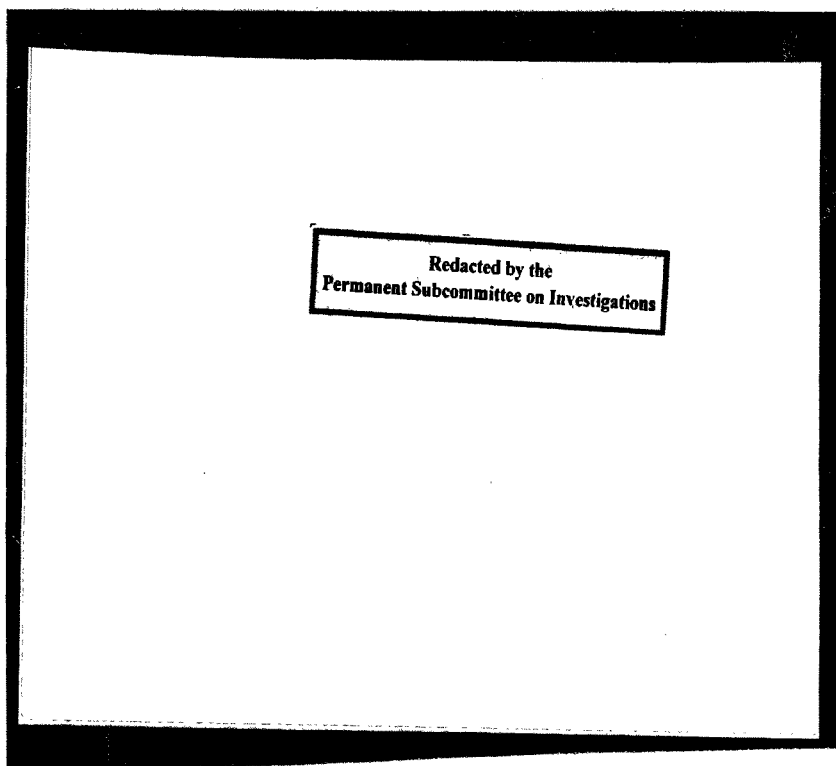
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to be based on us selling to them so I think we would want to know where the USD are going after they leave us.

Do you recall what she had in mind?

Alan T. Kefey  
First Vice President, Anti Money Laundering  
Tel: 212 525 6147  
Fax: 212 382 7580

— = Redacted by the Permanent Subcommittee on Investigations



Redacted by the  
Permanent Subcommittee on Investigations

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0695041

1195

From: ANGELA CASSELL-BUSH/HBUS/HSBC  
Sent: 12/6/2007 9:41:13 AM  
To: CHRISTOPHER LOK/HBUS/HSBC@HSBC  
CC:  
Subject: Fw: ISLAMI BANK BANGLADESH LIMITED-Bangladesh

Angela Cassell-Bush  
Compliance Officer | HSBC Bank USA  
90 Christiana Road New Castle, DE 19720

---

Phone. 302-327-2017  
Fax. 302-327-2128  
Email. angela.cassell-bush@us.hsbc.com

----- Forwarded by Angela Cassell-Bush/HBUS/HSBC on 12/06/2007 09:40 AM -----

Muhammad SHOHIDUZZAMAN/IB DAK/HBAP/HSBC@HSBC  
12/06/2007 04:12 AM

To  
Angela Cassell-Bush/HBUS/HSBC@HSBC02  
cc  
Aftab HAIDER/IB DAK/HBAP/HSBC@HSBC, Anthony Julian/HBUS/HSBC@HSBC, Bruce  
Sparke/HBUS/HSBC@HSBC, Christopher Lok/HBUS/HSBC@HSBC, Gillian E  
Bachstein/HBUS/HSBC@HSBC02, Hersel Mehani/HBUS/HSBC@HSBC, Princely P  
Muro/HBUS/HSBC@HSBC02, PSRR@HSBC, Stephanie L Napier/HBUS/HSBC@HSBC  
Subject  
Re: Fw: ISLAMI BANK BANGLADESH LIMITED-Bangladesh

Angela

Aftab did respond to you on 11 December 2007. I will forward the response to you shortly. We have checked in internet and found that there is a concern called Gulf Paper Industries Factory in the Al Rajhi group (not Gulf Paper Mill Factory). As per our records there is no shareholding by Gulf Paper Industries Factory in Islami Bank.

Please let me know what additional information you require from us.

Regards

Shohid

Angela Cassell-Bush/HBUS/HSBC@HSBC02  
HBUS  
12/05/2007 10:19 PM  
Mail Size: 38788

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**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0741466**

1196

To  
Princely P Muro/HBUS/HSBC@HSBC02  
cc  
Bruce Sparke/HBUS/HSBC@HSBC, Gillian E Bachstein/HBUS/HSBC@HSBC02, Anthony  
Julian/HBUS/HSBC@HSBC, Christopher Lok/HBUS/HSBC@HSBC, Muhammad  
SHOHIDUZZAMAN/IB DAK/HBAP/HSBC@HSBC, Aftab HAIDER/IB DAK/HBAP/HSBC@HSBC,  
Stephanie L Napier/HBUS/HSBC@HSBC, Hersel Mehani/HBUS/HSBC@HSBC, PSRR@HSBC  
Subject  
Fw: ISLAMI BANK BANGLADESH LIMITED-Bangladesh  
Our Ref  
  
Your Ref

Princely,

Appended below are the last series of emails sent to the Bangladesh Team  
(Shohid and Aftab) as of 11/09/2007 seeking clarification regarding the  
relationship between Al Rajahi Bank and ISLAMI BANK BANGLADESH  
LIMITED-Bangladesh. As of the time of this writing, I have received no response.

My records reflect that The Gulf Paper Mill Factory is a subsidiary of the Al  
Rajahi Group of Companies, which is subsequently related to Al Rajahi Bank and  
Islami Bangladesh Bank, Limited. I believe that this is the same family.  
However, we would need for the GRM to confirm this information.

Once we can get a satisfactory response to this email, I am able to resubmit  
this profile through the approval chain. Please refer to Chris Lok's comments  
appended below. Thanks.

Regards,

Angela Cassell-Bush  
Compliance Officer | HSBC Bank USA  
90 Christiana Road New Castle, DE 19720

Phone. 302-327-2017  
Fax. 302-327-2128  
Email. angela.cassell-bush@us.hsbc.com

----- Forwarded by Angela Cassell-Bush/HBUS/HSBC on 12/05/2007 11:04 AM -----

Angela Cassell-Bush/HBUS/HSBC  
11/09/2007 02:54 PM

To  
Aftab HAIDER/IB DAK/HBAP/HSBC  
cc  
Gillian Bachstein/HBUS/HSBC@HSBC02, PSRR@HSBC, Wing Kin - Sg CHAN/CEO  
SIP/HBUS/HSBC@HSBC, Muhammad SHOHIDUZZAMAN/IB DAK/HBAP/HSBC@HSBC, Hersel  
Mehani/HBUS/HSBC@HSBC, Kwok Ying FUNG/NBD SIP/HBUS/HSBC@HSBC, Christopher

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**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0741467**

1197

Lok/HBUS/HSBC@HSBC, Stephanie L. Napier/HBUS/HSBC@HSBC  
Subject  
Fw: ISLAMI BANK BANGLADESH LIMITED-Bangladesh

Aftab: In Shohid's absence, can you assist in clarifying the item in blue below?  
----- Forwarded by Angela Cassell-Bush/HBUS/HSBC on 11/09/2007 02:36 PM -----

Angela Cassell-Bush/HBUS/HSBC  
11/09/2007 02:32 PM

To  
Christopher Lok/HBUS/HSBC  
cc  
Benjamin J SARAM/NBD SIP/HBUS/HSBC@HSBC, Gillian E Bachstein/HBUS/HSBC@HSBC02,  
PSRR@HSBC, Wing Kin - Sg CHAN/CEO SIP/HBUS/HSBC@HSBC, Muhammad SHOHIDUZZAMAN/IB  
DAK/HBAP/HSBC@HSBC, Harsel Mehani/HBUS/HSBC@HSBC, Kwok Ying FUNG/NBD  
SIP/HBUS/HSBC@HSBC  
Subject  
Re: ISLAMI BANK BANGLADESH LIMITED-Bangladesh

Chris;

Please refer to the official website of the Gulf Paper Mill Factory/Arajhi Group; (<http://www.alrajhigroup.com/english/paper/index.html>) which reflects Abdullah Abdul Aziz Al Rajhi as the Chairman. My records reflect that The Gulf Paper Mill Factory is a subsidiary of the Al Rajah Group of Companies, which is subsequently related to Al Rajah Bank and Islami Bangladesh Bank, Limited. I believe that this is the same family.

However, I have copied the GRM Shohid on this email. Shohid can you please clarify this?

Regards,

Angela Cassell-Bush  
Compliance Officer | HSBC Bank USA  
90 Christiana Road New Castle, DE 19720

---

Phone. 302-327-2017  
Fax. 302-327-2128  
Email. [angela.cassell-bush@us.hsbc.com](mailto:angela.cassell-bush@us.hsbc.com)

---

Christopher Lok/HBUS/HSBC  
11/09/2007 11:39 AM

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**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0741468**

1198

To  
Angela Cassell-Bush/HBUS/HSBC@HSBC  
cc  
Benjamin J SARAM/NBD SIP/HBUS/HSBC@HSBC, Gillian E Bachstein/HBUS/HSBC@HSBC02,  
PSRR@HSBC, Wing Kin - Sg CHAN/CEO SIP/HBUS/HSBC@HSBC  
Subject  
Re: ISLAMI BANK BANGLADESH LIMITED-Bangladesh

Angela

Then this is different from what's said in the profile. The last piece of Alrajhi's interest (7.58% held by Abdullah Abdul Aziz Al-Rajhi) should have nothing to do with the Paper Industries (as K.Y. said, the paper industries factory is owned by a different Al Rajhi). I think you need to tidy up the profile first.

Chris

Angela Cassell-Bush/HBUS/HSBC  
11/09/2007 10:57 AM

To  
Christopher Lok/HBUS/HSBC@HSBC  
cc  
Benjamin J SARAM/NBD SIP/HBUS/HSBC@HSBC, Wing Kin - Sg CHAN/CEO  
SIP/HBUS/HSBC@HSBC, Gillian E Bachstein/HBUS/HSBC@HSBC02, PSRR@HSBC  
Subject  
Re: ISLAMI BANK BANGLADESH LIMITED-Bangladesh

Chris,

In response to your inquiry, please note that there is a connection between ISLAMI BANK BANGLADESH LIMITED-Bangladesh and Al-Rajhi Bank (aka: Al Rajhi Banking and Investment Corporation).

Based on the information that we have on file, the Al-Rajhi family has been associated with Islami Bank Bangladesh Limited, since its inception. They have at least 37% direct ownership within ISLAMI BANK BANGLADESH LIMITED through their ownership within the following companies; Arabsas Travel & Tourist Agency, 9.999%, Janab Yousif Abdullah Abdul Aziz Al-Rajhi, 9.7936%; Al-Rajhi Company for Industry & Trade, 9.94%; Abdullah Abdul Aziz Al-Rajhi, 7.58%

This same family has major controlling interest within Al-Rajhi bank (aka Al Rajhi Banking and Investment Corporation).

Hope this helps. Please let me know if this information is satisfactory.

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**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSB OCC 0741469**



1199

Regards,

Angela Cassell-Bush  
Compliance Officer | HSBC Bank USA  
90 Christiana Road New Castle, DE 19720

---

Phone. 302-327-2017  
Fax. 302-327-2128  
Email. [angela.cassell-bush@us.hsbc.com](mailto:angela.cassell-bush@us.hsbc.com)

---

Christopher Lok/HBUS/HSBC  
11/08/2007 10:17 AM

To  
Kwok Ying FUNG/NBD SIP/HBUS/HSBC@HSBC  
cc  
Benjamin J SARAM/NBD SIP/HBUS/HSBC@HSBC, Wing Kin - Sg CHAN/CEO  
SIP/HBUS/HSBC@HSBC, Angela Cassell-Bush/HBUS/HSBC@HSBC, Gillian E  
Bachstein/HBUS/HSBC@HSBC02  
Subject  
ISLAMI BANK BANGLADESH LIMITED

KY

Further to my email exchange with Ben, I like to confirm that I'll be happy to be the GRM of this banknotes prospect/PCM client. However I would like to ask Gillian and company to find out the possible link between this name and the Alrajhi Bank (an approved name for Banknotes business).

Beth's statement about Alrajhi Trading Est is irrelevant as that's name we long ago taken out of our profile. That name is not related to the Alrajhi Bank.

I've looked at the Alrajhi Bank profile and noted a chap by the same name who owns the papermill (Islamic).

Chris

Kwok Ying FUNG/NBD SIP/HBUS/HSBC  
11/06/2007 11:12 PM

To  
Christopher Lok/HBUS/HSBC@HSBC  
cc  
Wing Kin - Sg CHAN/CEO SIP/HBUS/HSBC@HSBC, Benjamin J SARAM/NBD  
SIP/HBUS/HSBC@HSBC

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**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0741470**

1200

Subject  
ISLAMI BANK BANGLADESH LIMITED

Chris

The following mails are self-explanatory. Would you consider to be the RM approver of subject PCM-BN shared client?

Regards.

KY

— Forwarded by Kwok Ying FUNG/NBD SIP/HBUS/HSBC on 11/07/2007 12:00 PM —

Beth Fisher/HBUS/HSBC  
07 Nov 2007 03:07 Mail Size: 15898

To  
Angela Cassell-Bush/HBUS/HSBC@HSBC  
cc  
Benjamin J SARAM/NBD SIP/HBUS/HSBC@HSBC, Gillian E Bachstein/HBUS/HSBC@HSBC02,  
Kwok Ying FUNG/NBD SIP/HBUS/HSBC@HSBC  
Subject  
Re: Fw: KYC BankNotes Profile is IB Denied for: ISLAMI BANK BANGLADESH LIMITED

Our Ref

Your Ref

Additionally, I had mentioned to Gillian the past relationships with Al Rajhi. In particular, a couple/few years ago, HBUS exited the relationship with Al Rajhi Banking & Investment due to Compliance concerns. (I do not recall all the details). I do see that the relationship was re-activated. Gillian was going to cross-check the Al Rajhi ownership of Islami Bank with our old KYCs for Al Rajhi Banking & Investment and Al Rajhi Trading Establishment.

This is not just an RM issue. This is a KYC due diligence issue.

Beth

Angela Cassell-Bush/HBUS/HSBC  
11/06/2007 01:41 PM

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**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBCC OCC 0741471**

1201

To  
Kwok Ying FUNG/NBD SIP/HBUS/HSBC@HSBC  
cc  
Gillian E Bachstein/HBUS/HSBC@HSBC02, Benjamin J SARAM/NBD SIP/HBUS/HSBC@HSBC,  
Beth Fisher/HBUS/HSBC@HSBC  
Subject  
Re: Fw: KYC BankNotes Profile is IB Denied for: ISLAMI BANK BANGLADESH LIMITED

Kwok:

Unfortunately, the KYC profile for ISLAMI BANK BANGLADESH LIMITED has been IB denied by Beth Fisher because the client is not known to CIB. As it stands, we have not been able to identify the RM Approving person for this relationship. I would suggest that you reach out to Chris Lok to see if he is willing to be the RM Approver. Once this is confirmed, let me know and I will resubmit this through the approval chain.

Regards,

Angela Cassell-Bush  
Compliance Officer | HSBC Bank USA  
90 Christiana Road New Castle, DE 19720

---

Phone. 302-327-2017  
Fax. 302-327-2128  
Email. angela.cassell-bush@us.hsbc.com

---

Kwok Ying FUNG/NBD SIP/HBUS/HSBC  
10/24/2007 10:41 PM

To  
Jarrett L Payne/HBUS/HSBC@HSBC, Angela Cassell-Bush/HBUS/HSBC@HSBC  
cc  
Benjamin J SARAM/NBD SIP/HBUS/HSBC@HSBC  
Subject  
Fw: KYC BankNotes Profile is IB Denied for: ISLAMI BANK BANGLADESH LIMITED

Dear Jarrett / Angela

Our banknote profile was "IB Denied" by Beth as she is not the RM. Could you please update the client profile with the correct RM? I understand the client profile right now is also "IB Denied", kindly advise us once you put the

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1202

profile back to approval process. Thank you.

Best regards.

KY

----- Forwarded by Kwok Ying FUNG/NBD SIP/HBUS/HSBC on 10/25/2007 10:14 AM -----

Beth Fisher/HBUS/HSBC  
24 Oct 2007 22:29 Mail Size: 1908

To  
Kwok Ying FUNG/NBD SIP/HBUS/HSBC@HSBC  
cc

Subject  
KYC BankNotes Profile is IB Denied.for: ISLAMI BANK BANGLADESH LIMITED

Our Ref

Your Ref

----- = Redacted by the Permanent  
Subcommittee on Investigations

A BankNote Profile in BANGLADESH for HSBC Office Singapore, has been IB Denied  
(Reference # [REDACTED])

Click on the attachment to link to the BankNote Profile.

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**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0741473**

1203

From: CHRISTOPHER LOK/HBUS/HSBC  
Sent: 6/3/2008 2:07:56 PM  
To: DANIEL JACK/HBUS/HSBC@HSBCAMERICAS  
CC: ALAN P WILLIAMSON/HBUS/HSBC@HSBC02; DAVID M WILENS/HBUS/HSBC@HSBC02; STEPHEN J ALLEN/HBMD/HSBCMERIDIAN@HSBC;  
GARY C H YEUNG/SVP NBD RNH/HBUS/HSBC@HSBC; ROGER T K SO/HD NBD RNH/HBUS/HSBC@HSBC  
Subject: Re: Fw: Banknotes with Al Rahji Banking in S.A.

Dan

This is an on-going debate that will never go away. My stance remains the same, i.e. until its proved we cannot simply rely on the Wall Street Journals' reports and unconfirmed allegations and 'punish' the client.

Nevertheless we should ask Chris Paget's group and do an independent review of this name. Lets see their results first

Steve - you like to have a word with your contact ?

Chirs

Daniel Jack/HBUS/HSBC  
06/03/2008 02:38 PM

To  
Christopher Lok/HBUS/HSBC@HSBC02, Stephen J ALLEN/HBMD/HSBCMERIDIAN@HSBC  
cc  
David M Wilens/HBUS/HSBC@HSBC02, Alan P Williamson/HBUS/HSBC@HSBC02  
Subject  
Fw: Banknotes with Al Rahji Banking in S.A.

Chris / Steve,

Yesterday Alan & I reviewed various KYC profiles pending CO approval for HRCs. We approved most of them, but the Banknote Profile for HK to deal with Al Rahji Banking is still pending.

We realize they are a long-standing customer of Banknotes and other businesses in London. I noted some info from the KYC Profiles below.

But there is still some concern in AML/CRO regarding TF & reputational risk in dealing with them.

Please review the info below (EDD ROFs & attachments from FIG) and provide comments to address the negative info, risk analysis and appropriateness of mitigants, and your support for maintaining the HBUS relationship.

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1204

Thanks and regards,

Daniel Jack  
Vice President - Compliance Officer  
HSBC Bank USA, NA  
452 Fifth Avenue, 7th floor, New York, NY 10018

---

Phone 212-525-8686  
Email daniel.jack@us.hsbc.com

---

— Forwarded by Daniel Jack/HBUS/HSBC on 06/03/2008 02:25 PM —

Gloria Strazza/HBUS/HSBC  
06/03/2008 10:38 AM

To  
Daniel Jack/HBUS/HSBC@HSBC02, Alan P Williamson/HBUS/HSBC@HSBC02  
cc  
Anne Liddy/HBUS/HSBC@HSBC02, Denise A Reilly/HBUS/HSBC@HSBC02  
Subject  
Re: Banknotes with Al Rajhi Banking in S.A.

There was (and may be in the future) a fair amount of press and government attention focused on this entity. I am not sure we would want to engage in even this limited activity for this entity but I forward some of the intelligence from our files on this bank.

Copied into this email are the prior ROFs performed on the entity, the most recent of which was completed in December 2007. Also attached is a WSJ article from July 2007 and some emails from ICRO's electronic files (attached in the Word documents below).

[attachment "WSJ 7-02.doc.zip" deleted by Christopher Lok/HBUS/HSBC]  
[attachment "Email copies.doc.zip" deleted by Christopher Lok/HBUS/HSBC]

EDD ROFs  
Email Note accompanying latest EDD ROF:  
04 Dec 2007 11:57  
From: FIG HBUS Tel:  
Title: Location:  
WorkGroup: Mail Size: 82760  
Sent by: Bob Powers

To: Daniel Jack/HBUS/HSBC@HSBC02  
cc: Gordon BROWN/IBEU/HSBC@HSBC02  
FIG HBUS@HSBC  
Subject: Report of Findings - Al Rajhi Banking and Investment Corp (Al Rajhi Bank) - FIU

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INVESTIGATIVE CONTROL AND REPORTING OFFICE (ICRO)

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSB OCC 0752006

1205

FINANCIAL INTELLIGENCE UNIT  
Research as of: 12/04/07 UPDATE

SUBJECT: Al Rajhi Banking and Investment Corp

ENTITIES: Al Rajhi Banking and Investment Corp (AKA Al Rajhi Bank)

REQUESTOR: Daniel Jack

DEPARTMENT: Banknotes

A report of findings in support of Enhanced Due Diligence was conducted for Al Rajhi Banking and Investment Corp. This department completed previous reports on this bank, most recently in October of 2006. The text of those previous reports is provided below for your reference.

As our previous reports state, there have been numerous allegations of terrorist support against Al Rajhi Bank; but the bank has never been officially sanctioned. Since the previous report of findings, however, there was published a "Wall Street Journal" article titled "U.S. Tracks Bank Favored By Extremists" which offered a review of previously secret intelligence reports that state plainly that the Bush administration and US agencies have debated whether or not the bank should be sanctioned for what is perceived as a history of support of Muslim extremists. A brief summary of this article is provided below, and the full article is appended for your reference.

While it is not clear that this newly released information will lead to any official sanctions against the bank, it is likely that there will continue to be references in the press to the allegations of terrorist support against the bank, and for this reason there remains a level of reputational risk attached to any relationship with Al Rajhi Bank that should be taken into consideration.

Only items impacting adversely on money laundering, terrorist financing or other substantive criminal activity concerns will be detailed in this report.

Al Rajhi Banking and Investment Corp

Most Current Ownership Breakdown Found:

Partners of ARCCEC the predecessor 52%  
New Founders of the Bank 5%  
Employee's Fund 2%  
Public 41%  
(Bankers Almanac, Profile Upload: November 26, 2007)

Most Current List of Top Executives Found:

Sulaiman Bin Abdulaziz Al Rajhi, Chairman & Managing Director  
Abdullah Sulaiman Al Rajhi, Chief Executive Officer  
Mr. Saeed Mohd Al Ghamdi, Deputy Chief Executive Officer  
Mr. Mohammed Fazal Haque, Acting Head Financial Institutions  
(Bankers Almanac, Profile Upload: November 26, 2007)

Notable Information Regarding the Financial Institution, its Ownership or its Top Executives:

A "Wall Street Journal" article published in July 2007, titled "U.S. Tracks Bank Favored By Extremists," offered a review of previously undisclosed

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**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0752007**

intelligence reports by the Central Intelligence Agency and other US Agencies, detailing for the first time how much the U.S. knew about the use of Al-Rajhi Bank by alleged Muslim extremists and how U.S. officials debated over how to respond to this knowledge. The reports state that the spread of Muslim extremism is dependent upon the Saudi banking structure, and that the Bush administration has repeatedly debated whether to take action against Al Rajhi Bank in particular. Ultimately, the administration would choose to lobby Saudi officials quietly instead of instituting official sanctions. (The Wall Street Journal, Article-date: July 26, 2007)

Key excerpts from the July 2007 article are as follows:

- "The U.S. intelligence reports, heretofore secret, describe how Al Rajhi Bank has maintained accounts and accepted donations for Saudi charities that the U.S. and other nations have formally designated as fronts for al Qaeda or other terrorist groups."

- "In addition, Mr. Al Rajhi and family members have been major donors to Islamic charities that are suspected by Western intelligence agencies of funding terrorism, according to CIA reports and federal-court filings by the Justice Department."

- "A 2003 CIA report claims that a year after Sept. 11, with a spotlight on Islamic charities, Mr. Al Rajhi ordered Al Rajhi Bank's board 'to explore financial instruments that would allow the bank's charitable contributions to avoid official Saudi scrutiny.'"

- "A few weeks earlier, the report says, Mr. Al Rajhi transferred \$1.1 billion to offshore accounts using commodity swaps and two Lebanese banks citing a concern that U.S. and Saudi authorities might freeze his assets.' The report was titled 'Al Rajhi Bank: Conduit for Extremist Finance.'"

(The Wall Street Journal, Article-date: July 26, 2007)

The article notes that US agencies have never obtained proof that bank executives knowingly facilitate terrorism, "despite what they describe as extensive circumstantial evidence that some executives are aware the bank is used by extremists." But the article also included the fact that the 2003 CIA report concluded: "Senior Al Rajhi family members have long supported Islamic extremists and probably know that terrorists use their bank." (The Wall Street Journal, Article-date: July 26, 2007)

The article goes on to state that US officials considered various actions to take against the bank, including listing or threatening to list the bank as a supporter of terrorism. Ultimately, the Bush administration chose instead to appeal to bank officials privately.

(The Wall Street Journal, Article-date: July 26, 2007)

The article also provides a history of the bank's relationship with the Saudi Royal Family, as well as a history of the accusations against the bank. We have appended the text of this article to this report, for your reference. (The Wall Street Journal, Article-date: July 26, 2007)

Information Found Regarding this Financial Institution, its Ownership or its Top Executives that Warrants SCC Consideration:

No additional information was found that would warrant additional SCC consideration.

\*\*\* Should you find any discrepancies between the ownership and/or executives named in this report and those named in your current, up-to-date KYC information, please let us know so that we may check any differing names for items impacting adversely on money laundering, terrorist financing or other substantive criminal activity concerns.

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**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0752008**



1207

Please feel free to contact me with any questions regarding this report. See below for text of the July 2007 "Wall Street Journal" article as well as the text of previous reports on Al Rajhi Banking and Investment Corp.

Bob Powers  
Financial Investigator  
Investigative Control and Reporting Office (ICRO)  
452 5th Avenue, Tower 7; New York, NY 10018  
Telephone: (212) 525-8089

PRIOR EDD ROFs:

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FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS (UPDATE)  
Research as of: 10/16/06

INVESTIGATOR: Michael Cohen

SUBJECT: Al Rajhi Banking and Investment Corp. (Al Rajhi Bank)

ENTITIES: Al Rajhi Banking and Investment Corp. (Al Rajhi Bank)

REQUESTOR: Gordon Brown

DEPARTMENT: PCM/Banknotes

An updated Report of Findings in support of Enhanced Due Diligence was conducted for the Al Rajhi Banking and Investment Corp. This is an update to previous reports prepared for this bank on 12/04 and 10/03, which are also provided below for your reference. Only items impacting adversely on money laundering, terrorist financing or other substantive criminal activity concerns will be detailed in this updated report.

UPDATE:

Al Rajhi Banking and Investment Corp. (Al Rajhi Bank)

Most Current Ownership Breakdown Found:

Partners of the ARCCEC the predecessor (52%)  
Public (41%)  
New Founders of the Bank (5%)  
Employee's Fund (2%)  
(Bankers' Almanac, Date Accessed: 10/16/06)

No further information was found in our ordinary sources identifying the specific names of the individuals who make up the aforementioned shareholding entities.

Most Current List of Top Executives Found:

Sulaiman Bin Adulaziz Al Rajhi, Chairman and Managing Director  
Abdullah Sulaiman Al Rajhi, Chief Executive Officer  
Fahad Abdullah Al Rajhi, General Manager, Treasury and Financial Institutions  
Cassim Docrat, AGM Head, Financial Institutions  
Syed Maqbul Qader, General Manager, Corporate Group

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**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0752009**

Rizwan Shakor, General Manager, Finance Group  
 Kishore Dash, General Manager, Investments & Private Banking  
 Anand Anchan, AGM Treasurer, Treasury Department  
 Ismail Odeah, Head of Compliance  
 Saeed Mohd Al Ghamdi, General Manager, Retail Banking  
 (Bankers' Almanac, Date Accessed: 10/16/06)

The following list of executives was found on a Dun & Bradstreet Business Information Report:

Suliman Bin Abdulaziz Al Rajhi, Chief Executive and Managing Director  
 Saleh Bin Abdulaziz Al Rajhi, Chairman  
 Ahmed Al Hosan, Director  
 Abdullah Al Suliman Bin Abdulaziz Al Rajhi, General Manager  
 Fahad Abdullah Al Rajhi, Manager  
 Salah Abdullah Abdulkhalil, Deputy General Manager  
 Abdulrahman Bin Oghail, Deputy General Manager  
 Saleh Al Shaity, Branch Manager  
 Nassar Bin Mohammed Al Subaiy, Deputy General Manager  
 Ismail Hussein, Officer  
 (Dun & Bradstreet Business Information Report, Load Date: 8/24/06)

A website for the bank lists the following individuals amongst its board of directors. World-Check also confirms their positions as follows:

Saleh Abdul Aziz Al Rajhi, Director  
 Saeed Omer Qasim Alesayi, Director  
 Salah Ali Aba Al Khalil, Director  
 Mohamed Abdullah Al Rajhi, Director  
 Naser Mohammed Al Subai'y, Director  
 Mohammed Osman Al Bishar, Director  
 Sulaiman Saleh Al Rajhi, Director  
 Mohammed Ibrahim Alissa, Director  
 Mohammed Abdul Aziz Al Rajhi, Director  
 Ali Mohamed Al Rajhi, Director  
 Abdullah Abdul Aziz Al Rajhi, Director  
 Abdullah Yahya Al Mouallimi, Director  
 Ali Ahmed Al Shudy, Director  
 (World-Check, Date Accessed: 10/16/06)

Notable Information Regarding the Financial Institution, its Ownership or its Top Executives, Subsequent to the Previous Report of Findings:

It was recently reported that Al Rajhi Banking and Investment Corporation changed their name to Al Rajhi Bank. The change took place in order to upgrade their brand identity while paving the way for regional and international expansion ("Middle East Company News Wire," Load Date: 10/16/06). Specifically, the bank has a license to operate in Malaysia and has announced plans to open dozens of branches there ("The Banker," 9/1/06).

It was reported that civil suits were brought in U.S. District Court on behalf of victims of the Sept. 11, 2001 attacks against many Saudi Arabian financial institutions for having involvement in terrorist financing. A U.S. District Court judge overseeing the lawsuits, dismissed Saudi Arabia and Al Rajhi Banking and Investment Corp., amongst others, as defendant's in six civil lawsuits accusing it of providing "massive" financial and logistical support to the Al-Qaeda network (www.aljazeera.com, on World-Check, Date Accessed: 1/19/05).

Sulaiman Abulaziz Al Rajhi, the bank's Chairman and Managing Director, is listed under the "terrorism" category on World-Check. The report says that he,

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1209

"financially supports terrorism and its main contributors" (World-Check, Date Accessed: 10/16/06). Details of Sulaiman Abulaziz Al Rajhi's alleged links to terrorist financing are included in the prior Report of Findings from 10/2003, which is attached below for your reference.

It was also reported by World-Check that Abdullah Abdul Aziz Al Rajhi, a board member, is a Politically Exposed Person (PEP) because of his political involvement as a member in the Northern Borders Provincial Council (World-Check, Date Accessed: 10/16/06). No further, specific information could be found in our ordinary sources that would confirm or detail Abdullah Abdul Aziz Al Rajhi's membership in a political party, therefore, you may wish to clarify this matter with the client.

No additional information impacting adversely on money laundering, terrorist financing or other criminal activity concerns was found subsequent to the previous Report of Findings.

Information Found Regarding this Financial Institution, its Ownership or its Top Executives that Warrants SCC Consideration:

According to its KYC profile, Al Rajhi Banking and Investment Corp. is classified as a SCC type 2 – Connected Entity.

\*\*\* Should you find any discrepancies between the ownership and/or executives named in this report and those named in your current, up-to-date KYC information, please let us know so that we may check any differing names for items impacting adversely on money laundering, terrorist financing or other substantive criminal activity concerns.

This report is confidential and is intended solely for the use of the HSBC business to which it is addressed and those who need to know the information pursuant to that business' internal procedures. This report is not to be disseminated to any other person or entity. Our investigative findings are, in part, based upon information available to us through a variety of third-party providers at the time our search is performed. While every attempt is made to find all substantive information, we make no representation that the information provided to, or gathered by, us is complete. This is not a credit report and should not be used as a credit report. The information contained herein is intended as a supplement to the Know Your Customer information gathered by the HSBC business unit and may not be considered when determining the creditworthiness of the customer (see Regulation B, 12 CFR 202.7).

Please feel free to contact me with any questions.

Sincerely,

Michael Cohen  
Financial Intelligence Group (FIG)

---

Update findings sent 7/13/05

Note  
13 Jul 2005 17:32  
From: FIG HBUS Tel:  
Title: Location:  
WorkGroup: Mail Size: 12344  
Sent by: Bob Powers

**Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB01135179**  
**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0752011**

1210

Subject: Report of Findings - Al Rajhi Commercial Foreign Exchange, Jeddah - FIG

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FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS (UPDATE)

SUBJECT: Al Rajhi Commercial Foreign Exchange, Jeddah

ENTITIES: Al Rajhi Commercial Foreign Exchange, Jeddah

REQUESTOR: Kevin O'Donnell

DEPARTMENT: AIM Support

A report of findings in support of enhanced due diligence was requested for Al Rajhi Commercial Foreign Exchange, Jeddah. The most recent update review of the Al Rajhi Trading Establishment in Saudi Arabia was sent in April, 2005. That update provided findings subsequent to the first report regarding Al Rajhi entities that was originally issued from this office in October of 2003. An update was conducted in December of 2004. Text of the more recent update will be pasted at bottom. The text of the original report will be included in the attached PDF file. This current report will address recent information specific to Al Rajhi Commercial Foreign Exchange, Jeddah.

Al Rajhi Commercial Foreign Exchange, Jeddah

According to "Bankers Almanac," Al Rajhi Commercial Foreign Exchange is located in Jeddah, Saudi Arabia. The bank has correspondent banking relationships with Land Bank of the Philippines and Social Investment Bank in Bangladesh.

Our review found no profiles that would provide insight into the bank's operations. However, the bank's own website ([www.bankalrajhi.com](http://www.bankalrajhi.com)) names Mr. Abdul Rahman A.A. Alrajhi, member of the prominent Al Rajhi family, as Vice Chairman, Chief Executive Manager, and President. The chairman is not named on the website.

In 2004 it was announced in numerous press reports that Al Rajhi Commercial Foreign Exchange would be one of eight Saudi money exchangers to merge into the new Al-Bilad Bank, which was expected to launch by mid-2005 with \$800 million in capital. Another of the eight firms involved in the merger was reported to be Al Rajhi Trading Establishment.

"Gulf News" reported on May 2, 2005 that shares in Al Bilad Bank soared to 950 Saudi Riyals (\$253) on its first day of trading.

Our review found no evidence of criminal activity surrounding Al Rajhi Commercial Foreign Exchange or its president Abdul Rahman Al-Rajhi.

Text of previous reports regarding Al Rajhi entities is pasted below and in the attached PDF document.

Please feel free to contact me with any questions regarding this report.

Sincerely,

Bob Powers

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1211

FIG Investigations

Update findings sent 4/12/05

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FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS (UPDATE)

SUBJECT: Al Rajhi Trading Establishment

ENTITIES: Al Rajhi Trading Establishment

REQUESTOR: Paul DiBenedetto

DEPARTMENT: Client Services – Financial Institutions

Accounts: Al Rajhi Trading Establishment, Banknotes - 000135704

A report of findings in support of enhanced due diligence was requested for the Al Rajhi Trading Establishment in Saudi Arabia. A report conducted on Al Rajhi entities was originally issued from this office in October of 2003. An update was conducted in December of 2004 for Al-Rajhi Banking and Investment Corp. Text of those previous reports will be pasted at bottom and attached. This current report will address recent information specific to Al Rajhi Trading Establishment.

Al Rajhi Trading Establishment

Al Rajhi Trading Establishment has appeared in the news very infrequently in the time since the initial report was conducted on Al Rajhi entities in 2003. Dun and Bradstreet lists Sheikh Abdul Rahman S Al Rajhi as the 100% shareholder in Al Rajhi Trading Establishment.

The most significant recent press report concerning Al Rajhi Trading was published in "Ethnic Newswatch" in August, 2004. This article reported that Al Rajhi Trading was one of eight financial institutions to be merged into Al Bilad Bank, a new banking corporation expected to launch operations in mid-2005. Al Bilad will reportedly have a capital of \$800 million. This press report refers to Al Rajhi Trading as a "Money Changer."

In April, 2005, the "EIU Riskwire" reported that Al Bilad was still waiting to open. Al Bilad will be the 11th commercial bank to base its operations in Saudi Arabia.

As indicated in a chart in our 2003 review of Al Rajhi Banking and Investment, the owner of Al Rajhi Trading, Sheikh Abdul Rahman S Al-Rajhi, is the son of Saleh Abdul Aziz Al-Rajhi, founder and director of Al-Rajhi Banking and Investment Corp. According to business records we've found, Al-Rajhi Trading is not a subsidiary company of Al-Rajhi Banking and Investment, but is 100% owned by Sheikh Abdul Rahman S Al Rajhi.

A review of press found infrequent references to Sheikh Abdul Rahman S Al Rajhi, usually in reports on his various business dealings.

No evidence of criminal activity relating specifically to Al Rajhi Trading Establishment or its owner could be found in our review.

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1212

Text of previous reports regarding Al Rajhi entities is pasted below and in the attached PDF document.

Please feel free to contact me with any questions regarding this report.

Sincerely,

Bob Powers  
FIG Investigations

\*\*\*\*\*

Note  
13 Dec 2004 10:04  
From: Steven Pichardo Tel: 212-525-6736  
Title: Associate Location: 452 5th Ave, Floor 07  
WorkGroup: COMP/ANTI-MONEY LAUNDERING Mail Size: 7097  
cc: Michael Ellis/HBUS/HSBC@HSBC  
Gloria Strazza/HBUS/HSBC@HSBC  
Sally G LOMAS/HBMD/HSBCMERIDIAN@HSBC  
Daniel Jack/HBUS/HSBC@HSBC  
Subject: Report of Findings - Al-Rajhi Banking & Investment Corp. - FIG

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FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS

SUBJECT: Al-Rajhi Banking & Investment Corporation

ENTITIES: Al-Rajhi Banking & Investment Corporation

REQUESTOR: Sally Lomas

DEPARTMENT: Banknotes

ACCOUNTS: Al-Rajhi Banking & Investment Corporation (Reference # 1000157)

An enhanced due diligence was conducted on Al-Rajhi Banking & Investment Corporation. A report of findings was sent on this company in May 2004. The objective of this report is to procure additional information subsequent to the filing date of the initial report.

Al-Rajhi Banking & Investment Corporation:

In 2004, Al-Rajhi Banking & Investment Corporation (ARAJ) filed a suit against the Wall Street Journal (WSJ). ARAJ alleges that the WSJ defamed the bank by accusing it of supporting of terrorism in article published on 2/6/02. After 30 months of active litigation, a settlement was reached, leading to the paper publishing a "clarification" and a letter from Al-Rajhi's chief executive. The clarification basically states that the article published by WSJ did not intend to imply an allegation that ARAJ supported terrorist activity, or had engaged in the financing of terrorism.

Under the terms of that settlement the WSJ paid no damages, nor was any order made prohibiting the paper from repeating the same allegations in the future.

In all, no charges stemming from the aforementioned article have been levied

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1213

against ARAJ. Therefore, no substantially adverse information, subsequent to the previous report provided for this company, was found regarding ARAJ.

If you have any questions, feel free to contact the undersigned.

Sincerely,  
Steven Pichardo  
Financial Investigator (FIG)

\*\*\*\*\* Original Report of Findings by Peter Javier, complete with charts, is saved on the Shared Drive in the EllisM folder. The file name is EIDD AL RAJHI\_20041207153945.pdf \*\*\*\*\*

Gloria Strazza  
Sr. Manager - ICRO  
452 Fifth Avenue, Tower 7  
New York, NY 10018  
Mail Code: 31  
Tele: 212-525-8634  
Fax: 212-525-5769

Daniel Jack/HBUS/HSBC  
06/02/2008 08:13 PM

To  
Anne Liddy/HBUS/HSBC@HSBC02, Denise A Reilly/HBUS/HSBC@HSBC02, Gloria Strazza/HBUS/HSBC@HSBC02  
cc  
Alan P Williamson/HBUS/HSBC@HSBC02  
Subject  
Banknotes with Al Rahji Banking in S.A.

All - to provide more info in response to Alan's note:

As noted in the KYC Customer Profile, they are a long-standing Banknotes-London customer:

"Initial date of activation was 1 January 2001, relationship exited and deactivated on 2 February 2005 due to TF issues (see Section VIII AML under Reputational Risk controls) as agreed with AML Compliance New York. However this bank had a long-standing 25+ years relationship with Banknotes, London until that time. Also this client still has relationships with HSBC in the UK, UAE, France, Hong Kong and Italy. Approved as a London Banknotes customer 4 December 2005 after TF issues were cleared through AML Compliance New York."

Now they want to deal with us in Hong Kong - mainly buying Asian currencies from us, as noted in the KYC Banknote Profile (for HK) now pending CO Approval:

"Client is an existing customer of HBUS London office and would like to set up

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1214

business relationship in Hong Kong. Al Rajhi is mainly interested in buying Asian currencies from us, they have regular demand for the major Asian currencies including THB, PHP, IDR, INR and HKD which Bahrain Finance is their main current supplier. They sell currencies through their nationwide retail network and those Asian overseas workers, tourists and business-men are the main buyers. They will utilize our services for their retail banknotes activities only. In the meantime, client will become one of the counterparts to liquidate our Middle East currencies surpluses that we purchase from other markets. The projected trading volume are in original currency and the monthly average of purchase and sale was about USD3,000,000 and USD8,000,000 respectively."

Monthly Trade Volume Estimates:  
Currency: Sales by HSBC: Purchases by HSBC:  
USD Currency: 0 0  
Other Major Currency: THAI BAHT 40,000,000 0  
Other Major Currency: HONG KONG DOLLAR 2,000,000 0  
Other Major Currency: SAUDI RIYAL 30,000,000 0

Thanks and regards,

Daniel Jack  
Vice President - Compliance Officer  
HSBC Bank USA, NA  
452 Fifth Avenue, 7th floor, New York, NY 10018

Phone 212-525-8686  
Email daniel.jack@us.hsbc.com

Alan P Williamson/HBUS/HSBC  
06/02/2008 06:45 PM

To  
Anne Liddy/HBUS/HSBC@HSBC02, Denise A Reilly/HBUS/HSBC@HSBC02, Gloria Strazza/HBUS/HSBC@HSBC02  
cc  
Daniel Jack/HBUS/HSBC@HSBC02  
Subject  
al Rajhi

All

I am being asked to approve a HK Banknotes profile for Al Rajhi. We will be dealing the same products from a different office, so from one point of view there is no expansion of risk, but I know from prior discussions there is sensitivity around this name. Please let me know if you have any concerns.

Thanks

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1215

Alan

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1216

From: CHRISTOPHER LOK/HBUS/HSBC  
Sent: 7/18/2008 8:19:29 AM  
To: ALAN P WILLIAMSON/HBUS/HSBC@HSBC02  
CC: DANIEL JACK/HBUS/HSBC@HSBC02; DAVID M WILENS/HBUS/HSBC@HSBC02  
Subject: Re: Fw: Banknotes with Al Rajhi Banking in S.A.

Alan

Let me try my best to answer these questions:

Currently Alrajhi is sourcing their Asian currencies from the suppliers in the Middle East. These suppliers (the like of Bahrain Financing) get the money from Asia (like ourselves) hence its to Alrajhi's benefit to get the money directly from ourselves.

The next question I'm not sure how I should answer it. To HSBC, LON already has a relationship with Alrajhi. Adding HKG won't change Alrajhi's profile.

Chris

Alan P Williamson/HBUS/HSBC  
07/17/2008 08:41 PM

To  
Christopher Lok/HBUS/HSBC@HSBC02, Daniel Jack/HBUS/HSBC@HSBC02, David M  
Wilens/HBUS/HSBC@HSBC02  
cc  
Subject  
Re: Fw: Banknotes with Al Rajhi Banking in S.A.

Chris

I discussed with Lesley, who asked two questions: 1) why does Al Rajhi want to do business out of Hong Kong? and 2) is there anything the client could do to harm our reputation as a result of having the HK account that they can't do now?

Thanks for your patience.

Alan

Stephen J ALLEN/HBMD/HSBCMERIDIAN@HSBC  
06/11/2008 06:27 AM

To  
Daniel Jack/HBUS/HSBC@HSBC02  
cc  
Alan P Williamson/HBUS/HSBC@HSBC02, Christopher Lok/HBUS/HSBC@HSBC02, David M  
Wilens/HBUS/HSBC@HSBC02, Christopher BAYLISS/IBEU/HSBC@HSBC

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**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0760928**

1217

Subject  
Re: Fw: Banknotes with Al Rajhi Banking in S.A.

Dan,

In response to your recent note and to Chris' request, I asked the Business Intelligence Division of Group Security to give their current view of Al Rajhi Banking and I have today had a meeting and received the attached note from Mark McGuigan.

Mark also added in conversation that they were asked by others to look at Al Rajhi about 2 years ago and nothing in their most recent enquiries on our behalf has changed their view that there is no reason not to do business with this name.

Unsurprisingly, I interpret this note as support for our desire to continue trading with this entity

Regards,

Steve

Steve ALLEN  
Senior Vice President, Head of Banknotes | HSBC BANK USA NA, London Branch  
Level 23, 8, Canada Square, London E14 5HQ

Phone 020 7992 4555  
Fax 020 7992 4993  
Mobile [REDACTED]  
Email steve.j.allen@hsbcgroup.com

[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations

Mark P MCGUIGAN/HGHQ/HSBC  
HGHQ  
11/06/2008 10:42  
Phone No. 799 13898  
+0044 (020) 7991 3898  
Mail Size: 4107

To  
Stephen J ALLEN/HBMD/HSBCMERIDIAN  
cc

Subject  
Al-Rajhi  
Entity  
HSBC Bank plc - HBEU

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0760929

Steve

Further to our conversation this morning, I write to confirm the following:

In the 1980s the bank complied with a request from the Saudi government to open an account to receive donations from the public to support the Afghan mujahideen. The Saudi government, in turn, was acting in response to US wishes in the matter - the mujahideen was engaged in active struggle against the Russians at that time, and so, in effect, participating in the Cold War by proxy. In compliance with Saudi government orders the account was frozen, then closed, by the end of 1991.

In the 1990s the bank raised considerable sums for humanitarian relief of Muslims during the Bosnian war (some say the Bosnian genocide). We believe that these monies were, in fact, used exactly as intended i.e. for charitable purposes, and not for any militaristic purpose.

In 1999, two years before 9/11, the bank discovered that a junior member of staff was an al-Qaeda activist. He and 11 fellow sympathisers were sacked. The bank cooperated fully with the Saudi authorities post-9/11 in tracking persons suspected of abusing the bank's facilities for terrorist money-laundering purposes. The Saudi authorities have traditionally taken a tough line against AQ, and have been supported where appropriate by the al-Rajhi bank. The bank, and the family, are well-known to the Saudi Royal family, with whom they are very cooperative. The issue of PEPs, therefore, is something of an "occupational hazard" for senior bankers in the Saudi context.

Aside from the observation that all banks are vulnerable to accusations of complicity in terrorist money-laundering, there does not appear to be any fresh evidence to suggest that al-Rajhi bank institutionally, is guilty of any such activities. Newspaper reports (and there is a history between al-Rajhi and the WSJ) add no hard evidence to the claims. The authorities have lodged no legal processes, nor instigated any sanctions against the bank, which one would reasonably anticipate if there were any evidence to support the allegations in the press. In sum, we can find no reason not to continue doing business with al-Rajhi.

Best regards  
Mark

Mark McGuigan  
Head of Business Intelligence

HSBC Bank  
Security, Level 29  
8 Canada Square  
London  
E14 5HQ

Tel: +44 (0)20 7991 3898  
Fax: +44 (0)20 7991 4592

Daniel Jack/HBUS/HSBC@HSBC02  
HBUS  
03/06/2008 19:38

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**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0760930**

1219

From: CHRISTOPHER LOK/HBUS/HSBC  
Sent: 7/18/2008 8:09:50 PM  
To: JOHN N H NG/NBD RNH/HBUS/HSBC@HSBC  
CC: GARY C H YEUNG/SVP NBD RNH/HBUS/HSBC@HSBC; ALEX F TSANG/VP NBD  
RNH/HBUS/HSBC@HSBC  
Subject: Fw: Banknotes with Al Rahji Banking in S.A.

You're in business now

Chris  
— Forwarded by Christopher Lok/HBUS/HSBC on 07/18/2008 09:04 PM —

Christopher Lok/HBUS/HSBC  
07/18/2008 09:05 PM

To  
Alan P Williamson/HBUS/HSBC  
cc  
Daniel Jack/HBUS/HSBC@HSBC02, David M Wiens/HBUS/HSBC@HSBC02  
Subject  
Re: Fw: Banknotes with Al Rahji Banking in S.A.

Alan

Gracias !!!

Chris

Alan P Williamson/HBUS/HSBC  
07/18/2008 07:28 PM

To  
Christopher Lok/HBUS/HSBC@HSBC02  
cc  
Daniel Jack/HBUS/HSBC@HSBC02, David M Wiens/HBUS/HSBC@HSBC02  
Subject  
Re: Fw: Banknotes with Al Rahji Banking in S.A.

Chris

I just discussed with Lesley and approved.

Alan

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0761014

1220

Christopher Lok/HBUS/HSBC  
07/18/2008 09:19 AM

To  
Alan P Williamson/HBUS/HSBC@HSBC02  
cc  
Daniel Jack/HBUS/HSBC@HSBC02, David M Wlens/HBUS/HSBC@HSBC02  
Subject  
Re: Fw: Banknotes with Al Rajhi Banking in S.A.

Alan

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Chris

Alan P Williamson/HBUS/HSBC  
07/17/2008 08:41 PM

To  
Christopher Lok/HBUS/HSBC@HSBC02, Daniel Jack/HBUS/HSBC@HSBC02, David M Wlens/HBUS/HSBC@HSBC02  
cc

Subject  
Re: Fw: Banknotes with Al Rajhi Banking in S.A.

Chris

I discussed with Lesley, who asked two questions: 1) why does Al Rajhi want to do business out of Hong Kong? and 2) is there anything the client could do to harm our reputation as a result of having the HK account that they can't do now?

Thanks for your patience.

Alan

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**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0761015**

1221

Stephen J ALLEN/HBMD/HSBCMERIDIAN@HSBC  
06/11/2008 06:27 AM

To  
Daniel Jack/HBUS/HSBC@HSBC02  
cc  
Alan P Williamson/HBUS/HSBC@HSBC02, Christopher Lok/HBUS/HSBC@HSBC02, David M  
Wilens/HBUS/HSBC@HSBC02, Christopher BAYLISS/BEU/HSBC@HSBC  
Subject  
Re: Fw: Banknotes with Al Rajhi Banking in S.A.

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Mark also added in conversation that they were asked by others to look at Al Rajhi about 2 years ago and nothing in their most recent enquiries on our behalf has changed their view that there is no reason not to do business with this name.

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Regards,

Steve

Steve ALLEN  
Senior Vice President, Head of Banknotes | HSBC BANK USA NA, London Branch  
Level 23, 8, Canada Square, London E14 5HQ

Phone 020 7992 4555  
Fax 020 7992 4993  
Mobile [REDACTED]  
Email steve.j.allen@hsbcgroup.com

[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations

Mark P MCGUIGAN/HGHQ/HSBC  
HGHQ  
11/06/2008 10:42  
Phone No. 799 13898  
+0044 (020) 7991 3898  
Mail Size: 4107

To  
Stephen J ALLEN/HBMD/HSBCMERIDIAN  
cc

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBCC OCC 0761016

1222

Subject  
Al-Rajhi  
Entity  
HSBC Bank plc - HBEU

Steve

Further to our conversation this morning, I write to confirm the following:

In the 1980s the bank complied with a request from the Saudi government to open an account to receive donations from the public to support the Afghan mujahideen. The Saudi government, in turn, was acting in response to US wishes in the matter - the mujahideen was engaged in active struggle against the Russians at that time, and so, in effect, participating in the Cold War by proxy. In compliance with Saudi government orders the account was frozen, then closed, by the end of 1991.

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Aside from the observation that all banks are vulnerable to accusations of complicity in terrorist money-laundering, there does not appear to be any fresh evidence to suggest that al-Rajhi bank institutionally, is guilty of any such activities. Newspaper reports (and there is a history between al-Rajhi and the WSJ) add no hard evidence to the claims. The authorities have lodged no legal processes, nor instigated any sanctions against the bank, which one would reasonably anticipate if there were any evidence to support the allegations in the press. In sum, we can find no reason not to continue doing business with al-Rajhi.

Best regards  
Mark

Mark McGuigan  
Head of Business Intelligence

HSBC Bank  
Security, Level 29  
8 Canada Square  
London  
E14 5HQ

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**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0761017**



1223

From: DENISE A REILLY/HBUS/HSBC  
Sent: 10/29/2002 5:00:50 PM  
To: GARY BOON/MGR PCM MEM/HBME/HSBC@HSBC  
CC: NANCY HEDGES/HBUS/HSBC@HSBCAMERICAS  
Subject: Re: IRAN- USD PAYMENTS

Responses are in blue.

Gary BOON @ HSBC on 28 Oct 2002 13:37  
Note  
28 Oct 2002 13:37

From: Gary BOON @ HSBC Tel:  
Title: Location:  
WorkGroup:  
Mail Size: 13228

To: Denise A Reilly/HBUS/HSBC@HSBCAMERICAS

cc: Nancy Hedges/HBUS/HSBC@HSBCAMERICAS  
Subject: IRAN- USD PAYMENTS

Denise, further to our conference call I wish to clarify the position to date as follows:-

If HBEU receive an MT100/MT103 from an Iranian Bank in USD then HBEU must forward the MT100/MT103 to HBUS for processing thus ensuring full details of the ordering and beneficiary parties are known. HBUS have spoken with OFAC and the MT100/MT103 and MT202 normal cover payment process has been deemed unacceptable despite HBUS being used to 'settle' the transaction, OFAC still require full disclosure of the transaction.

Full payment details must pass through HBUS and associated filtering processes. HBUS, in consultation with external legal counsel, has concluded that this is the recommended process in accordance with OFAC u-turn transaction criteria and full disclosure requirements.

For control purposes within HBUS Operations it is deemed that HBEU open a 'Special nostro account' in order for these transactions to be directed. Thus ensuring a separate workflow that can be easily managed/controlled. Agreed.

Although the payments could be formatted correctly the process will make each payment fall into OFAC workflow baskets for review and authorisation. Although HBEU would be charged a STP charge per payment, there maybe additional headcount required, which in turn should be factored in to any proposition. The cost of additional headcount will be reimbursed back to HBUS via inter-company charging.

Denise, am I correct in saying that should HBEU settle the above HBUS would be in a position to potentially become Iran's USD Clearing Agent, HBEU would be their USD Correspondent Bank? Obviously subject to HBUS committee, who sits on this? The proposition that has been put forward to date is to process transactions on behalf of Bank Mellat. If the proposition is broader than that, then it should be included in the business rationale that we requested in our conference call earlier this week for presentation to HBUS senior management. The committee that this will be presented to is the Senior Management Committee (SMC) comprised of the business heads of all key business and support units and the president of the bank.

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I would be grateful for your response and to the answers to the following questions (remaining o/s from my previous note).

Why do BONY and Citibank reject and return such payments even if OFAC compliant? We do not know the specific reasons why these institutions (or others) reject and return such payments, as it is an internal bank decision. Any institution may decide that they choose to not do business with particular entities/countries based on internal management decisions and subsequently reject all such transactions. Do you know of others? We do not know of any others.

Should a rejected payment occur what would be your process, charge and turnaround times? If an item is rejected by the receiving bank, HBEU's account will be re-credited same day of receipt of return.

Are there any scenarios that we haven't considered that would cause HBUS problems? No additional scenarios have been identified.

As you're aware HBEU and HSBC Iran are interested in finding a workable solution to this as they believe the opportunities/volumes exist to make this worthwhile. The GRM, Nigel Weir and I travel to Iran on Sunday and I can assure you that I will NOT be selling any USD solution as we are not yet in that position but I will seek to establish the volumes 'on the table' and how the existing competition are tackling this issue prior to the introduction of FAFT regulations. If possible, please also try to ascertain if a list of originators/beneficiaries is available so that we may review the list beforehand.

Thanks for your continued assistance.

Gary

----- Forwarded by Gary BOON on 28/10/2002 -----

29Aug2002

Note

To: Nancy Hedges/HBUS/HSBC@HSBCAMERICAS  
Denise A Reilly/HBUS/HSBC@HSBCAMERICAS  
cc: Andrew P Drolet/HBUS/HSBC@HSBCAMERICAS  
Nigel J WEIR/RM IB MEM/HBME/HSBC@HSBC  
John R WILKINSON/HBEU/HSBC@HSBC  
Mike R BANYARD/HBEU/HSBC@HSBC  
bcc:

From: Gary BOON Tel: 7904 4669;44 2072 604669  
Subject: IRAN - USD PAYMENTS

Denise/Nancy, as previously discussed, I have just met with the following individuals regarding the USD payments process:-

Malcolm Eastwood, Senior Manager, Multicurrency Payments Dept  
John Fowle, Business Development Manager, Multicurrency Payments Dept  
Paul Proctor, Compliance Manager, Institutional Banking  
John Wilkinson, Relationship Manager, Institutional Banking - Middle East  
Michele Cros, Senior Manager, PCM Sales

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John Chappenden, Senior Manager, Payments Co-ordination Unit  
Mike Banyard, Payments Product Manager

I can now confirm that HBSC Bank plc, London does not have any processing or compliance issues in respect of USD payments from existing or new opportunities with Iranian Banks. We aim to ensure the payments are STP and our proposition will clearly provide formatting guidelines and OFAC rules etc to ensure that our Iranian clients fully understand, when or how, payments could be rejected.

I now need confirmation from HBUS that your in agreement to processing 'U-TURN' payments both from an FTE and 'reputation risk' point of view before I attempt to sell a USD clearing proposition.

For consideration:-

Volumes - the only volumes available are from Bank Melli who have confirmed daily volumes to be approx. 25 Treasury and 90 Commercial. Of the commercial transactions, HBUS will probably only receive 10% or 15% as MT100 type payments and the remainder as MT202 cover payments, as HBEU would have sent the MT100 direct to the bene bank.

Charges for HBEU from HBUS - Can you confirm whether the scenarios (sent last week), which are correctly formatted and would drop into your OFAC filters, would be charged as STP or repair. This will impact our pricing proposition. If repair, can you advise why?

Why do BONY and Citibank reject and return such payments even if OFAC compliant? Do you know of others?

Was your previous request to open a 'special' account based on volumes only or do you have a special need to view these payments? Can't they just fall into the OFAC filters in line with your existing operation?

It is the view from HBSC Iran and London, Institutional Banking, that there are opportunities for USD payments business from all Iranian Banks. Volumes unknown.

Are there any scenarios that we haven't considered that would cause HBUS problems?

Are there any situations where these types of payments could be frozen or am I correct that Iran is not one of those countries (i.e Cuba).

Should a rejected payment occur what would be your process, charge and turnaround times?

As agreed I will not do anything until you have confirmed that HBUS are happy to process these transactions. Following your agreement I will draft a USD proposition, which I will seek sign off from all relevant parties.

Hope that's covered it.

Gary

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Gary Boon  
Manager, Sales  
Global Payment and Cash Management  
Phone: + 44 (0)20 7260 4669

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**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0948194**

Fax: + 44 (0)20 7260 9238  
Mobile: [REDACTED]

[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations

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GCL 040021: Payment screening



23/Mar/2004

[Open printable version  
http://group.gbg.hsbc/int/group/home.nsf/ByRef/UKCM5XCLGJ034450PM23032004?  
Open&print](http://group.gbg.hsbc/int/group/home.nsf/ByRef/UKCM5XCLGJ034450PM23032004?Open&print)

As part of the international effort to combat terrorism, Competent Authorities in numerous countries have published lists of names that are known to be, or are believed to be, involved in terrorist activity. Competent Authorities include central banks, governmental bodies/agencies, and regulators. The Bank of England, the Hong Kong Monetary Authority and the United States Office of Foreign Assets Control (OFAC) are examples of such Competent Authorities. To support the above process, several jurisdictions have passed anti-terrorism laws, including a requirement that funds are not made available to names listed within that jurisdiction.

In addition to the publication by Competent Authorities of lists of terrorists, sanctions against a number of countries and names are imposed, as notified by both the United Nations and also by a number of individual governments. Compliance with these sanctions and orders has to date relied upon manual processes to identify when relevant names are contained in payment instructions.

In order to ensure that compliance with the restrictions associated with listed names and sanctions is achieved consistently across the Group, an automated payment screening utility named WOLF has been developed.

When installed in a payment processing workflow in real time, WOLF will, before execution, search all fields of a payment message for matches with listed terrorist/sanctioned names. Once a potential match with a word or words contained in a payment is identified, the unexecuted payments must be reviewed to establish whether the match identified is actually a true match, with appropriate action taken if it is. WOLF is the Group solution for real-time pre-execution payment screening. Use of an alternative solution requires the sign off of a business case by Group Compliance and Group IT jointly.

**Global requirement for payment screening**

All Group companies must implement the capability to screen cross-border wire transfers:

- For sanctions issued by the United Nations (UN)
- For terrorist names listed by the UN
- For terrorist names listed by Competent Authorities in USA, UK, EU and Hong Kong SAR.

These will be maintained in WOLF centrally by Group Messaging Systems on a mandatory basis.

In 2005/6, it is intended to broaden the scope of the real-time payment screening requirement to domestic payments to ensure comprehensive compliance.

**Local requirement for payment screening**

In addition to the globally applicable names, the compliance and payment operations functions in Group companies must ensure that WOLF is loaded with any listed/sanctioned names with local applicability, as issued by Competent Authorities in their relevant jurisdiction.

As a further control or risk mitigant, Group companies may also choose to load in WOLF those names that may be regarded locally as sensitive or high risk.

**Access to WOLF**

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**Group companies whose payments are processed through the TP SWIFT/Telex gateway**

WOLF capability is installed in the three regional TP sites: UK, USA and Hong Kong SAR. Group entities which use TP as their payment gateway are required to implement WOLF by 31DEC04. Appropriate operational practices and procedures will need to be introduced, including how to manage the review process of potential matches. Guidance on implementation and the review process is included in the guidance note attached.

**Group companies whose payments are not processed through the TP gateway**

These companies should obtain the WOLF utility and implement it into their cross-border wire transfer payments system as soon as practicable, but by the 31MAR05 at the latest, and introduce appropriate operational practices and procedures.

**Further information**

A guidance note is attached. This refers to the practical impact of real-time payment screening and to appropriate contact persons for assistance and implementation.

Yours faithfully

A

W

Jebson

Group Chief Operating Officer

**Guidance note**

This guidance is intended to assist the payment operations, IT and compliance functions to implement WOLF.

**Is it a mandatory requirement for all Group companies in all countries where the Group has a presence to screen payments in real-time, prior to execution, for terrorist/sanctions names?**

Yes, for cross-border payments/wire transfers. It is the intention to broaden the scope of the payment screening requirement to domestic payments/wire transfers in 2005/6.

**Is it a requirement for such screening to be automated?**

Yes. Given the number of listed names, particularly for terrorism, and the need to take into account name transpositions and close alternative spellings, it is no longer feasible for the screening to be performed by a person on a manual basis. WOLF (or, exceptionally, an alternative solution approved by Group Compliance and Group IT) must therefore be used.

**Which names are contained in the WOLF utility?**

The WOLF utility is fed by an external database provider with the lists issued or names notified by all Competent Authorities in respect of sanctions or terrorism. As both Sanctions issued by the UN, and terrorist names listed by the UN, USA, UK, EU and Hong Kong SAR have global applicability, these names will therefore be maintained in WOLF by Group Messaging Systems on a mandatory basis.

**How are names applicable in only one jurisdiction accommodated?**

In addition to the Group requirement, each Group company must request Group Messaging Systems to load in WOLF any names which apply locally, (i.e. being listed or notified in one jurisdiction for terrorism reasons or other reasons, and countries/names against which one jurisdiction exercises sanctions).

**Can other sensitive names be activated in WOLF or loaded in WOLF locally?**

Yes. Group companies may choose additionally to load in WOLF those names that may be regarded locally as sensitive or high risk, in order to mitigate operational risk.

**How often will WOLF be updated?**

The external database is updated frequently in response to changes issued by Competent Authorities, and is fed into WOLF for centralised updating and spawning to sites which have called the WOLF utility in from Group Messaging Systems.

**What types of payment are to be screened?**

On launch of WOLF, as a minimum, all cross-border customer wire transfers (e.g. third

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party telex payments and SWIFT MT 100 series). Under guidance from the local Compliance function, Group companies may choose to screen additional types of cross-border payments or SWIFT Message Types, pending communication of further requirements from Group Compliance.

**Which fields in the payment are to be screened?**

The Group recommendation is to screen all fields. The local compliance function may, however, request sign off from Group Compliance for certain fields to be removed from the screening process. Requests must include an explanation why the fields in question are of no value or risk from a screening point of view.

**What action should be taken when a potential match is alerted by WOLF and the payment is in a pending state for review?**

**Outgoing international payments initiated by HSBC**

If WOLF identifies a potential match, the unexecuted payment will be placed in a work queue in the underlying payments system and will require case by case analysis by the payment department to establish whether the potential match is an actual match. Procedures will need to be established in the department on how to undertake the analysis, and how to document, record and retrieve the rationale for regarding the match as false or positive. Use of such techniques as Lexis Nexus searching will assist the process, but there will inevitably be cases where it will be necessary to refer to the beneficiary bank to obtain confirmation that the beneficiary is not the listed name.

If it is not an actual match, then the payment may be authorised for execution by re-releasing it into the payment process. If it is an actual match, then it will usually be necessary to liaise internally with Compliance or Security to establish what should be done with the funds which have not been paid away. External liaison with Competent Authorities requires documented procedures to be agreed between payment operations and Compliance.

Please note that in the initial phase where screening is done in TP, it will be necessary in the case of true matches to reverse the debit entry in cases where such has been generated automatically by the underlying payments system.

**Incoming international payments received by HSBC**

If WOLF identifies a potential match, the unexecuted payment will be placed in a work queue in the underlying payment system, and will require case by case analysis by the Payment Department, to establish whether the potential match is an actual match. Once again, procedures will need to be established on how to undertake the analysis, and how to document, record and retrieve the rationale for regarding the match as false or positive. There will inevitably be cases where it will be necessary to refer to the remitting bank to obtain confirmation that the remitter is not the listed name.

If it is not an actual match, then the payment may be authorised for execution by re-releasing it into the payment process. If it is an actual match, then it will usually be necessary to liaise internally with Group Compliance or Group Security. External liaison with Competent Authorities requires documented procedures to be agreed between Payment Operations and Compliance.

**What percentage of the payment volume is expected to be placed into a pending state for review of a potential match?**

When fully tuned, 0.5% or less.

**How can recurrence of false matches be avoided?**

It is recommended that offline testing with historic payment data is undertaken at the very outset. Once it is established that a certain name, which is very similar to a listed terrorist /sanctioned name, is an acceptable name, then WOLF can be told not to trigger the payment to the work queue on subsequent occasions. This technique is referred to as the 'good guy list'. Please note, however, that in certain jurisdictions, the creation of such a list may have data protection legislation implications.

**What is our legal protection if the intra-day process of determining that a**

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**potential match is not a real match and re-releasing the payment for execution results in a payment cut-off time being missed, and the payment being executed on the next working day, or several days after, thus causing a claim for interest and/or consequential loss?**

It is an unavoidable consequence of real-time payment screening that a small number of payments will be delayed as described above.

Over the years, terms and conditions for effecting payments have been drawn up at Group company level, rather than there being a single definitive set of Group-wide T&C. Additionally, within a Group company, there are often numerous sets of T&C for different payment product propositions.

Accordingly, each Group company should request its local Legal Dept to examine the complete range of current T&C for payment products and channels, and to recommend to Payment Operations, to Payments & Cash Management, and to Compliance whether the current wording gives sufficient protection in respect of real-time payment screening against sanctioned and terrorist names, or whether any changes are appropriate. The local Legal Dept should be requested to consider both claims for interest and consequential loss e.g. loss of a contract due to the delay.

If changes are recommended, then a template wording which is to be supplied by Group Legal should be used as a starting point.

**What happens if a client claims that he/she is not bound by the listing of a terrorist name by a Competent Authority in another jurisdiction?**

The Group stance is that all Group companies must apply the listings of the Competent Authorities in USA, UK/EU and Hong Kong SAR in the effort against terrorism. The legal position, is, however, far from clear, and such claims will have to be handled on a case by case basis, with due consideration being given to the legal implications in the relevant jurisdiction.

**Can WOLF be switched off in extreme operational circumstances?**

Yes, but only very infrequently, and in accordance with a formal documented protocol agreed with the local Compliance function. The protocol should define the procedures to be followed, and should include a "major incident panel" with a sufficient number of people to cover absences.

It is a requirement that the payments which were allowed to execute without screening must be screened on an after the event basis, as soon as is practicable after normal payment operations conditions are restored.

**How do TP sites configure WOLF?**

Group sites should submit requests to configure WOLF to Group Messaging Systems, which will manage the take-on programme. The Contact person is Jon Curl, Group Messaging on (+44) 20 7991 8704, or by email to [Jon.H.CURL@HBEU/HSBC](mailto:Jon.H.CURL@HBEU/HSBC).

The installation in WOLF in TP is an initial short term tactical solution for international payments. It is intended to install WOLF in underlying international payment processing systems, including HUB, rather than in TP, in 2005.

**How do sites which do not use TP obtain WOLF?**

Contact Jon Curl, at the above address.

**Is WOLF only useful for real-time payment screening?**

No.

For real-time screening, it is essential to keep the number of names screened against as low a number as possible to preserve operational performance and keep straight through processing rates high.

On a retrospective basis, however, all the names contained in WOLF and additional loaded names could be screened against transactions or client names. This would be useful in cases of ad hoc requests from regulatory/criminal authorities, or in customer base reviews undertaken for our own purposes.

Further instructions and guidance on retrospective screening will be issued by Group

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Compliance at a later date.

**Is the WOLF initiative linked to the Customer Activity Monitoring Programme (CAMP) initiative?**

No, not directly. WOLF is the screening of wire transfers in real-time, whereas CAMP is the monitoring of all account activity after the event.

**Where should Business Case requests to use an alternative solution to WOLF be sent?**

These should be submitted to Group Compliance, [John ALLISON/HGHQ/HSBC](#), whose contact details appear below.

(It is acknowledged that in a small number of Group sites, most notably HBUS, real-time payment screening has been undertaken for some years. These sites should advise details of their current solutions to Group Compliance).

**Where should requests to remove fields from the screening process be sent?**

These should also be submitted to Group Compliance, [John ALLISON/HGHQ/HSBC](#), whose contact details appear below.

**Further information**

In the first instance, reference should be made to the local Compliance/Money Laundering Control function for further information and assistance.

Compliance/Money Laundering Control officers may obtain assistance on this initiative from John Allison, GHQ CMP on (+44) 20 7991 8643, or by email to [John ALLISON/HGHQ/HSBC](#).

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Significant

**Global Payments System (GPS) Implementation Issues****6 Aug 07 HUSI Audit Committee Update****Summary**

GPS is a Group system intended to replace all of the Groups diverse electronic payment systems. HBUS' legacy payments system EP was essentially 'out of maintenance' and GFT was therefore selected as the pilot site. The project is sponsored globally by Group COO and Head of Global Transaction Banking in GHQ. It is sponsored locally by HBUS Head of Global Transaction Banking

On July 16 2007 HBUS Global Funds Transfer (GFT) operation experienced significant operational issues at implementation of Phase 3 of GPS and full implementation of a new payments filter (FircoSoft). Due to the increased sensitivity of the new filter, certain acronyms on the filter database caused the number of false positive alerts to increase from a median of 8,000 messages to 12,600 or, by 58 percent, on Day 1 of operations.

The need to work through the backlog and consequent loss of systems availability time, materially reduced user productivity due to user familiarization/ training and systems deficiency issues have resulted in GFT being unable to complete a full days work without a 'carry over' of a backlog since the conversion. The carry over, as at 27 July is, however, less than 150 payments daily estimated at 20 m dollars. In comparison, the volume of payments successfully cleared through the system on this same day was approximately 110,000 valued at 408 Bn. The backlog is largely eliminated.

In the process of coping with the issues created above, payment duplications of USD 88.5 million (in one lot of 0.5 m on 16 Jul and another of 88.00 m on 24 Jul) have resulted due to human error and these are in the process of being recovered.

**Background**

The main software engine was licensed from Fundtech, a third party vendor, amended to suit HSBC requirements, user tested over 15 months and implemented in 3 phases. The Group OFAC filtering system and a third party Straight Through Processing (STP) engine completed the software suite being installed. Implementations of Phases 1 and 2 for selected Group SWIFT and FED traffic during 18 Jun through 14 July were successful.

During the weekend of 14-15 July, all other traffic for GFT especially CHIPS were channeled through GPS and the new FircoSoft "OFAC filter" was fully implemented. As noted above, a large number of false positive alerts were dropped to the OFAC queue. The problem entries were successfully removed on July 17 and the OFAC queue subsequently dropped to a normal level. Also, effective July 17 a risk based decision was made to eliminate the verification step of all OFAC filter alerts on a temporary basis to accelerate the process of clearing the OFAC queue. This exception remains in place. (The OFAC filter is used for the interdiction of payments for OFAC, Legal Servicing and AML purposes, generically referred to as the Office of Foreign Asset Control "OFAC filter". However, care needs to be exercised in updating the filter database to ensure that common names do not produce undue false positive alerts.)

The staffs both in Delaware and India worked very long hours to clear up the backlog but were largely unable to eliminate it till the 27 July. Extra resources were brought to bear but this was of limited help due to the need for extensive training and payments experience needed. In addition, and despite extensive UAT and production acceptance testing, the staff proved to be up to a third less productive on the new system. The production acceptance tests that simulated a single day's work several times, however, consistently reported EP and GPS productivity to be comparable. The issue is seen attributable in equal measure to inadequate user familiarization/ training and system deficiencies, but as to why these were not discovered in the tests is still being investigated.

The backlog caused by the OFAC issue and the materially lowered productivity of the new system has resulted in continued carry over of payments. While the situation has improved markedly over the ten days after the conversion, as at 27 Jul, GFT continues to carry approximately one hundred payments forward to the following day, valued at about USD 20 m.

There have been a significant number of client complaints of non receipt of funds. These have been managed through communications through the client services unit in Delaware and other means of internal and external communications. The 'fallout' from this event will be felt for another few weeks in this respect.

#### **Action Taken and Way Forward**

The 'root cause' of this event was a deficiency of the change management process despite very stringent processes put in place to manage this by the GPS program at very senior levels. These worked for GPS and its direct interfaces more than adequately but clearly not all systems were adequately integrated into this change management process. Access to the OFAC database should have had additional controls in place to measure the impact of any changes to the filter on payments activity.

No further updates are allowed, at present, to the filter without express authorization from both GPS project senior management and senior compliance management. Processes are

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being designed to ensure adequate control and 'line of sight' by Compliance and GFT is maintained on any future changes.

The actions taken on productivity issues include deployment of experienced Fundtech and HSBC project management staff to assist in the familiarization of the payments operations staff on the new system, requesting for additional staff both in Delaware and Hyderabad who are now being trained, tuning the the STP tool to automate more payments to 'go straight through' and the addressing of the systems deficiencies in a series of releases.

HSBC IT and the vendors have been hard at work creating system changes and enhancements to add efficiency and correct issues within the system. A release of technology enhancements was received on the 28 July; which IT is hopeful will eliminate several of the ongoing efficiency issues. A list of additional enhancements has been compiled and an additional release is expected during the the weekend of 4-5 Aug.

At this point, a good estimate of the monetary impact of these issues is not available but this will be tracked and reported as data is collected.

Of the payments duplications, 0.45 m of the 0.5 m have already been recovered and the 88 m is in the process of being followed up.

#### Summary

This is a major systems conversion that ran into initial difficulties due to a change control issue outside the immediate visibility of the project. While GFT is close to 'business as usual' except for the outstanding client complaints, the lesson learnt is to ensure that future projects take a wider view of control of change management than practiced for GPS. Once the cause of the discrepancy between productivity measurements during test and live phases is established a recommendation to avoid this situation in future installations of GPS will be made.

1235

From: DANIEL JACK/HBUS/HSBC  
Sent: 7/30/2007 5:35:51 PM  
To: ALAN P WILLIAMSON/HBUS/HSBC@HSBC  
CC:  
Subject: Fw: BN-LN with Al Rajhi Bank in Saudi Arabia

Alan - FYI, as we briefly discussed ...

Thanks and regards,

Daniel Jack  
VP - AML Compliance | HSBC Bank USA, NA  
452 Fifth Avenue, 7th floor, New York, NY 10018

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Phone. 212-525-8686  
Email. daniel.jack@us.hsbc.com

----- Forwarded by Daniel Jack/HBUS/HSBC on 07/30/2007 06:32 PM -----

Daniel Jack/HBUS/HSBC  
07/26/2007 11:48 AM

To  
Alan T Ketey/HBUS/HSBC  
cc

Subject  
BN-LN with Al Rajhi Bank in Saudi Arabia

Alan - Let me know if you need more info on AL RAJHI BANKING & INVESTMENT CORP. I assume this is "Al Rajhi Bank" referred to below.

HBUS London sells them USD & EUR (No Purchases).

USD Sales to them:  
in 2007: \$9.6 Million, in Jun-07 only  
in 2006: None  
in 2005: \$16.4 Million, in Jan-05 only  
in 2004: \$500.4 Million (whole year)

As per Customer Profile Section I General Comment - Initial date of activation was 01/01/2001, relationship exited and deactivated on 02 February 2005 due to TF issues (see Section VIII AML under Reputational Risk controls) as agreed with AML Compliance New York. However this bank had a long-standing 25+ years relationship with Banknotes, London until that time. Also this client still has relationships with HSBC in the UK, UAE, France, Hong Kong and Italy. Approved as a London Banknotes customer 4 December 2006 after TF issues were cleared through AML Compliance New York.

As per BN Profile -  
\* Banknote Activity Status: Active  
Initial Trade date: 06/11/2007

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Currencies traded:  
EURO, US DOLLAR

Monthly Trade Volume Estimates:  

Currency:	Sales by HSBC:	Purchases by HSBC:
USD Currency:	25,000,000	0
Other Major Currency: EURO	8,000,000	0
Other Major Currency:	0	0
Other Major Currency:	0	0

Are there normal or seasonal variations in volume of activity:

If yes, explain: YES. Ramadan/Hajj/Summer Tourism

Please describe the reason for dealing in banknote transactions: Al-Rajhi Banking and Investment Corp. is one of the largest banking companies in Saudi Arabia. We have previously dealt with them; initial date 02/01/96. They now trade under Sharia law and the larger deals for USD will now be agreed agst SAR exchange. They also have an extensive retail network of more than 450 branches. The bank does not operate on the wholesale banknote market and they do not supply money remitters with banknotes. They will utilize our services for their retail banknotes activities only. We anticipate that we will sell them new USD and EUR. There will be seasonal adjustments to our volumes due to Hajj and Ramadan, as well as the fluctuation of tourism out of the country particularly in the summer months when demand for USD is higher with Saudis and ex-pats leaving the country.

Where will banknotes be shipped to: RIYADH and JEDDAH

Where will banknotes be shipped from: RIYADH and JEDDAH

Credit line required (unsecured Client)?

If yes, indicate credit line amount: \$10,150,000

If yes, credit approval received:

Please provide any relevant comments on Client's past performance and/or profitability for HSBC:

Thanks and regards,

Daniel Jack  
VP - AML Compliance | HSBC Bank USA, NA  
452 Fifth Avenue, 7th floor, New York, NY 10018

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Phone. 212-525-8686  
Email. daniel.jack@us.hsbc.com

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Alan T Ketley/HBUS/HSBC  
07/26/2007 10:17 AM

To  
Daniel Jack/HBUS/HSBC@HSBC  
cc

Subject  
Fw: Saudi's

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1237

Tell me about the BN trading we have with this name please.

Alan T Ketley  
SVP AML Compliance  
452 Fifth Avenue, New York, NY10018

---

Phone. 212-525-6147  
Fax. 212-382-7580  
Email. alan.t.ketley@us.hsbc.com

---

— Forwarded by Alan T Ketley/HSBC on 07/26/2007 10:16 AM —

"Boss, Joseph" <Joseph.Boss@occ.treas.gov>  
07/26/2007 08:24 AM

To  
alan.t.ketley@us.hsbc.com  
cc  
"Boss, Joseph" <Joseph.Boss@occ.treas.gov>  
Subject  
Saudi's

Alan, for your information and review. Please let me know if there is anything. This appeared on the front page of today's Wall Street Journal.

Thanks, Joe  
TERROR FINANCE  
U.S. Tracks Saudi Bank  
Favored by Extremists  
Officials Debated What  
To Do About Al Rajhi,  
Intelligence Files Show  
By GLENN R. SIMPSON  
July 26, 2007; Page A1

JIDDA, Saudi Arabia -- In the 1940s, two Bedouin farm boys from the desert began changing money for the trickle of traders and religious pilgrims in this then-remote and barren kingdom. It was a business built on faith and trust, Sulaiman Al Rajhi once told an interviewer, and for many years he would hand gold bars to strangers boarding flights in Jidda and ask them to give the gold to his brother on their arrival in Riyadh.

**EXTREMISTS' ACCOUNTS**

The News: U.S. intelligence reports say Islamic extremists often use Saudi Arabia's Al Rajhi Bank to move money. The bank has denounced terrorism and denies any role in financing extremists.

The Issue: A confrontation with Al Rajhi would be politically difficult for Saudi monarchy, and U.S. isn't satisfied with its efforts to curb the financial infrastructure essential to terrorism.

Result: U.S. has periodically debated taking action on its own against the

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1238

From: DANIEL JACK/HBUS/HSBC  
Sent: 6/3/2008 9:58:39 AM  
To: ALAN P WILLIAMSON/HBUS/HSBC@HSBC02  
CC:  
Subject: Re: Banknotes with AJ Rahji Banking in S.A.

Alan,

I believe the business owns the customer and the risk.

They want to maintain the relationship in London and begin one in HK.

Do you want me to forward this to Chris & Steve and ask for their comments?

As noted in the KYC Customer Profile, it was re-approved on 12/04/2006 by Alan T Ketley, and then on 04/01/2008 by you. -->  
I don't think you should CO deny - or even hesitate now - on this for HK, despite the negative info on TF & Rep risk, which is not new (e.g. WSJ in Jul-07, EDD in Dec-07). I understand why Denise/Anne/Gloria are not comfortable, but I respectfully do not think it is their decision to terminate the relationship (again).

I will continue to monitor activity very closely.

What do you think?

Thanks and regards,

Daniel Jack  
Vice President - Compliance Officer  
HSBC Bank USA, NA  
452 Fifth Avenue, 7th floor, New York, NY 10018

---

Phone 212-525-8686  
Email daniel.jack@us.hsbc.com

---

Gloria Strazza/HBUS/HSBC  
06/03/2008 10:38 AM

To  
Daniel Jack/HBUS/HSBC@HSBC02, Alan P Williamson/HBUS/HSBC@HSBC02  
cc  
Anne Liddy/HBUS/HSBC@HSBC02, Denise A Reilly/HBUS/HSBC@HSBC02  
Subject  
Re: Banknotes with AJ Rahji Banking in S.A.

There was (and may be in the future) a fair amount of press and government attention focused on this entity. I am not sure we would want to engage in even this limited activity for this entity but I forward some of the

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1239

intelligence from our files on this bank.

Copied into this email are the prior ROFs performed on the entity, the most recent of which was completed in December 2007. Also attached is a WSJ article from July 2007 and some emails from ICRO's electronic files (attached in the Word documents below).

[attachment "WSJ 7-02.doc.zip" deleted by Daniel Jack/HBUS/HSBC] [attachment "Email copies.doc.zip" deleted by Daniel Jack/HBUS/HSBC]

EDD ROFs  
Email Note accompanying latest EDD ROF:  
04 Dec 2007 11:57  
From: FIG HBUS Tel:  
Title: Location:  
WorkGroup: Mail Size: 82760  
Sent by: Bob Powers

To: Daniel Jack/HBUS/HSBC@HSBC02  
cc: Gordon BROWN/BEU/HSBC@HSBC02  
FIG HBUS@HSBC  
Subject: Report of Findings - Al Rajhi Banking and Investment Corp (Al Rajhi Bank) - FIU

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INVESTIGATIVE CONTROL AND REPORTING OFFICE (ICRO)  
FINANCIAL INTELLIGENCE UNIT  
Research as of: 12/04/07 UPDATE

SUBJECT: Al Rajhi Banking and Investment Corp

ENTITIES: Al Rajhi Banking and Investment Corp (AKA Al Rajhi Bank)

REQUESTOR: Daniel Jack

DEPARTMENT: Banknotes

A report of findings in support of Enhanced Due Diligence was conducted for Al Rajhi Banking and Investment Corp. This department completed previous reports on this bank, most recently in October of 2006. The text of those previous reports is provided below for your reference.

As our previous reports state, there have been numerous allegations of terrorist support against Al Rajhi Bank, but the bank has never been officially sanctioned. Since the previous report of findings, however, there was published a "Wall Street Journal" article titled "U.S. Tracks Bank Favored By Extremists" which offered a review of previously secret intelligence reports that state plainly that the Bush administration and US agencies have debated whether or not the bank should be sanctioned for what is perceived as a history of support of Muslim extremists. A brief summary of this article is provided below, and the full article is appended for your reference.

While it is not clear that this newly released information will lead to any official sanctions against the bank, it is likely that there will continue to be references in the press to the allegations of terrorist support against the bank, and for this reason there remains a level of reputational risk attached to any relationship with Al Rajhi Bank that should be taken into consideration.

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1240

From: DENISE A REILLY/HBUS/HSBC  
Sent: 6/3/2008 11:21:41 AM  
To: ALAN P WILLIAMSON/HBUS/HSBC@HSBC02  
CC: ANNE LIDDY/HBUS/HSBC@HSBC02; DANIEL JACK/HBUS/HSBC@HSBC02; GLORIA STRAZZA/HBUS/HSBC@HSBC02  
Subject: Re: Banknotes with Al Rahji Banking in S.A.

Alan,

Also, as I recall when this was last approved Terry raised it to the Bank's executive management.

Denise A Reilly  
SVP Compliance  
7th Floor  
452 5th Ave, NY 10018

---

Phone. 212-525-2606  
Mobile. 732-996-8672  
Email. denise.a.reilly@us.hsbc.com

---

Alan P Williamson/HBUS/HSBC  
06/03/2008 12:00 PM

To  
Gloria Strazza/HBUS/HSBC@HSBC02, Daniel Jack/HBUS/HSBC@HSBC02  
cc  
Anne Liddy/HBUS/HSBC@HSBC02, Denise A Reilly/HBUS/HSBC@HSBC02  
Subject  
Re: Banknotes with Al Rahji Banking in S.A.

Dan

Can you forward to relevant business heads and ask for their response back to you?

Thx

Alan

--- Original Message ---

From: Gloria Strazza  
Sent: 06/03/2008 10:38 AM EDT  
To: Daniel Jack; Alan P Williamson  
Cc: Anne Liddy; Denise Reilly  
Subject: Re: Banknotes with Al Rahji Banking in S.A.

There was (and may be in the future) a fair amount of press and government

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1241

attention focused on this entity. I am not sure we would want to engage in even this limited activity for this entity but I forward some of the intelligence from our files on this bank.

Copied into this email are the prior ROFs performed on the entity, the most recent of which was completed in December 2007. Also attached is a WSJ article from July 2007 and some emails from ICRO's electronic files (attached in the Word documents below).

[attachment "WSJ 7-02.doc.zip" deleted by Alan P Williamson/HBUS/HSBC]  
[attachment "Email copies.doc.zip" deleted by Alan P Williamson/HBUS/HSBC]

**Redacted by the  
Permanent Subcommittee on Investigations**

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1242

From: CHARLES G DELBUSTO/HBUS/HSBC  
Sent: 4/24/2006 2:59:29 PM  
To: MICHAEL B GALLAGHER/HBUS/HSBC@HSBC  
CC:  
Subject: ING Writeup

May need to fax (let me know) it but here is the summary

On May 21, 2002, HSBC BANK USA, N.A. received a SWIFT MT202 from HSBC Bank plc London requesting execution of the following payment by debit to their account.

Amount: USD 3,000,000.00  
Value date: 21May02  
Originating Bank: [REDACTED]  
BANCO INTERNACIONAL DE COMERCIO S.A  
20 DE MAYO Y AYESTARAN  
6 LA HABANA, CUBA  
Receive Bank: [REDACTED]  
YORK BANCO BILBAO VIZCAYA ARGENTARIA, NEW  
1345 AVENUE OF THE AMERICAS  
NEW YORK, NY 10105  
Beneficiary Bank: [REDACTED]  
BIDCCUHH  
BANCO INTERNACIONAL DE COMERCIO S.A  
20 DE MAYO Y AYESTARAN  
6 LA HABANA, CUBA  
Bank to Bank  
Information: [REDACTED]  
BANCO BILBAO VIZCAYA ARGENTARIA  
29 AVENUE DE L'OPERA  
75001 PARIS, FRANCE

[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations

As this payment instruction made reference to CUBA, we advised by the Office of Foreign Assets Control (OFAC) to block said funds. According to Standard Operation Procedures, funds were placed in a blocked time deposit account earning interest at the regular TDA rate.

Sometime later, we were contacted by Neil Wheeler, HSBC Bank plc, London, advising that their client and originator of the blocked payment, ING, was not happy with the current interest rate that HSBC Bank USA, N.A. was paying on blocked funds. As no reference was made to ING on the payment instructions, HSBC Bank USA, N.A. received from HSBC Bank plc London, proof of ING's role in this payment was required by HSBC Bank USA, N.A.

Upon receipt of that proof, it was confirmed to HSBC Bank plc London, that there was no deviation to our procedure and all blocked funds earn interest at the regular time deposit rate. ING continued to express their concern over the low interest rate and advised they would be seeking legal counsel. We, in turn, referred this matter to our Compliance/Legal liaisons, Elizabeth Protomastro and John Holinka. Although we were in compliance with OFAC regulations, Elizabeth Protomastro found that some of our peer banks either tier interest rates or pay a slightly higher rate. John Holinka did not think it prudent to "provide different treatment for different blocked funds." As such, a decision was made to stand firm on the interest rate we were paying on blocked

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funds.

Correspondence regarding this issue continued as HSBC received letters dated March 21, 2003 from MACFRALANES, ING legal counsel. In this letter, agreement was being sought to recognize ING as legal owner of these funds and the party due these funds upon release from OFAC, as well as applying a higher interest rate to the blocked funds.

In anticipation of the continuance of this issue, HSBC Bank USA, N.A., in conjunction with the aforementioned information ascertained by Elizabeth Protomastro regarding interest paid by our peer banks, and information received from Branch Operations and Marketing in relation to interest paid on deposits, HBUS presented the following interest schedule to be applied to blocked funds.

Principal	Interest
\$999,999.99 or below:	Current SAV2 Rate
\$1,000,000.00 and above:	Effective Fed Fund Rate less .25BPs

Both the current SAV2 Rate and Effective Fund Rate will be reviewed monthly and, if warranted, an interest rate change will be forwarded to Marketing.

Michael Gallagher referred the question of applying a tiered interest rate on blocked funds dependent to the Bank Examiner, Mark Scapp. In an email dated February 19, 2003, from Mark Scapp, he advised, "Our downtown folks did some research on your issue and here is what the feedback said: As long as the funds earn interest at a commercially reasonable rate, i.e., at a rate currently offered other deposits or instruments of comparable size and maturity then the firm can use its discretion as to the setting of a rate."

In consideration of the guidance received from Mark Scapp and our client relationship with ING, it was decided to pay ING the higher interest rate. In reference to this item, Rita Gonzalez stated "We should make very clear to ING that this was a relationship effort which did require contacting regulators and in no way should be perceived as HBUS trying to earn a profit at the expense of client, as suggested."

Further to this action, Neil Wheeler, HSBC Bank plc London, received a letter from ING Trade Finance dated December 9, 2003, referencing the issues related to the blocked funds and stated:

"Today, we are accepting, as you did that:  
 1\*) there is no dispute that if and when frozen funds are released to you by OFAC, that you will remit them to us (see penultimate paragraph on the 2nd page of DG Solicitor's letter of 1 November 2002); funds being in our name and our property in the books of your New-York branch;  
 2\*) that it would be inappropriate to you to enter in a loan scheme such was proposed by us using the frozen funds as security;  
 3\*) whilst you have not been able to agree to the structure we have suggested, you have at our request recently reviewed the Credit interest payable on these fund and the rate was doubled to Fed rate minus 25 basis points."

On December 24, 2003, Neil Wheeler issued a response to the December 9, 2003 letter from ING Trade Finance. A summary of this response is as follows.

- Confirmed Points 2 and 3 above.
- Amended Point 1 to advise funds are held in a blocked time deposit account on the books of HSBC Bank USA.
- The time deposit account is not assigned a specific name but is identified by a case number. It is not held in the name of ING Bank (ING Bank did not appear on any of the fields on the transfer instruction).

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- These funds will remain blocked until their release is authorized by OFAC license, either by a general license published by OFAC and incorporated into the regulations, or a specific license granted by OFAC on a case-by-case basis in response to an application filed by a specific individual or company having an interest in the blocked transaction.
- It is possible that OFAC may not license the release of the funds until the embargo program on Cuba is lifted. Final disposition of the funds at such time as OFAC licenses their release is a matter to be determined by OFAC.
- From our experience with the OFAC licensing process, OFAC's general practice has been to direct the bank (HBUS) to return the funds to the remitter or the remitting bank. However, there may be instances where OFAC will direct the bank to forward the funds on to the beneficiary. We note that in certain instances, such as with blocked Iraqi assets, OFAC has uplifted the funds and used them for purposes other than satisfying the claims of the relevant account parties.

With the application of the new, higher interest rate, HSBC Bank USA, N.A. considers this matter to be resolved. In accordance with consistent practices, the new interest schedule is applied to all funds blocked in accordance with regulations set forth by the Office of Foreign Assets Control.

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1245

From: TERESA PESCE/HBUS/HSBC  
Sent: 1/5/2005 10:39:48 AM  
To: DANIEL JACK/HBUS/HSBC@HSBC  
CC: ALAN T KETLEY/HBUS/HSBC@HSBC  
Subject: Re: KYC Status of Profiles for Banknotes by Office: December 2004

I expect to see an email from Susan Wright today. She tells me that HBME does not agree with Compliance and will not be terminating the relationship from the Middle East, but she/David B. recommend that in light of US scrutiny, climate, and interest by law enforcement, we in the US sever the relationship from here.

Daniel Jack on 05 Jan 2005 10:21  
Note  
05 Jan 2005 10:21

From: Daniel Jack Tel: 212-525-8686  
Title: Vice President Location: 452 5th Ave, Floor 07  
WorkGroup: Legal Compliance Mail Size: 144227

To: Teresa Pesce/HBUS/HSBC@HSBC

cc: Alan T Ketley/HBUS/HSBC@HSBC  
Subject: Re: KYC Status of Profiles for Banknotes by Office: December 2004

Terry - OK. When do you expect to receive this recommendation from Group Compliance?

We can then inform Chris Lok in NY & Steve Allen in London...

Teresa Pesce on 04 Jan 2005 22:48  
Note  
04 Jan 2005 22:48

From: Teresa Pesce Tel: 212-525-6099  
Title: Executive Vice President Location: 452 5th Ave, Floor 07  
WorkGroup: COMP/ANTI-MONEY LAUNDERING Mail Size: 142125

To: Daniel Jack/HBUS/HSBC@HSBC

Subject: Re: KYC Status of Profiles for Banknotes by Office: December 2004

Please communicate that Group Compliance will be recommending terminating the AJ Rahji relationship.

Daniel Jack on 04 Jan 2005 18:57  
Note  
04 Jan 2005 18:57

From: Daniel Jack Tel: 212-525-8686  
Title: Vice President Location: 452 5th Ave, Floor 07  
WorkGroup:

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1246

Legal Compliance Mail Size: 144791

To: HBUS KYC Account Managers  
HBUS KYC Client Services  
HBUS KYC Banknote Traders  
HBUS KYC Regional Head of Banknotes  
HBUS KYC Functional Head of Business  
HBUS KYC Regional Head of Institutional Banking  
HBUS KYC Regional Money Laundering Control Officer

cc: HBUS KYC System Admin  
Christine.JENKINS/BEU/HSBC@HSBC  
Beth.LOGUE/HBEU/HSBC@HSBC  
Robyn.SZETO/LGA.SGH/HBAP/HSBC@HSBC  
Rosa.P.Y.LEUNG/CMP.APH/HBAP/HSBC@HSBC  
Alan.T.Ketley/HBUS/HSBC@HSBC  
Ronald.Schmick/HBUS/HSBC@HSBC  
Sandra.Peterson/HBUS/HSBC@HSBC  
Subject: KYC Status of Profiles for Banknotes by Office: December 2004

Following is a breakdown on the current status of all KYC Profiles for clients with Banknotes Trading - by BN Office Globally:

**CUSTOMER PROFILES** (refer to 2nd table below)  
Overall, there are 934 active Customer Profiles indicating Banknote trading relationships.  
Of these, 771 are Approved and 163 are Pending Approval.  
There are 6 customers that were recently denied by CO, IB or RM and are still "AM Pending" (see 1st table below).

**BANKNOTE PROFILES** (refer to 3rd table below)  
Overall, there are 924 active Banknote Profiles.  
Of these, 842 are Approved and 82 are Pending.  
A total of 1,404 are Deactivated.  
Many pending Banknotes Profiles cannot be Approved because their linked Customer Profile is not Approved yet.

Please ensure KYC profiles for all inactive customers (>2 years) are deactivated in Notes and the Banknote trading system (GBS or VAX).

Customer Profiles for the following (6) active customers were recently denied:  
Please work with PCM (as needed) and ensure they are updated & re-approved - or deactivated asap.

Please ensure KYC Customer & Banknote Profiles are:  
approved for all new customers; and  
approved & updated for all existing customers globally, as per the risk-based review cycle (12 months for High Risk vs 18 months for others).

Let me know if you have any questions. Thanks again for your continued commitment to KYC due diligence and documentation.

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1247

# Bank Secrecy Act/Anti-Money Laundering Supervision

## Final Report

May 18, 2005



OFFICE OF THE COMPTROLLER  
OF THE CURRENCY  
QUALITY MANAGEMENT DIVISION

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**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 2495056**

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**EXECUTIVE SUMMARY**

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The purpose of this report is to provide the Comptroller with a general assessment of the quality of OCC's BSA/AML compliance supervision and to recommend improvements in the effectiveness of OCC's Bank Secrecy Act/Anti-Money Laundering (BSA/AML) supervision and enforcement policies. The Comptroller detailed the following objectives in a May 20, 2004 Engagement Memorandum included in the Appendix:

**Objectives**

- Perform a general assessment of the quality of OCC's BSA/AML compliance supervision and determine whether there are other banks under OCC supervision that have failed to respond on a timely basis to OCC BSA/AML supervisory actions.
- As a result of the review, provide the Comptroller with any recommendations for improvements in the effectiveness of OCC's BSA/AML supervision and enforcement policy with regard to BSA/AML violations.

OCC actions are already underway addressing many findings and recommendations contained in this report. These actions are detailed in the Committee on Bank Supervision BSA/AML Operating Plan that is included in the Appendix. Other findings contained in this report include recommendations for additional actions that the review team believes should be undertaken.

**Conclusions**

OCC's BSA/AML overall policy guidance is generally adequate, except as follows: (1) More specific guidance in examination policy is needed with respect to transaction testing and (2) examination guidance is difficult to apply in the largest national banks. Enforcement policy guidance, prior to the November 2004 revisions, had not been effective. The policy was open to multiple interpretations. Written guidance relative to civil money penalties as a result of BSA/AML violations is not adequate.

The overall quality of BSA/AML supervision in OCC's two lines of business (large and midsize/community banks) has shown improvement, but remains marginally adequate. The initial period of review (2000-2003) revealed that the quality of BSA/AML supervision was inadequate. That review showed that banks failed to correct BSA/AML program deficiencies in response to formal or informal supervisory activities in 40% of sample banks.

Completion of the review team's update of OCC BSA/AML supervisory efforts in sample banks through 03/31/05 reveals that the percentage of banks failing to correct their BSA/AML program

deficiencies has been reduced to 22%. This is the result of more recent supervisory efforts conducted in 2004 and year-to-date 2005. The reduced percentage from 40% to 22% also includes non-responsive banks from the initial sample that failed or converted charters (8%) and banks in which correction has been reported, but not yet tested/validated by OCC (5%).

This report does not suggest that these banks are engaging in money laundering and/or terrorist financing, but the results of this review indicate that the BSA/AML program requirements outlined in 12 C.F.R. § 21.21 have not been fully met by 22% of the sample banks previously mentioned. Program deficiencies identified during this review are most frequently attributed to banks' failures to establish systems of internal controls, insufficient BSA/AML training for bank employees, and/or weaknesses in account monitoring or audit.

The following points support the review team's conclusions about the quality of BSA/AML supervision in OCC's two lines of business.

- In 22% of the sample as noted above, banks have been given multiple opportunities and extended periods of time to implement effective BSA/AML programs. OCC's initial supervisory actions have not always been severe enough to ensure timely correction of BSA/AML program deficiencies and subsequent follow-up actions have not always been timely or effective. Examples of this can be found in large banks, mid-size banks, and community banks.
- Competing priorities and high demands for BSA/AML staff contribute to untimely or ineffective follow-up or delayed examination activities. Staffing deficiencies, related to shortfalls in the number of resources available, are most pronounced in large banks. While OCC completed a reorganization of compliance staff in 2004, which included examiners with BSA/AML expertise, limited resources in terms of both the number of staff and level of expertise continue to be problematic.
- BSA/AML examination guidance is not consistently applied in all OCC lines of business. Transaction testing is not always effective and risk identification processes in examination preplanning are not consistently applied.

It should be noted that conclusions from this sample are only based on what examiners identified and documented during their examinations. The review team did not conduct additional examinations of the sample banks; therefore no judgments were made as to whether examiners properly identified BSA/AML deficiencies during examinations. Because the community bank sample was designed to include banks with identified BSA/AML program deficiencies and not to represent a statistically sound sample, it would not be accurate to extrapolate the results of this review across the entire community bank population. It is also not accurate to conclude that this sample captures all community banks with BSA/AML program deficiencies, because the review team did not test examiners' accuracy in identifying and documenting BSA/AML program deficiencies.

Review findings and areas for OCC management consideration.

**Enforcement actions - 12 C.F.R. § 21.21 violations** - Stronger supervisory action was warranted, and/or was warranted sooner, in eight of twenty-four community banks (33%), one of six mid-size banks sampled (17%) and one of six large banks sampled (17%).

The community bank sample was limited to twenty-four banks in which 12 C.F.R. § 21.21 violations had been cited. After completing all three phases of this project, the review team concludes that enforcement actions, or inactions, completed through March 2005 have been appropriate in all but four of the community banks sampled. However, in addition to these four banks, representing 17% of the community bank sample, stronger supervisory action was warranted sooner in an additional four community banks. While there is a strong policy presumption that Orders to Cease and Desist would be issued in these each of the community banks sampled, C & Ds were issued in only four banks (17%). Formal Agreements were issued in another eight banks (33%). A S&S Order and a MOU were issued in two additional banks. In the remaining ten banks, either MRAs were included in the ROE, or no action was taken.

It is also noteworthy that bank management has been slow in addressing BSA/AML program deficiencies and OCC has monitored deficiencies for an extended period of time in the mid-size bank and large bank mentioned previously, as well as in two additional mid-size banks and three additional large banks.

**Supervisory Review Committees** - There is inconsistent treatment of banks with 12 C.F.R. § 21.21 violations relative to presentations at Supervisory Review Committees. One benefit of SRC is to ensure consistency in supervision, particularly relative to potential enforcement action. In fact, Supervisory Review Committees are an important component of OCC's bank supervision quality control process. OCC's delegation of authority matrix for mid-size/community banks outlines requirements for presentation to SRC. The matrix requires SRC review of bank enforcement actions addressing BSA violations. The review team noted three community banks in which 12 C.F.R. § 21.21 violations were cited and the review team believes DSRC review was warranted, but the banks were not presented to DSRC. A fourth community bank was just recently presented to DSRC, but should have been presented sooner. In addition, nine community banks with 12 C.F.R. § 21.21 violations were not presented to WSRC and should have been. The review team also believes that supervision could have been strengthened by SRC review of five of the six mid-size banks sampled, and three of the six large banks sampled, for potential violations of 12 CFR § 21.21 to ensure OCC's consistent supervisory treatment of violations and enforcement actions.

Examiners report that banks were not presented to District SRC for several reasons. In some cases, this is attributed to the technical or minor nature of violations, the banks' willingness to correct violations, the low BSA/AML risk associated with the banks, and/or documentation errors. In these cases, the review team agrees that SRC review was not warranted, and these banks have not been included in the statistics above. For situations in which violations were

included in Reports of Examination but were not presented to District or Washington SRC, examiners indicate that they consulted with district compliance experts, compliance liaisons, and/or District or Washington legal staff.

**Follow-up activities and use of Matters Requiring Attention (MRAs)** - The sample reveals that OCC follow-up relative to BSA/AML violations and/or MRAs was ineffective at times, however improvement is noted in the past one to two years, particularly in large and mid-size banks. With OCC's increased emphasis on BSA/AML supervision in 2004 and year-to-date 2005, follow-up has improved in all OCC lines of business. The review team did not find any recent examples of failure to follow-up on identified BSA/AML program deficiencies, however recent follow-up has not included testing/validation in two of the six sample mid-size banks. Weak or ineffective follow-up during some period was in evidence in 42% of the sample banks including eight community banks, four mid-size banks, and three large banks. To strengthen OCC follow-up, the review team recommends development of a tracking system for BSA/AML violations and Matters Requiring Attention for banks in all OCC lines of business.

**Staffing** - Staffing levels, expertise and availability play a major role in the adequacy of BSA/AML supervision, especially in Large Banks. Staffing is an ongoing problem for certain banks. There is evidence of delayed or cancelled activities in large and mid-size banks due to insufficient and/or redirected staff to higher priority areas.

**BSA/AML examination procedures and transactional testing** - Full examination procedures are not routinely completed in large banks and BSA/AML examination procedures across other lines of business are not consistently applied. One-half of the large bank EICs sampled report that procedures are considered too extensive to complete within a three-year cycle based on current resident staffing and the complexity and geographic diversity of their banks. In these cases, EICs select offices or lines of business posing the greatest BSA/AML risk for examination. Also, BSA/AML examination procedures are not consistently applied. The review team noted this in 50% of the large bank sample and in one mid-size bank sampled. FinCEN download analysis is not being used consistently in examination pre-planning to aid the selection process for transactional testing.

**Consolidation of OCC's BSA/AML guidance** - There is a large quantity of guidance, issued through both formal publications and more informal methods, that is cumbersome to incorporate during the examination process. To help examiners with effective use of these sources, the review team suggests centralization of guidance in one place for ease of reference.

**Enhancements to the revised BSA/AML handbook** - As OCC participates in the FFIEC initiative to update the BSA/AML handbook, the review team recommends the following enhancements:

- Consideration should be given to how procedures address the continuous supervision methodology practiced in the largest national banks

- Examiners could also benefit from more direction on how their conclusions about BSA/AML compliance link to conclusions addressing bank-wide compliance management systems, compliance and management ratings, and bank-wide risk assessments.
- General guidance on the sample selection methodology and expectations for BSA/AML transactional testing should be clarified and/or expanded.

Because proposed FFIEC revisions to the BSA/AML handbook do not currently address these recommendations, OCC may need to develop supplemental guidance specific to this agency that addresses these recommendations.

**Improved guidance addressing BSA/AML enforcement policies, violations of 12 C.F.R. § 21.21, and civil money penalties** - OCC's internal examiner guidance on citing violations of 12 C.F.R. § 21.21, prior to November 2004 revisions, was open to multiple interpretations. Guidance contributed to examiner confusion and misleading and/or ineffective communications to banks. The November 2004 revisions are effective in providing more specific guidance. OCC's existing civil money penalty matrix is not well suited for assessing the severity of violations relative to BSA/AML systems in banks. Existing civil money penalty guidance is directed toward individuals and not institutions. The review team recommends the development of a civil money penalty matrix directed toward institutions that would be more applicable to compliance-related violations of BSA/AML.

**Risk identification** - The OCC could strengthen BSA/AML risk identification processes through the use of more sophisticated analytical tools and more consistent application of existing tools.

**Quality assurance** - The review team suggests that OCC establish quality assurance for BSA/AML supervision.

**Examiner expertise** - Development and retention of examiner expertise relative to BSA/AML will remain key. Ensuring a sufficient number of examiners to meet BSA/AML supervisory responsibilities is of equal importance. The reputation risk is high for both banks and for the OCC relative to BSA/AML when prioritizing supervisory objectives/strategies, as is the ongoing need for examiner knowledge and expertise in fulfilling those objectives. The review team supports efforts that are already underway at OCC to address staffing.

**Compliance ratings** - In order to effectively capture the risks associated with BSA/AML, a review of the written definitions contained in the Compliance Rating System is warranted. Compliance ratings would be more meaningful and accurate if the definitions incorporated BSA/AML compliance considerations. The five-point rating system, developed in 1980, is geared to more traditional consumer protection regulations, such as Regulation Z and Regulation B, but is silent relative to BSA/AML compliance issues. Since the compliance rating system was developed as a FFIEC initiative, OCC cannot modify the ratings outside of FFIEC. However, the review team encourages OCC efforts to work within the FFIEC framework to update these ratings to incorporate BSA/AML compliance considerations.

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**SCOPE AND OBJECTIVES**

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On May 20, 2004, Comptroller of the Currency John D. Hawke, Jr. issued an engagement memorandum to Ronald A. Lindhart, Director of the Quality Management Division. The Comptroller outlined objectives for a review and evaluation of the OCC's Bank Secrecy Act and anti-money laundering (BSA/AML) supervision at Riggs Bank, N.A., as well as a general assessment of the quality of OCC's overall BSA/AML compliance supervision.

In an August 8, 2004 letter to Deputy Chief Counsel Daniel P. Stipano, U.S. Attorney Kenneth L. Wainstein requested that the OCC cease certain review activities relating to BSA/AML violations at Riggs Bank, N.A. However, review and evaluation of objectives unrelated to Riggs Bank, N.A. continued.

The review was conducted in three phases and the results of all phases are contained in this report. The objectives of each phase follow.

**Phase One Objective**

- As a result of the review, provide the Comptroller with any interim recommendations for improvements in the effectiveness of OCC's BSA/AML supervision and enforcement policy with regard to BSA/AML violations. This was completed September 15, 2004.

**Phase Two Objective**

- Perform a general assessment of the quality of OCC's BSA/AML compliance supervision and determine whether there are other banks under OCC supervision that have failed to respond on a timely basis to OCC BSA/AML supervisory actions. This was completed January 11, 2005, based on a review covering supervision from 1999 to 2003.

**Phase Three Objective**

- Update the current status and draw conclusions relative to the effectiveness of the most recent OCC BSA/AML supervisory actions and bank responses to those actions in the sample banks reviewed to meet the Phase Two objective. This review covers supervision from 2004 through March 31, 2005.

In order to meet the Phase Two objective, the review team sampled select banks from each OCC line of business to assess the quality of supervision and to determine if banks have failed to respond to OCC's supervisory actions.

The review team analyzed the supervisory record contained in OCC's Examiner View electronic system (EV) for twenty-four community banks. The community bank sample included banks in



which 12 C.F.R. § 21.21 violations had been identified since 2001 and/or repeat 12 CFR § 21.21 violations had been identified since 1999. The review team supplemented the community bank review with phone calls and/or follow-up information requests to the respective supervisory offices.

For the six mid-size banks and the six large banks sampled, the review team requested EICs of these banks to complete a questionnaire (contained in the Appendix) addressing BSA/AML supervision. These banks were selected in a combination of ways. In some cases, the supervisory office requested banks to be included in the sample. In other cases, the review team selected banks based on the significance of BSA/AML issues in the banks and/or the geographic location of the bank. The review team also conducted phone interviews with EICs and/or their designated staff to supplement information provided in the questionnaire.

To complete the Phase Three objective, the review team again interviewed all large bank and mid-size bank EICs and their select staff members relative to the current status of their supervisory efforts. The review team provided each EIC with a standard set of questions that were discussed during follow-up phone interviews (contained in the Appendix). In some cases, at their option, the EICs also provided the review team with written answers to the questions. For community banks, the review team investigated detailed documentation contained in Examiner View for each of the twenty-four sample banks. The current status of supervisory efforts in each community bank was researched and documented. A spreadsheet containing summary conclusions resulting from the review of all sample banks is included in the Appendix.

It should be noted that conclusions from this sample are only based on what examiners identified and documented during their examinations. The review team did not conduct additional examinations of the sample banks; therefore no judgments were made as to whether examiners properly identified BSA/AML deficiencies during examinations. Because the community bank sample was designed to include banks with identified BSA/AML program deficiencies and not to represent a statistically sound sample, it would not be accurate to extrapolate the results of this review across the entire community bank population. It is also not accurate to conclude that this sample captures all community banks with BSA/AML program deficiencies, because the review team did not test examiners' accuracy in identifying and documenting BSA/AML program deficiencies.

The review team did not include a specific review for USA PATRIOT Act compliance in the sample banks. This was excluded for two reasons. The engagement memorandum from the Comptroller did not request this review. Secondly, much of the work relative to USA PATRIOT Act compliance was still underway in several of the sample banks when this review commenced. A review at this time would have been premature.

At the conclusion of this review, members of the Committee on Bank Supervision and OCC's Acting Chief Counsel were invited to provide responsive written comments for inclusion in the Appendix of this report. No written comments were submitted.

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**BACKGROUND**

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The cornerstone of the federal government's anti-money laundering (AML) efforts is the Bank Secrecy Act (BSA). Enacted in 1970, the BSA is primarily a recordkeeping and reporting statute that is designed to ensure that banks and other financial institutions provide relevant information to law enforcement in a timely fashion. The BSA has been amended several times, most recently through passage of the USA PATRIOT Act. Both the Secretary of the Treasury, through the Financial Crimes Enforcement Network (FinCEN), and the federal banking agencies, have issued regulations implementing the BSA, including regulations requiring all banks to have a BSA compliance program, and to file reports such as suspicious activity reports (SARs) and currency transaction reports (CTRs).

Primary responsibility for compliance with the BSA and the AML statutes rests with the nation's financial institutions themselves. The OCC and the other federal banking agencies are charged with ensuring that the institutions under their supervision have strong AML programs in place to identify and report suspicious transactions to law enforcement, and that such reports are, in fact, made. OCC's supervisory processes seek to ensure that banks have systems and controls in place to prevent their involvement in money laundering, and that they provide the types of reports to law enforcement that the law enforcement agencies, in turn, need in order to investigate suspicious transactions that are reported.

To accomplish those supervisory responsibilities, the OCC conducts regular examinations of national banks and federal branches and agencies of foreign banks in the United States. These examinations cover all aspects of the institution's operations, including compliance with the BSA. Examination resources are concentrated on those institutions, and areas within institutions, of highest risk. In cases of noncompliance, the OCC has broad investigative and enforcement authority to address the problem.

OCC participates in a variety of interagency working groups that include representatives of the Treasury Department, law enforcement, and the other federal banking agencies. OCC also works with the FBI and other criminal investigative agencies, providing them with documents, information, and expertise on a case-specific basis. In addition, when OCC is provided with lead information from a law enforcement agency, OCC uses that information to investigate further to ensure that BSA compliance systems are adequate.

**Legal Framework**

In 1970, Congress passed the "Currency and Foreign Transactions Reporting Act" otherwise known as the "Bank Secrecy Act" (BSA), which established requirements for recordkeeping and reporting by private individuals, banks and other financial institutions. The BSA was designed to help identify the source, volume and movement of currency and other monetary instruments into or out of the United States or being deposited in financial institutions. The statute sought to

achieve that objective by requiring individuals, banks and other financial institutions to create a paper trail by keeping records and filing reports of certain financial transactions and of unusual currency transfers. This information then enables law enforcement and regulatory agencies to pursue investigations of criminal, tax and regulatory violations.

The BSA regulations require all financial institutions to submit various reports to the government. The most common of these reports are: (1) FinCEN Form 104 (formerly IRS Form 4789) – Currency Transaction Report (CTR) for each payment or transfer, by, through or to a financial institution, which involves a transaction in currency of more than \$10,000; and (2) FinCEN Form 105 (formerly Customs Form 4790) – Report of International Transportation of Currency or Monetary Instruments (CMIR) for each person who physically transports monetary instruments in an aggregate amount exceeding \$10,000 into or out of the United States. Bank supervisors are not responsible for investigating or prosecuting violations of criminal law that may be indicated by the information contained in these reports; they are, however, charged with assuring that the requisite reports are filed timely and accurately.

The Money Laundering Control Act of 1986 precludes circumvention of the BSA requirements by imposing criminal liability for a person or institution that knowingly assists in the laundering of money, or who structures transactions to avoid reporting. It also directed banks to establish and maintain procedures reasonably designed to assure and monitor compliance with the reporting and recordkeeping requirements of the BSA. As a result, on January 27, 1987, all federal bank regulatory agencies issued essentially similar regulations requiring banks to develop procedures for BSA compliance. The OCC's regulation requiring that every national bank maintain an effective BSA compliance program is set forth at 12 C.F.R. § 21.21 and is described in more detail below.

Together, the BSA and the Money Laundering Control Act charge the bank regulatory agencies with:

- overseeing banks' compliance with the regulations described, which direct banks to establish and maintain a BSA compliance program;
- requiring that each examination includes a review of this program and describes any problems detected in the agencies' report of examination;
- taking Cease & Desist actions if the agency determines that the bank has either failed to establish the required compliance program or has failed to correct any problem with the program which was previously cited by the agency.

The Annunzio-Wylie Anti-Money Laundering Act, which was enacted in 1992, strengthened the sanctions for BSA violations and the role of the Treasury Department. It contained the following provisions:

- a so-called "death penalty" sanction, which authorized the revocation of the charter of a bank convicted of money laundering or of a criminal violation of the BSA;

- an authorization for Treasury to require the filing of suspicious-transaction reports by financial institutions;
- the grant of a "safe harbor" against civil liability to persons who report suspicious activity; and
- an authorization for Treasury to issue regulations requiring all financial institutions, as defined in BSA regulations, to maintain "minimum standards" of an AML program.

Two years later, Congress passed the Money Laundering Suppression Act, which primarily addressed Treasury's role in combating money laundering. This statute:

- directed Treasury to attempt to reduce the number of CTR filings by 30 percent and, to assist in this effort, it established a system of mandatory and discretionary exemptions for banks;
- required Treasury to designate a single agency to receive SARs;
- required Treasury to delegate CMP powers for BSA violations to the federal bank regulatory agencies subject to such terms and conditions as Treasury may require;
- required nonbank financial institutions to register with Treasury; and
- created a safe harbor from penalties for banks that use mandatory and discretionary exemptions in accordance with Treasury directives.

Finally, in 2001, as a result of the 9/11 terrorist attacks, Congress passed the USA PATRIOT Act. Among other things, the PATRIOT Act augmented the existing BSA framework by prohibiting banks from engaging in business with foreign shell banks, requiring banks to enhance their due diligence procedures concerning foreign correspondent and private banking accounts, and strengthening their customer identification procedures. The PATRIOT Act also:

- provides the Secretary of the Treasury with the authority to impose special measures on jurisdictions, institutions, or transactions that are of "primary money-laundering concern";
- facilitates records access and requires banks to respond to regulatory requests for information within 120 hours;
- requires regulatory agencies to evaluate an institution's AML record when considering bank mergers, acquisitions, and other applications for business combinations;
- expands the AML program requirements to all financial institutions; and
- increases the civil and criminal penalties for money laundering.

The OCC and the other federal banking agencies have issued two virtually identical regulations designed to ensure compliance with the BSA. The OCC's BSA compliance regulation, 12 C.F.R. § 21.21, requires every national bank to have a written program, approved by the board of directors, and reflected in the minutes of the bank. The program must be reasonably designed to assure and monitor compliance with the BSA and must, at a minimum:

- (1) provide for a system of internal controls to assure ongoing compliance;
- (2) provide for independent testing for compliance;

- (3) designate an individual responsible for coordinating and monitoring day-to-day compliance; and
- (4) provide training for appropriate personnel.

In addition, the implementing regulation for section 326 of the PATRIOT Act requires that every bank adopt a customer identification program as part of its BSA compliance program.

The OCC's SAR regulation, 12 C.F.R. § 21.11, requires every national bank to file a SAR when they detect certain known or suspected violations of federal law or suspicious transactions related to a money laundering activity or a violation of the BSA. This regulation mandates a SAR filing for any potential crimes: (1) involving insider abuse regardless of the dollar amount; (2) where there is an identifiable suspect and the transaction involves \$5,000 or more; and (3) where there is no identifiable suspect and the transaction involves \$25,000 or more. Additionally, the regulation requires a SAR filing in the case of suspicious activity that is indicative of potential money laundering or BSA violations and the transaction involves \$5,000 or more.

#### Supervision and Enforcement

The OCC's core mission is the supervision of national banks and their subsidiaries, federal branches and agencies of foreign banks<sup>1</sup>, national trust companies, bank data software vendors, and data processing service providers. The supervisory process also consists of activities to identify, analyze, and respond to emerging systemic risks and trends that could affect an individual national bank or the entire national banking system.

The Committee on Bank Supervision establishes and oversees areas of emphasis for the OCC's supervisory activities. The committee is comprised of three senior bank supervision officials: the Chief National Bank Examiner and the senior deputy comptrollers for Large Bank Supervision and Mid-size/Community Bank Supervision.

The Senior Deputy Comptroller for Large Bank Supervision is responsible for supervising the 25 largest and most complex national banking companies, using teams of dedicated onsite examiners. The Senior Deputy Comptroller for Mid-size/Community Bank Supervision is responsible for supervising the 24 banking companies in the OCC's mid-size bank program, as well as all community banks, credit card banks, and federal branches and agencies.

Effective bank supervision requires clear communications between the OCC and the bank's senior management and board of directors. A Report of Examination documents the OCC's findings and conclusions with respect to its supervisory review of a bank. Once problems or weaknesses are identified and communicated to the bank, as a matter requiring attention (MRA), the bank's senior management and board of directors are expected to promptly correct them. The

<sup>1</sup> Federal branches and agencies are branches and agencies licensed by the OCC and operated by foreign banking organizations. Federal agencies are offices that engage in the business of banking but do not accept deposits or exercise fiduciary powers.

actions that a bank takes, or agrees to take, to correct deficiencies documented in its Report of Examination are important factors in determining whether more forceful action is needed.

Enforcement actions fall into two broad categories: informal and formal. In general, informal actions are used when the identified problems are of limited scope and magnitude and bank management is regarded as both committed and capable of correcting them. These enforcement actions provide a bank with more explicit guidance and direction than is normally contained in a Report of Examination. Informal actions include commitment letters, memoranda of understanding and matters requiring board attention in examination reports.<sup>2</sup> These generally are not public actions.

Unlike most informal actions, formal enforcement actions are authorized by statute, are generally more severe, and are disclosed to the public. Formal actions against a bank include Cease & Desist (C&D) orders, formal written agreements and Civil Money Penalties (CMPs). C&D orders and formal agreements are generally entered into consensually by the OCC and the bank and require the bank to take certain actions to correct identified deficiencies. The OCC may also take formal action against officers, directors and other individuals associated with an institution (institution-affiliated parties). Possible actions against institution-affiliated parties include removal and prohibition from participation in the banking industry, CMPs and C&D orders.

In the BSA area, the OCC's CMP authority is concurrent with that of FinCEN. In cases involving systemic noncompliance with the BSA, in addition to taking its own actions, the OCC refers the matter to FinCEN.

#### Supervision Review Committees

The senior deputy comptrollers for Large Bank Supervision and for Mid-size/Community Bank Supervision have the primary responsibility to use the OCC's enforcement authority under 12 USC § 1818 as necessary to accomplish the OCC's supervisory objectives. In many cases they have delegated the authority to initiate, negotiate, execute, modify, and terminate enforcement actions. Generally, the EIC is responsible for initially recommending the use of an enforcement action. District and Large Bank deputy comptrollers are responsible for deciding most enforcement action recommendations against banks under their supervision.

To assist with these decisions, the senior deputy comptrollers appoint a Washington Supervision Review Committee (WSRC). In addition, each district deputy comptroller appoints a District Supervision Review Committee (DSRC). The supervision review committees' (SRC) role is to help ensure that OCC bank supervision and enforcement policies are applied effectively and consistently, and to advise the senior deputy comptrollers or the deputy comptrollers by providing recommendations on supervisory strategies and enforcement actions.

<sup>2</sup> Informal and formal enforcement actions are defined in the Appendix of this Report.

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**FINDINGS AND RECOMMENDATIONS**

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OCC's BSA/AML overall policy guidance is generally adequate, except as follows: More specific guidance in examination policy is needed with respect to transaction testing and examination guidance is difficult to apply in the largest national banks. Enforcement policy guidance, prior to November 2004 revisions, had not been effective. The policy was inconsistent with statutory guidance and was open to multiple interpretations. Written guidance relative to civil money penalties as a result of BSA/AML violations is not adequate.

The overall quality of BSA/AML supervision in OCC's two lines of business (large and midsize/community banks) has shown improvement, but remains marginally adequate. The initial period of review (2000-2003) revealed that the quality of BSA/AML supervision was inadequate. That review showed that banks failed to correct BSA/AML program deficiencies in response to formal or informal supervisory activities in 40% of sample banks.

Completion of the Phase Three objective reveals that the percentage of banks failing to correct their BSA/AML program deficiencies has been reduced to 22%. This is the result of more recent supervisory efforts conducted in 2004 and year-to-date 2005. The reduced percentage from 40% to 22% also includes non-responsive banks from the initial sample that failed or converted charters (8%) and banks in which correction has been reported, but not yet tested/validated by OCC (5%).

This report does not suggest that these banks are engaging in money laundering and/or terrorist financing, but the results of this review indicate that the BSA/AML program requirements outlined in 12 C.F.R. § 21.21 have not been fully met by 22% of the sample banks previously mentioned. Program deficiencies identified during this review are most frequently attributed to banks' failures to establish systems of internal controls, insufficient BSA/AML training for bank employees, and/or weaknesses in account monitoring or audit.

The following points support the review team's conclusions about the quality of BSA/AML supervision in OCC's two lines of business.

- In 22% of the sample as noted above, banks have been given multiple opportunities and extended periods of time to implement effective BSA/AML programs. OCC's initial supervisory actions have not always been severe enough to ensure timely correction of BSA/AML program deficiencies and subsequent follow-up actions have not always been timely or effective. Examples of this can be found in large banks, mid-size banks, and community banks.
- Competing priorities and high demands for BSA/AML staff contribute to untimely or ineffective follow-up or delayed examination activities. Staffing deficiencies, related to shortfalls in the number of resources available, are most pronounced in large banks. EICs

in 83% of the large banks sampled and 50% of the mid-size banks sampled report difficulties with staffing. While OCC completed a reorganization of compliance staff in 2004, which included examiners with BSA/AML expertise, limited resources in terms of both the number of staff and level of expertise continue to be problematic.

- BSA/AML examination guidance is not consistently applied in all OCC lines of business. Transaction testing is not always effective and risk identification processes in examination preplanning are not consistently applied.

OCC actions are already underway addressing many findings and recommendations contained in this report. These actions are detailed in the Committee on Bank Supervision BSA/AML Operating Plan that is included in the Appendix. Other findings contained in this report include recommendations for additional actions that the review team believes should be undertaken.

The review team has identified the following six priority areas for consideration.

***1. The review team's analysis of BSA/AML supervision in a select sample of banks from each OCC line of business reveals weaknesses deserving corrective attention. There are banks supervised by the OCC with significant BSA/AML program deficiencies that have not been fully addressed. Some OCC actions are already underway to address supervisory weaknesses, but further work is needed.***

Key areas discussed below include:

- Enforcement actions - 12 C.F.R. § 21.21 violations,
- Follow-up activities and use of Matters Requiring Attention (MRAs),
- Staffing, and
- BSA/AML examination procedures and transactional testing.

Enforcement actions - 12 C.F.R. § 21.21 violations

*Stronger supervisory action was warranted, and/or was warranted sooner, in eight of twenty-four community banks (33%), one of six mid-size banks sampled (17%) and one of six large banks sampled (17%).*

The community bank sample was limited to twenty-four banks in which 12 C.F.R. § 21.21 violations had been cited. After completing the phase three objective of this project, the review team concludes that enforcement actions, or inactions, taken through March 2005 have been appropriate in all but four of the community banks sampled. However, in addition to these four banks, representing 17% of the community bank sample, stronger supervisory action was warranted sooner in an additional four community banks. While there is a strong policy presumption that Orders to Cease and Desist would be issued in these each of the community banks sampled, C & Ds were issued in only four banks (17%). Formal Agreements were issued



in another eight banks (33%). A S&S Order and a MOU were issued in two additional banks. In the remaining ten banks, either MRAs were included in the ROE, or no action was taken.

It is also noteworthy that bank management has been slow in addressing BSA/AML program deficiencies and OCC has monitored deficiencies for an extended period of time in the mid-size bank and large bank mentioned previously, as well as in two additional mid-size banks and three additional large banks.

*There is inconsistent treatment of banks with 12 C.F.R. § 21.21 violations relative to presentations at Supervisory Review Committees.* One benefit of SRC is to ensure consistency in supervision, particularly relative to potential enforcement action. In fact, Supervisory Review Committees are an important component of OCC's bank supervision quality control process. OCC's delegation of authority matrix for mid-size/community banks outlines requirements for presentation to SRC. The matrix requires SRC review of bank enforcement actions addressing BSA violations. The review team noted three community banks in which 12 C.F.R. § 21.21 violations were cited and the review team believes DSRC review was warranted, but the banks were not presented to DSRC. A fourth community bank was just recently presented to DSRC, but should have been presented sooner. In addition, nine community banks with 12 C.F.R. § 21.21 violations were not presented to WSRC and should have been. The review team also believes that supervision could have been strengthened by SRC review of five of the six mid-size banks sampled, and three of the six large banks sampled, for potential violations of 12 CFR § 21.21 to ensure OCC's consistent supervisory treatment of violations and enforcement actions.

Examiners report that banks were not presented to District SRC for several reasons. In five community banks sampled (21%), the violations were reported in EV but not in Reports of Examination. This was attributed to the technical or minor nature of violations, the banks' willingness to correct violations, the low BSA/AML risk associated with the banks, and/or documentation errors. In these cases, the review team agrees that SRC review was not warranted, and these banks have not been included in the statistics above. For situations in which violations were included in Reports of Examination but were not presented to District or Washington SRC, examiners indicate that they consulted with district compliance experts, compliance liaisons, and/or District or Washington legal staff and were advised that presentations were not needed because additional supervisory actions were not warranted or would not be taken.

**Follow-up activities and use of Matters Requiring Attention (MRAs)**

*The sample reveals that OCC follow-up relative to BSA/AML violations and/or MRAs was ineffective at times, however improvement is noted in the past one to two years, particularly in large and mid-size banks.* With OCC's increased emphasis on BSA/AML supervision in 2004 and year-to-date 2005, follow-up has improved in all OCC lines of business. The review team did not find any recent examples of failure to follow-up on identified BSA/AML program deficiencies, however recent follow-up has not included testing/validation in two of the six sample mid-size banks. Weak or ineffective follow-up during some period was in evidence in

42% of the sample banks including eight community banks, four mid-size banks, and three large banks.

To strengthen OCC follow-up, the review team recommends development of a tracking system for BSA/AML violations and Matters Requiring Attention for banks in all OCC lines of business. The tracking system should also monitor banks with "weak" BSA compliance management systems. Follow-up could also be more effective with clear guidelines surrounding use of MRAs. The use of MRA comments to address BSA/AML issues in Reports of Examination is not consistent among banks. (See Appendix for details.) This is true even within specific lines of business. While BSA violations and MRAs in community and mid-size banks are routinely entered into EV, the review team found that many issues were not closed out in EV. This generally happened because follow-up was lacking, or despite follow-up activities, the issue remained outstanding or the examiner failed to closeout the item in EV. Also, MRAs addressing BSA/AML should clearly be labeled as such. The review team found items in EV that were categorized as compliance management, when the deficiency was specific to BSA/AML.

#### Staffing

*Staffing levels, expertise and availability play a major role in the adequacy of BSA/AML supervision, especially in Large Banks.* Staffing is an ongoing problem for certain banks. There is evidence of delayed or cancelled activities due to insufficient and/or redirected staff to higher priority areas (other banks with higher BSA/AML risk or offices/business lines within the same bank with higher BSA/AML risk). This is particularly evident in large and mid-size banks.

#### BSA/AML examination procedures and transactional testing

*Full examination procedures are not routinely completed in large banks and BSA/AML examination procedures across other lines of business are not consistently applied.* One-half of the large bank EICs sampled report that procedures are considered too extensive to complete within a three-year cycle based on current staffing and the complexity and geographic diversity of their banks. In these cases, EICs select offices or lines of business posing the greatest BSA/AML risk for examination.

BSA/AML examination procedures are not consistently applied; most notably in the areas of testing and validation. The review team noted inconsistent use of examination procedures in 50% of the large bank sample and in one mid-size bank sampled. Applying risk-based supervision, EICs typically determine what procedures to use during examinations. Also, based on documentation reviewed and phone interviews conducted by the review team, FinCEN download analysis is not being used consistently in examination pre-planning to aid the selection process for transactional testing.

**2. BSA/AML examination and enforcement policies need to address some areas and have recently addressed other areas to provide more examiner guidance and to ensure accuracy and consistency in examiner application.**

Key areas discussed below include:

- Consolidation of OCC's BSA/AML guidance,
- Enhancements to the revised BSA/AML handbook, and
- Improved guidance addressing BSA/AML enforcement policies, violations of 12 C.F.R. § 21.21, and civil money penalties.

Consolidation of OCC's BSA/AML guidance

*There is a large quantity of guidance, issued through both formal publications and more informal methods, that is cumbersome to incorporate during the examination process. The guidance takes a variety of forms, including handbooks, interpretations, PPMs, Advisories, and Bulletins, as well as informal memos and e-mails. To illustrate, the Appendix contains a detailed listing of guidance relating to BSA/AML.*

To help examiners with effective use of these sources, the review team suggests centralization of guidance in one place for ease of reference. Guidance could be indexed and available to examiners through one resource or one intranet location. Doing so is increasingly important with the 2004 compliance structure realignment as it may add challenges to the communication of relevant compliance policy, procedures, and expectations. Since the commencement of this review, OCC has created a new intranet website titled "Combating Money Laundering and Terrorist Financing." This site contains links to OCC's internet site including several information sources such as policies, regulations, other agencies, and enforcement actions. The site is more comprehensive than previous OCC websites dedicated to BSA/AML, however it does not contain non-public guidance that may be used internally by examiners. The updated BSA/AML handbook (discussed below) may also result in consolidation of some guidance reflecting changes since the existing handbook was issued in 2000.

Enhancements to the revised BSA/AML handbook

*As OCC participates in the FFIEC initiative to update the BSA/AML handbook, the review team recommends the following enhancements:*

- *Consideration should be given to how procedures address the continuous supervision methodology practiced in the largest national banks. Currently, examination procedures are tailored to a holistic assessment of BSA/AML compliance during a single examination event. These procedures are difficult to apply in the largest banks under continuous supervision. Revised procedures need to provide guidance that will direct examiners to aggregate information from targeted reviews, as well as any general system reviews, to assess and opine on the quality of institutions' bank-wide baseline BSA/AML systems. Examiners in OCC's largest banks report that they are unable to fully complete*

examination procedures, using a risk-based supervisory approach, within the three-year supervisory cycle to draw conclusions about the quality of BSA/AML systems bank-wide. The extensiveness of bank operations, coupled with staffing constraints, make application of existing procedures difficult. Currently, examiners in the largest banks apply procedures to the highest risk offices and/or lines of business, but are unable to apply the procedures to all areas of the bank. The review team recommends that the policy revision working group seek large bank examiner input to address these difficulties. Draft revisions to the handbook procedures (in process through FFIEC) do not offer specific guidance for drawing overall conclusions based on results from several targeted examinations. The handbook revisions are also not responsive to concerns associated with BSA/AML continuous supervision in the largest national banks.

- *Examiners could also benefit from more direction on how their conclusions about BSA/AML compliance link to conclusions addressing bank-wide compliance management systems, compliance and management ratings, and bank-wide risk assessments.* The draft handbook revisions do not address this recommendation. Because the BSA/AML handbook is under revision as a FFIEC initiative, OCC may need to develop supplemental guidance specific to this agency that addresses how BSA/AML risk factors into bank-wide compliance management systems, ratings, and risk assessments.
- *General guidance on the sample selection methodology and expectations for BSA/AML transactional testing should be clarified and/or expanded.* Currently, due to the limited guidance, the size and methodology of sample selection varies significantly. While it is not OCC's role to detect money laundering through transaction testing, such testing is warranted to validate banks' compliance with 12 C.F.R. § 21.21. More guidance in this regard is needed. FFIEC draft handbook revisions do not provide specific guidance as to when transactional testing is required, how to sample, or the size of required samples.

Improved guidance addressing BSA/AML enforcement policies, violations of 12 C.F.R. § 21.21, and civil money penalties

*Enforcement policies, prior to November 2004 revisions, did not lend themselves well to compliance issues, and specifically not to BSA/AML compliance problems.* OCC's enforcement policies (Enforcement Action Policy PPM 5310-3-REV 7-30-01 and CMP Policy PPM 5000-7-REV 6-16-93) were written with a focus on traditional safety/soundness issues and issues of potential insolvency.

- *OCC's guidance on citing violations of 12 C.F.R. § 21.21 was open to multiple interpretations. Inconsistent interpretations contributed to misleading and/or ineffective communications to banks.*
- *Prior to revisions, there were mixed messages in guidance conveyed to examiners relative to the conditions that require OCC to take formal enforcement action. OCC guidance, including Question and Answer documents for examiners issued by OCC's compliance*

policy division, and in place prior to November 2004, stated: "a strong presumption exists for issuing a Cease and Desist (C&D) order whenever a national bank is cited for a violation of 12 CFR § 21.21." The guidance discussed situations in which 12 CFR § 21.21 violations should be cited and examples in which accompanying C&Ds were appropriate. Examples included situations in which banks lacked a BSA compliance program that covered one or more of the required program elements (internal controls, training, audit, responsible personnel), failed to implement a written BSA compliance program, exhibited significant BSA compliance program deficiencies, coupled with aggravating factors, or failed to correct previously cited BSA program deficiencies. The wording of the examiner guidance has been changed to state "there is a statutory mandate that the OCC issue a C&D whenever a bank is cited for a violation of 12 CFR § 21.21."

This change is consistent with 12 U.S.C. § 1818(s). 12 U.S.C. § 1818(s) states that if the appropriate Federal banking agency determines that an institution (A) has failed to establish and maintain the procedures reasonably designed to assure and monitor the compliance, or (B) has failed to correct any problem with the procedures maintained by the depository institution which was previously reported to the depository institution by such agency, the agency shall issue an order, requiring such institution to cease and desist from its violation of this subsection or regulations prescribed under this subsection. The review team found inconsistent treatment of 12 C.F.R. § 21.21 violations.

- OCC's civil money penalty matrix is not well suited for assessing the severity of violations relative to BSA/AML systems in banks. Existing civil money penalty guidance is directed toward individuals and not institutions. To address violations relative to BSA/AML program deficiencies, an institutional matrix is more appropriate. A 1980 FFIEC policy statement on CMPs outlines assessment factor considerations which can continue to provide the basis upon which OCC develops an institutional matrix to supplement the existing CMP matrix.

The review team endorses OCC actions that amended enforcement policies and guidance relative to 12 C.F.R. § 21.21. The November 2004 revisions include additional guidance addressing circumstances in which a violation should be cited and reflect the statutory mandate that a C&D order will be issued whenever a bank is cited for a violation of 12 C.F.R. § 21.21.

However, additional actions are needed to address BSA/AML violations by supplementing existing guidance relative to civil money penalties. The review team recommends the development of a civil money penalty matrix directed toward institutions that would be more applicable to compliance-related violations of BSA/AML.

**3. There are opportunities for improvement in OCC's BSA/AML risk identification process.**

*The OCC could strengthen BSA/AML risk identification processes through the use of more sophisticated analytical tools and more consistent application of existing tools. While it is not OCC's role to detect money laundering, more emphasis on the quantification of high-risk*

products, services, and customers within OCC supervised banks could help identify banks with deficient BSA/AML programs. A higher level of computer-assisted analysis of the large number of CTRs in FinCEN's database is warranted.

There are two Risk Identification Programs currently in use within the Western and Central Districts that warrant replication across all OCC's business lines. These programs are significant in the quality of tools that they provide to the field examiner in quantifying potential money laundering risk at specific banks, as well as in specific accounts. These tools could also assist OCC management in quantifying money laundering risk in all OCC lines of business.

While these two programs are profiled in the Appendix to this report, the review team acknowledges that there may be other tools or programs in use throughout the OCC. To capture any and all best practices relative to BSA/AML risk identification, the review team recommends that the OCC inventory such programs and/or tools used throughout the country and replicate or share those that are of greatest impact.

In addition, the review team supports two additional initiatives that may enhance the OCC's BSA/AML risk assessment capabilities. These include FinCEN's BSA Direct Initiative and OCC's development of a database of bank-filed SARs. FinCEN's BSA Direct Initiative is an effort to explore better ways to provide more user-friendly access to the FinCEN database. OCC's SAR data mart, in the very early stages of development, has the potential, in a macro sense, to identify trends in BSA/AML SAR filings, to identify geographic pockets of reported suspicious activity, and to detect emerging risks.

**4. The review team suggests that OCC establish quality assurance for BSA/AML supervision.**

*This area represents high reputation risk for the banking industry as well as for the OCC, and a process to assure the quality and consistency of OCC supervision is warranted. Quality assurance reviews could help ensure that:*

- Examination findings support overall conclusions,
- Conclusions address minimum standards and expectations for BSA/AML risk management systems,
- OCC supervisory approval processes are not overly-reliant on subject matter experts or do not unintentionally filter substantive issues from overall risk assessments,
- OCC is consistent in the treatment of 12 C.F.R. § 21.21 violations,
- Supervisory strategies are reasonable and include adequate follow-up on OCC concerns, and
- Adequate tracking systems are in place for follow-up on violations and Matters Requiring Attention.

**5. Development and retention of examiner expertise relative to BSA/AML will remain key. Ensuring a sufficient number of examiners to meet BSA/AML supervisory responsibilities is of equal importance.**

*The reputation risk is high for both banks and for the OCC relative to BSA/AML when prioritizing supervisory objectives/strategies, as is the ongoing need for examiner knowledge and expertise in fulfilling those objectives.* The review team supports efforts that are already underway at OCC to address staffing. In addition to further development and reallocation of existing staff, the review team encourages efforts to ensure that OCC employs a sufficient number of examiners to meet BSA/AML supervision requirements.

Strategic selection of participants in the Examiner Specialized Skills Program – ESSP (for BSA/AML only) is a critical step in ensuring OCC's effective supervision of BSA/AML. For this reason, the review team suggests OCC managers encourage employees with strong performance records and ongoing potential for significant work in higher risk banks and higher risk geographic locations to apply for the ESSP program. Also, OCC examiners receive only rudimentary training through a BSA/AML module in pre-commissioned examiner training. Specialized BSA/AML training at the commissioned level is voluntary, not mandatory. Because of this, the review team suggests that management continue to periodically reassess the adequacy of trained staff and dispersion of this staff.

Bi-monthly "knowledge sharing calls" are currently used to disseminate new information to ESSP participants and to supplement existing training programs. For larger audiences, OCC's large bank roundtables have proven effective in other risk areas for sharing updated information and developing expertise. To supplement formal training, the ESSP program, and "knowledge sharing calls," roundtables for BSA/AML in various bank lines of business could be an effective addition.

**6. In order to effectively capture the risks associated with BSA/AML, a review of the written definitions contained in the Compliance Rating System is warranted.**

*Compliance ratings would be more meaningful and accurate if the definitions incorporated BSA/AML compliance considerations.* The five-point rating system, developed in 1980, is geared to more traditional consumer protection regulations, such as Regulation Z and Regulation B, but is silent relative to BSA/AML compliance issues. Since the compliance rating system was developed as a FFIEC initiative, OCC cannot modify the ratings outside of FFIEC. However, the review team encourages OCC efforts to work within the FFIEC framework to update these ratings to incorporate BSA/AML compliance considerations. BSA/AML handbook revisions, underway as an FFIEC initiative, make no reference to the compliance rating system.

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APPENDIX

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## MEMORANDUM

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

To: Ronald A. Lindhart, Director, Quality Management Division

From: John D. Hawke, Jr., Comptroller of the Currency

Date: May 20, 2004

Subject: Engagement Memorandum: Retrospective of BSA/AML violations at Riggs Bank, N. A.,  
McLean, Virginia

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Ron, I am directing the Quality Management Division (QMD) to immediately commence a review and evaluation of the OCC's Bank Secrecy Act and anti-money laundering (BSA/AML) supervision of Riggs Bank, N. A. ("Bank"), McLean, Virginia.

QMD should review the record of OCC supervisory activities going back for as long a period as you determine to be appropriate, but in any case at least until the beginning of 1997. You should evaluate the quality and effectiveness of these activities and their compliance with OCC policies and guidelines relating to BSA/AML examinations. Further, you should assess the extent and effectiveness of OCC's coordination and interaction with other regulators and with law enforcement. You should also assess the quality, completeness and timeliness of the bank's responses to comments, criticisms and advice given by OCC examiners, and the bank's disposition to take needed corrective actions. I want your full and frank assessment as to whether our examination team took appropriate and timely actions to address any shortcomings they found in the bank's processes and in its responses to matters noted by the examiners. You should also seek to determine whether there were any inappropriate influences that may have affected our supervisory activities in this case.

In addition to your review of the Riggs case, I would like QMD to make a more general assessment of the quality of our BSA/AML compliance supervision and to determine whether there are other banks under our supervision that have failed to respond on a timely basis to our BSA/AML supervisory actions.

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Finally, I would like you to provide me with any recommendations you might have, as the result of your reviews, for improvements in the effectiveness of our BSA/AML supervision and for our enforcement policy with regard to BSA/AML violations.

I want to stress the importance I attach to your presenting me with your frank and unvarnished judgments and conclusions in this matter.

Your review team should consist of representatives from each area of the Committee on Bank Supervision as well as representatives from the Chief Counsel's Office. All relevant supervisory records and working papers should be reviewed. Interviews should be conducted with:

- Those who had a significant bank supervisory role in the BSA/AML supervision of the bank,
- Officials from other federal agencies with significant jurisdictional interests, and
- Bank officials responsible for BSA/AML compliance.

Please submit the final report to me by September 1, 2004, with copies to the Committee on Bank Supervision and the Chief Counsel, and provide me with interim updates during our regular bi-weekly meetings.

cc: Committee on Bank Supervision  
Chief Counsel  
Chief of Staff

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**SOURCES THAT GUIDE OCC'S BSA/AML SUPERVISION**


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**Handbooks**

- Compliance Overview (August 1996)
- Compliance Management Systems (August 1996)
- Bank Secrecy Act / Anti-Money Laundering (September/December 2000)
- Community Bank Supervision (July 2003)

**Pertinent Memoranda & eMail**

- Sharpe Memo Frequency and Scope of Compliance Exams (June 2000)
- Hammaker eMail Add'l BSA/AML Targets & Procedures (Feb 2001)
- Hammaker, et al Memo Exams of Private Banking, AM, and Trust (July 2001)
- Britton/Roeder Memo OIG Follow-up (April 2002)
- Compliance Board New Exam Procedures (April 2002)
- Jaedicke eMail USAPA Exams in Large Banks (July 2004)

**PPMs**

- 5000-7 (Rev) Civil Money Penalties (June 1993)
- 5310-3 (Rev) Enforcement Action Policy (July 2001 updated November 2004)

**OCC Advisories (excluding FinCEN Advisories and Bulletins)**

- 2000-03 Common BSA Compliance Deficiencies (April 2000)
- 2001-12 USA Patriot Act AML Provisions (October 2001)
- 2002-04 Detecting Terrorist Financing (May 2002)
- 2004-07 Money Service Businesses (June 2004)

**OCC Bulletins (excluding NPR, Interim Rules, and Final Rules)**

- 2000-19 Suspicious Activity Report (June 2000)
- 2001-7 Basel paper (February 2001)
- 2001-9 Foreign Official Corruption Guidance (February 2001)
- 2003-27 Revised Suspicious Activity Report (June 2003)
- 2003-43 BSA Examination Procedures (October 2003)
- 2003-48 Revised Currency Transaction Report Form (December 2003)
- 2004-01 Notice of Expiration of Exceptions (January 2004)
- 2004-03 FAQ – Customer Identification Program Rule (January 2004)
- 2004-26 Embassy Accounts (June 2004)
- 2004-34 Customer ID Program Exam Procedures (July 2004)

**Examiner Training**

- Consumer Compliance School - Basic (Two courses: Classroom/Self Study) OCC
- Anti-money Laundering and Terrorist Financing OCC
- FinCEN Database Training FinCEN
- Fraud Investigation Training On-Line FFIEC
- Fraud Investigation Symposium FFIEC

**BSA Compliance Bulletin Board**

Postings under the following headings (dating to the mid-1990s) that guide BSA/AML compliance supervision:

- AML Programs BSA Programs 12 CFR 21.21 Violations (includes "Citing Violations of 12 CFR 21.21 and 12 CFR 21.11")
- Cash Sales of Monetary Instruments
- Correspondent Bank Relationships and Broker Relationships
- CTR and Exemptions
- Due Diligence
- Employee Screening
- OFAC
- Private Investment Companies
- Suspicious Activity
- USA PATRIOT Act
- Wire Transfer
- Other

**Publications**

- Customer Due Diligence for Banks Basel Committee on Banking Supervision (January 2001)
- Guidance on Enhanced Scrutiny For Transactions That May Involve Proceeds of Foreign Official Corruption Departments of Treasury and State, and Federal Bank Regulators (January 2001)
- Guidance on Accepting Accounts for Foreign Governments, Foreign Embassies and Foreign Political Figures Federal Bank Regulators (June 2004)
- Money Laundering: A Banker's Guide to Avoiding Problems OCC (December 2002)
- Money Laundering Red Flags OCC (Undated)

**Laws and Regulations**

12 U.S.C. 1818(s)	Compliance with Recordkeeping and Reporting Requirements
31 U.S.C. 5311 et seq	Reports of Currency and Foreign Transactions
12 CFR 21.11	Reports of Suspicious Activity
12 CFR 21.21	Procedures for Monitoring BSA Compliance
31 CFR 103	Financial Recordkeeping and Reporting of Currency and Foreign Transactions

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**COMMITTEE ON BANK SUPERVISION**  
**BSA/AML OPERATING PLAN – FY 2005 - 2006**

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This Plan outlines the OCC's supervisory objectives for Bank Secrecy Act (BSA), Anti-Money Laundering (AML) and USA PATRIOT Act (USPA) related activities for FY 2005-2006. The plan supplements the fiscal 2005 Bank Supervision Operating Plan and is in response to the significant reputation risk that money laundering and terrorist financing activities pose to the national banking system and to the OCC.

*BSA/AML Supervisory Objectives*

*I. Adopt and implement comprehensive BSA/AML/USPA supervisory strategies and activities in all of the OCC's lines of business.*

*Midsize and Community Banks:*

- Each district will review their community bank portfolios to identify potential high-risk banks. Examinations for each of those banks will be completed by March 31, 2005. Compliance with the USPA will be incorporated into these exams.
- Each ADC will ensure that the timing, scope and coverage for BSA/AML/USPA activities are appropriate, adequate, and in accordance with risk assessments. Consistent with statutory requirements, a review of BSA compliance, including transaction testing of higher risk accounts will be incorporated into each supervisory cycle, using the OCC Community Bank Handbook core procedures. Initial reviews for compliance with USPA will be completed for all non high-risk community banks by December 31, 2006.
- ADCs or their designee will communicate with bank management to make them aware of our heightened supervisory attention to this area and our expectations.
- We will conduct BSA/AML/USPA horizontal reviews for all midsize banks, using a tiered risk approach. Exams that were planned as part of the BSA Targeting Program for 2005 will be incorporated into these examinations.
- Exams for the highest risk midsize banks will be completed in FY 2005.
- We will complete exams for the remaining midsize banks by the end of FY 2006. Consistent with statutory requirements, a review of BSA compliance will be incorporated into each supervisory cycle, using the BSA/AML Handbook procedures.

**Large Banks:**

- We will complete USPA exams for all large banks by December 31, 2004.
- We will review and validate the planned 2005 BSA/AML/USPA supervisory strategies for each large bank by November 30, 2004. Transaction testing and compliance reviews for BSA/AML/USPA activities will be conducted at each large bank for identified high-risk areas and activities. Exams that were planned as part of the BSA Targeting Program for 2005 will be incorporated into these examinations.
- We will communicate with bank management to make them aware of our heightened supervisory attention to this area and our expectations.

**II. *Adopt and implement processes to enhance the quality and consistency of our BSA/AML/USPA supervision.***

**Compliance Policy**

- We will revise and issue an updated BSA Handbook in cooperation with the other FFIEC agencies by June 2005. The revised handbook will incorporate appropriate levels of transaction testing, include and expand upon new areas of emphasis, and incorporate provisions of the USPA.
- We will work with Enforcement & Compliance (E&C) and Community and Consumer Law to issue by November 2004, a revised enforcement policy that clarifies areas where a statutory mandate for a formal enforcement action exists and directs that violations should be cited in cases where a significant BSA deficiency is noted or where a bank has failed to correct significant prior criticisms or has a history of program deficiencies.
- Compliance Policy, Operational Risk, M/CBS and LBS will reinforce the policy that BSA deficiencies should be cited in Reports of Examination.
- We will develop guidance for examiners on how to incorporate BSA/AML findings into the compliance rating system.

**Midsized and Community Banks**

- We will use a team approach for conducting examinations at our six highest risk community banks and horizontal reviews at our midsized banks to leverage resources and ensure consistency.
- Exam conclusions for all high-risk community banks will be reviewed by a subgroup of the OCC's National Anti-Money Laundering Group (NAMLG) for adequacy, consistency, and adherence to OCC policies.

- We will establish an experienced team of 4-6 district BSA/AML experts under the leadership of the Midsize Bank Compliance Lead Expert to review strategies in identified high-risk Midsize banks and also review the findings for each examination that includes BSA/AML/USPA.
- We will conduct a teleconference with all midsize and community bank supervisory staff in October 2004 to explain and reinforce our policies and expectations on BSA supervision. Presenters will include staff from Compliance Policy, SPSU, and Legal.

**Large Banks**

- We will establish a team to review and validate each large bank supervisory strategy for BSA/AML/USPA.
- We will establish a group with representatives from Large Bank Supervision, Compliance Policy, and E&C to review all BSA/AML/USPA exam conclusions to ensure that OCC policies are being followed and applied consistently.
- We will conduct meetings with all Large Bank Supervision EICs prior to FYE 04 to explain and reinforce our policies and expectations on BSA supervision. Compliance Policy and Legal will participate in these meetings.

**III. Take steps to enhance and strengthen the OCC's BSA/AML expertise and to provide a more visible point of contact for BSA-related issues.**

**Compliance Policy**

- We will create and fill a Director for BSA/AML Compliance by December 31, 2004.
- Compliance Policy will post and, if qualified applicants apply, fill two current vacancies with an emphasis on BSA/AML skills by December 31, 2004.
- We will continue to sponsor an ESSP program for BSA.
- We will work with IT and the Chief of Staff's office to create and implement a one-stop location on the OCC's internal and external websites for BSA-related information during the fourth quarter of CY 2004.
- M/CBS and LBS will work with Continuing Education to add Certified Anti-Money Laundering Specialist (CAMS) to the list of OCC recognized and sponsored industry certifications during FY 2005.
- We will work with Banking Relations to conduct in early calendar year 2005, a banker teleconference on BSA.



**Midsize/Community Banks**

- We will use upcoming examinations of high-risk banks as training opportunities to the extent feasible.
- We will continue to develop expertise through participation in the BSA ESSP program.
- We will work with Financial Management to expand during FY 2005 the contractor pool to include BSA/AML experts.

**Large Banks**

- We will review and revise, as needed, planned staffing assignments for all large bank BSA examinations before calendar year-end 2004 to ensure that planned exams are adequately staffed.
- We will designate by calendar year-end 2004, a BSA/AML point person for each large bank to serve as a point of contact on BSA issues.
- We will continue to develop expertise through participation in the BSA ESSP program.

**IV. Improve and strengthen the OCC's BSA-related management information and risk identification systems.**

- CBS units will work collectively with ITS to develop and implement nationally an enhanced risk assessment process by fiscal year-end 2005. This process will provide improved screening and identification of BSA/AML/USPA risk factors.
- Operational Risk will work with COMPL, Large Banks, E&C and ITS to develop and implement by fiscal-year end 2005, filters and screening tools for the national bank SARs database to help identify potential high-risk banks for BSA/AML and other fraud-related risks.
- CBS units will work collectively to develop and implement processes by November 2004 to capture and report information required under the FinCEN MOU.
- Supervisory Information and Large Bank Supervision will develop and implement by March 31, 2005, processes to systemically capture BSA/AML criticisms in ROEs to track cases where no follow-up action has been taken.
- Compliance Policy and E&C will work with FinCEN and other agencies to provide better access to BSA information for use in the exam process.

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**SCOPE AND METHODOLOGY – LARGE AND MID-SIZE BANK SAMPLE**

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To develop a baseline level of knowledge and to begin assessing the quality of BSA/AML compliance supervision, as part of the Phase Two objective, the review team developed a survey/self assessment questionnaire that asked EICs and Functional EICs in large and mid-size banks to respond to the following questions:

1. Provide a general description of your bank's BSA/AML compliance program (12 CFR § 21.21) processes/function. In particular, discuss how the bank monitors, identifies, and reports suspicious activity, including if their monitoring includes cash, wire transfer, and monetary instruments.
2. What was the supervisory strategy for BSA/AML during the prior supervisory cycle? Discuss timing, scope, resources (including experience level of examiner leading the BSA/AML review), and workdays. Did you alter your strategy during the cycle? If so, please briefly discuss reasons/outcome.
3. Describe (and/or supply copy of) your current supervisory strategy for BSA/AML. Highlight primary differences from that described in #2 above. Also, if applicable, describe significant changes in OCC staff and/or the bank's corporate structure that may have an impact on OCC's supervision of BSA/AML. Will you be able to accomplish your objectives and strategy? If no – reasons?
4. Please provide details/summaries of OCC issues with the company's BSA/AML practices, violations of law, or related controls during the last 3 years.
5. How do/have you factored your conclusions about BSA/AML into the bank's risk assessments, quality of risk management, quantity or risk, and CAMELSETCC ratings?
6. Provide a copy of the most recent risk assessment that includes an assessment of BSA/AML risk. If risk assessments do NOT include BSA/AML risk – what process do you use to quantify BSA/AML related risks?
7. What additional information would be useful to this team in reviewing OCC supervisory activities related to the bank's BSA/AML functions?

To complete the Phase Three objective, the review team asked EICs and Functional EICs in large and mid-size banks to respond to the following questions:

1. What BSA/AML supervisory activities have been conducted in the past year?
2. What were the scope and findings from those activities?
3. What, if any, action has the bank taken in response to our supervisory concerns in the past year?
4. How have you tested the effectiveness of any responsive actions?
5. What additional supervisory actions, if any, have you taken?
6. Who was involved in the decision making process for additional supervisory actions?
7. What other information might be relevant to our discussion so that the review team can gain a clear understanding of BSA/AML supervision at your bank?
8. If you have had to delay planned BSA/AML supervisory activities in the last two years, what specifically led to the delay? If staff was redirected, to what project/bank/activity was staff redirected? What is the current status of your resources relative to BSA/AML supervision?
9. If you are not able to complete the full BSA/AML Comptroller's Handbook procedures within the three-year supervisory cycle, what procedures did you complete and in what areas? What was your rationale for deciding what procedures to complete and what areas to not complete?
10. Please describe how you use MRAs and/or MRBAs in your BSA/AML supervisory efforts. Would your answer differ if the question addressed supervisory efforts in other risk areas?
11. How did OCC's 2004 compliance reorganization impact your BSA/AML supervisory efforts?

SUMMARY OF REPORT CONCLUSIONS

	LCBK #1	LCBK #2	LCBK #3	LCBK #4	LCBK #5	LCBK #6	MB #1	MB #2	MB #3	MB #4	MB #5	MB #6
<b>Enforcement Actions</b>												
Banks where stronger supervisory action was warranted or where stronger action was warranted sooner				X								X
<b>LCBK and MB where BSA deficiencies are continuing &amp; OCC has monitored these deficiencies for extended periods</b>												
	X		X		X	X	X	X		X		
<b>BSA/AML Supervision</b>												
Banks failed to correct deficiencies (1999-2003)			X	X	X	X	X	X		X	X	X
Banks failed to correct deficiencies (2004 - present)						X	X	X	X			X
MB #4 / #5 Correction not yet validated												
<b>Follow-up</b>												
Follow-up was not timely or was not effective during some period between 2000 and 2004			X	X	X		X			X	X	X
<b>Decision-making - SRC Processes</b>												
Banks where supervision may have been strengthened by SRC review			X		X	X		X	X	X	X	X

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	LG BK #1	LG BK #2	LG BK #3	LG BK #4	LG BK #5	LG BK #6	MB #1	MB #2	MB #3	MB #4	MB #5	MB #6
informal discussions along the supervisory chain and/or in												
SRCs resulted in actions less severe than what was												
initially considered or recommended.			X			X						X
Staffing levels, expertise, availability												
Ongoing problems with staffing	X	X	X		X	X		X		X	X	
Examination Guidance												
BSA/AML examination guidance not consistently applied	X			X	X					X		
LB EICs report exam procedures too extensive to complete	X	X				X						

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	CB #1	CB #2	CB #3	CB #4	CB #5	CB #6	CB #7	CB #8	CB #9	CB #10	CB #11	CB #12	CB #13	CB #14	CB #15	CB #16	CB #17	CB #18	CB #19	CB #20	CB #21	CB #22	CB #23	CB #24
Enforcement Actions - (12 CFR 21.21 Violations in CBs)	C&D	C&D	C&D	C&D	FA	FA	FA	S&S	FA	FA	FA	MQU	FA	None	MRA	MRA	MRA	None	MRA	MRA	None	None	None	None
Banks where stronger supervisory action was warranted or where stronger action was warranted sooner.	X		X		X	X	X										X			X	X			
BSA/AML Supervision																								
Banks failed to correct deficiencies (1999-2003)	X		X		X	X		X														X		
Banks failed to correct deficiencies (2004 - present)	X																	X				X		
CB #2 / #3 Converted to Zero																								
CB #4 Liquidated																								
Follow-up																								
Follow-up was not timely or was not effective during some period between 2002 and 2004.	X		X		X			X	X								X				X	X		
Decision-making - SRC Process																								
Banks should have been presented to DSRC, but were not																		X			X	X		
Banks should have been presented to WSRC, but were not			X		X		X			X	X	X	X				X					X		

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 Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 2495093

	CB #1	CB #2	CB #3	CB #4	CB #5	CB #6	CB #7	CB #8	CB #9	CB #10	CB #11	CB #12	CB #13	CB #14	CB #15	CB #16	CB #17	CB #18	CB #19	CB #20	CB #21	CB #22	CB #23	CB #24	
Informal discussions along the supervisory chain and/or in SIRCs resulted in action less severe than was usually considered or recommended.																									
Staffing levels, expertise, availability.																									
Dealing problems with staffing.																									
Transmission Guidance BSA/AML examination guidance not consistently applied.																									

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB02880736  
 Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 2495094

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**SAMPLE BANKS – SUPPORTING DETAILS**

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What follows are detailed findings from the large, mid-size, and community bank samples.

**Large Banks**

**LB #1**

- OCC supervisory activities are generally appropriate except for the absence of recent testing. Supervisory activities are limited by staffing shortages.
- Examiners note concerns with bank's suspicious activity monitoring systems. This system has been in development for an extended period.
- Examinations focus on high-risk areas. Underlying testing of the overall BSA program has not been completed since 1999. Even considering OCC's risk-based supervision, examiners report that completion of the entire procedures is not possible in a 3-year cycle.
- Follow up to examination issues is conducted quarterly as part of the continuous supervision cycle.
- OCC resident staff has been requested to assist in other high-risk banks in the upcoming year. Updated 3-year strategy calls for 5 FTEs that cannot be funded with current resident staffing levels.

**LB #2**

- Bank has been responsive to OCC supervisory activities.
- OCC supervisory strategy and activities are appropriate, though limited by staffing shortages. Numerous targets are pushed back, cancelled or replaced with other required activities due to insufficient staffing. Several areas have not been fully examined or risk assessed due to insufficient staffing.
- OCC follow-up is effective.
- Examiners report that full BSA/AML exam procedures are difficult to apply across targets and business lines.

**LB #3**

- Historically, OCC follow up was slow, but follow-up on examination issues is now conducted quarterly.
- Bank has been slow to thoroughly address BSA deficiencies.
- Significant issues were raised in the limited scope 03/30/04 examination. While stronger supervisory action was taken in other similarly situated banks in the sample, the EIC followed proper reporting channels, discussing the possibility of citing a 12 C.F.R. § 21.21 violation with the Deputy Comptroller. Formal action was not deemed appropriate. The EIC indicated that the Large Bank DC spoke with the Deputy Chief Counsel about the findings and jointly decided to not pursue a 21.21 violation. Bank was not presented to WSRC.



- Recently, OCC compliance resident staff was added as part of the compliance restructure. Previously, a compliance liaison was assigned to the bank. This recently assigned resident resource has been unavailable due to higher priority work.

## LB #4

- The bank did not fully address BSA deficiencies between 1999 and 2002.
- OCC provided bank management with an extended period of time to correct deficiencies and stronger supervisory action was warranted. BSA compliance management was considered satisfactory during a 3Q99 examination, although significant suspicious activity monitoring deficiencies were identified.
- OCC follow-up between 1999 and 2002 was ineffective in ensuring deficiencies were addressed timely. Also, follow-up in 2003 did not include testing.
- BSA/AML exam is currently in process. The FEIC has not found any significant BSA deficiencies.

## LB # 5

- Bank has been given an extended period to correct BSA/AML program deficiencies. Significant deficiencies were identified as early as 2000, including repeat audit issues. Similar deficiencies were noted in subsequent exams. Consideration has been given to citing a 12 CFR § 21.21 violation and bank has been put on notice that failure to correct deficiencies will result in stronger OCC action. Bank has recently been more responsive to OCC criticisms and corrective actions are well underway.
- Significant deficiencies were identified in 2000 with limited OCC testing and follow-up. More recent follow-up has been timely and comprehensive.
- Bank has not gone to WSRC. While not required by policy since a 21.21 violation was not cited, review by WSRC could have helped ensure consistent treatment of banks with significant BSA/AML program deficiencies.
- Resident examiner resources for BSA/AML supervision are inadequate based on strategy projections.

## LB #6

- Bank has not been fully responsive to BSA deficiencies. Significant issues were raised in 1999 and a violation of 12 C.F.R. § 21.21 was considered. EIC followed proper reporting channels in the decision to not cite the violation. The decision never went before a SRC committee. While not required by policy, SRC review could have helped ensure consistent supervisory treatment of BSA/AML program deficiencies. Further issues, which could have resulted in 12 C.F.R. § 21.21 violations, were also cited subsequently.
- An examination is currently under review for citation of the violation. Examiners have recommended citing 12 CFR § 21.21 and issuing a C&D.
- Follow up to examination issues is completed quarterly.
- Reviews have focused on the highest risk areas. These reviews were used to make a corporate wide assessment. Examiners report that full examination procedures are considered too extensive to complete within a three-year cycle considering staffing, even when applying a risk-based supervisory approach. Workday usage is far below that of

other Large Banks without a significant reduction in risk. There was only one OCC compliance FTE assigned to the bank until recently. EIC has been able to fund examinations with outside help, but OCC staffing is an issue of concern.

- Bank was presented to WSRC after the most recent 1Q04 exam.

#### Mid-Size Banks

##### MB #1

- Bank has not been fully responsive to BSA deficiencies. Significant issues were identified in the 2002 examination. Corrective actions were to be completed by 12/31/03, but were delayed to 12/31/04. The bank's slow response is attributed to changing operating systems in 2003. In fact, the bank did not actually implement their new suspicious activity operating system until 02/04 and it is still limited to monitoring cash transactions only.
- An examination is currently in process and examiners report that issues are continuing for lower risk areas. High-risk areas have been corrected. Discussions have been held with bank management regarding the escalation of issues if they have not been addressed. Based on the protracted timeframe in which BSA deficiencies have been outstanding, stronger OCC action may be warranted, depending upon the outcome of the exam in process.
- Quarterly follow up has been completed since the 2002 examination but was limited to meeting with bank management to follow-up on activities and has not included testing/validation of any of the MRA items. Given the extent of deficiencies, risk profile, and compliance rating, follow-up was insufficient.

##### MB #2

- Serious deficiencies in the BSA compliance program were noted in 2003 ROE that warranted consideration of a 21.21 violation and enforcement action. At a minimum, a review of the deficiencies by DSRC and WSRC for their consideration and input could have ensured uniform OCC treatment of BSA program deficiencies relative to citing 21.21 violations and taking enforcement action.
- Bank has been slow to complete plan and address MRAs. MRA items have still not been fully addressed.
- New BSA/Compliance Officer appears to be making progress on addressing deficiencies.
- Exam in process was delayed because the EIC of the prior examination was unavailable. EIC was still unavailable for the rescheduled examination, which began in 1/05. Staffing has been problematic.
- Follow up has occurred quarterly since last examination.

##### MB #3

- Bank has not fully complied with the Commitment Letter, as audit deficiencies remain uncorrected. However, significant improvements in the BSA program have been made in the past year.
- The adequacy and effectiveness of OCC supervisory activities prior to 2003 is suspect. BSA/AML supervision prior to 2003 failed to identify any significant issues. There were

no BSA supervisory activities in 2002, and it is unclear when BSA had been reviewed prior to that time. The scope of the 2003 exam was reduced and BSA was not fully examined, since internal audit was deemed inadequate. Because of this, it is difficult to determine if stronger enforcement action was warranted or if a 12 CFR § 21.21 violation occurred. The reduced-scope 2003 exam resulted in BSA/AML inclusion in the compliance Commitment Letter.

- Monthly follow-up has occurred since 4/04 and an exam is currently in process.
- There is no evidence of difficulties with examination staffing.
- The bank was presented to mid-size bank's SRC, but not WSRC, as a result of the 2003 exam.

**MB #4**

- Bank has been slow to correct BSA/AML deficiencies and OCC follow-up has been ineffective. The bank has been given an extended period of time to correct deficiencies and OCC has not tested/validated corrective actions. While bank is reporting corrective actions, MRAs remain open, pending OCC testing.
- Examiners did not use appropriate examination procedures during the 2003 exam. Community bank procedures were incorrectly used, and recordkeeping provisions were omitted. The significance of BSA deficiencies may have gone undetected based on the examination scope, methodology, and inexperienced OCC examination staff. Without a comprehensive exam, it is not clear if enforcement action was warranted.
- Staffing concerns may impact the quality of future supervision. Full scope BSA/AML exam scheduled for 4/05 lacks sufficient staffing and may be cancelled.
- While not required by policy, the bank has not been presented to any SRC for review to ensure consistent treatment of BSA program deficiencies.

**MB #5**

- Significant deficiencies were noted in the 2003 examination. Examiners developed a basic framework that supported the decision not to cite a direct violation of 12 C.F.R. § 21.21. It is unclear, however, if the previous deficiencies identified in the 2000 examination and discussed with bank management (but not included in the ROE) were still in existence in 2003.
- EIC followed proper reporting channels that existed at that time (discussed with the district lead compliance expert) in deciding not to cite a 21.21 violation. While not technically in noncompliance with OCC policy, based on the significance of BSA program deficiencies and to ensure consistent supervisory treatment, a SRC review would have been beneficial in determining the appropriateness of a 21.21 violation cite and enforcement action.
- Bank management did not prepare an adequate action plan initially, which has delayed adequate corrective actions.
- OCC's compliance liaison is in regular contact with the bank to follow up on corrective actions. Staffing interruptions have impacted ability to conduct follow up examinations.
- Bank management has been notified that if corrective actions are not implemented or if other BSA/AML issues arise, more serious action would be taken.

**MB #6**

- Bank's BSA program deficiencies date back to at least 2002. Bank has not been fully responsive to OCC supervisory actions. However, exam currently underway indicates that the bank has made progress.
- OCC supervision has not been effective. Formal enforcement action was warranted against this bank as early as 2002, and again in 2003. Ongoing BSA program deficiencies have only been addressed through MRAs in reports of examination. No violations were cited in 2003, and only 12 CFR § 21.11 violations were cited in 2002. In both years, 12 CFR § 21.21 violations were warranted for different BSA deficiencies. While the bank had made progress in addressing 2002 deficiencies, the issues were not fully addressed by 2003, and new deficiencies emerged.
- Follow-up has been timely, but the effectiveness is in question based on OCC's failure to take stronger action.
- Bank was presented to DSRC as a result of the 2002 exam, but not WSRC. Because DSRC decided against enforcement action and a 21.21 violation was not cited, OCC policy did not technically require a WSRC presentation. Bank was not presented to either DSRC or WSRC in 2003. Presentation to DSRC and WSRC in both years could have helped ensure consistent supervisory treatment of BSA program deficiencies.
- An exam is currently underway. While examiners initially recommended a 12 CFR § 21.21 violation, it was determined that additional exam work was necessary. That work is nearing completion and examiners have now determined that the BSA program is adequate and they will not cite the violation.
- There is no evidence of staffing deficiencies.

**Community Banks**

The following sample includes twenty-four banks in which 12 C.F.R. § 21.21 violations were cited in EV and/or Reports Of Examination.

**Banks in which Consent Orders to Cease and Desist were issued:****Northeastern District:****CB #1**

- Bank failed to correct BSA/AML deficiencies in response to various enforcement actions.
- Decision to remove 1999 Safety/Soundness Notice of Deficiency in 2001 was based on bank commitments rather than effective and timely OCC follow-up that should have included testing and validation of corrective actions.
- The MOU issued in 2002 was ineffective and was replaced with a C&D in 2004. Stronger action was warranted sooner. While not required by policy, since a 12 CFR § 21.21 violation was not cited in 2002, there is no evidence that the bank was presented to Washington SRC after the S&S Notice of Deficiency was lifted in 2001 and until the C&D was issued in early 2004. Earlier review by SRC would have been beneficial, based on the bank's lack of effective response to various administrative actions.

- There is no evidence of difficulties with OCC examination staffing.

Southern District:

CB #2

- Bank was not responsive to OCC's supervisory concerns for several years prior to the 2002 examination.
- OCC's actions, including the C&D, were timely and appropriate. However, a 12 CFR § 21.21 violation should have been cited in the 03/31/02 examination.
- OCC's follow-up was timely and continued to point out bank's lack of responsiveness to OCC's concerns.
- There is no evidence of staffing deficiencies.

Western District:

CB #3

- Bank was not responsive to OCC's supervisory activities for approximately six years, until OCC placed a Consent Order on the bank. Approximately one year after termination of the Consent Order, BSA deficiencies re-surfaced prior to bank's conversion to state charter.
- OCC was slow to initiate formal administrative action against this bank, compromising the effectiveness of supervision.
- OCC follow-up was timely after the Consent Order was issued, however testing and validation was not completed. (Partially because the bank was expected to convert to a state charter earlier than it did.) In light of re-emerging BSA/AML problems less than one year after the Consent Order was terminated, follow-up is considered ineffective.
- There is no evidence of difficulties with OCC examination staffing.
- Appropriate examination guidance was followed, with exceptions as follows:
- Bank was not presented to Washington SRC as required by policy.
- Transaction testing was limited in 2004 and did not cover all key risk areas.
- A 12 CFR § 21.21 violation was again warranted as a result of the 2004 examination, but it was not cited.

Credit Card:

CB #4 (\*bank liquidated 2003)

- Bank failed to implement an effective BSA program.
- OCC's supervisory actions, including the C&D was timely and appropriate.
- OCC's follow-up was timely.
- There is no evidence of OCC staffing deficiencies.
- Appropriate examination guidance was followed.
  - Presented to Washington SRC

**Banks in which other enforcement actions were taken:**

## Northeastern District:

CB #5

## Formal Agreement

- Bank was slow to respond to OCC's supervisory activities, despite placing the bank under a Formal Agreement. Weaknesses persisted for at least three years in BSA/AML, as well as other areas within the bank.
- The bank warranted a C&D, per policy based on repeat violations and bank's slow responsiveness.
- 2002 Report of Examination should have included a violation of 12 CFR § 21.21.
- OCC follow-up was timely. However, BSA/AML weaknesses re-surfaced after initial reviews indicated that problems had been corrected. This raises questions as to the effectiveness of follow-up.
- There is no evidence of difficulties with OCC examination staffing.
- Bank was not presented to Washington SRC, as required.

## Northeastern District:

CB #6

## Formal Agreement

- Bank was slow to address OCC's supervisory concerns regarding BSA from as early as the 1996 and 1999 examinations, when 12 CFR § 21.21 violations were initially cited.
- OCC initiated a formal administrative action against this bank to address the BSA issues in early 2003, which led to improvement from the bank.
- OCC's actions did not comply with policy in that enforcement action was not taken until the third exam in which a 12 CFR § 21.21 violation was cited. When taken, the action was a Formal Agreement and not a C&D as required by policy.
- OCC's follow-up on identified BSA issues prior to the 2002 examination is not documented in EV. However, follow-up once the FA was signed has been appropriate.
- There is no documentation indicating that OCC examination staffing was insufficient.
- Appropriate examination guidance was followed – with one exception:
  - There is no documentation available in EV to support that DSRC and WSRC were involved prior to the 2003 examination, despite 12 CFR § 21.21 violations in the prior two examinations.

## Central District:

CB #7

## Formal Agreement

- Bank was slow to respond to OCC's second Formal Agreement, in which the BSA article was carried forward from a prior FA. A C&D was warranted after the 04/30/01 examination. Bank was responsive by mid-2003.
- OCC follow-up was timely and comprehensive.
- There is no evidence of difficulties with OCC examination staffing.
- Bank was not presented to Washington SRC.

## Central District:

CB #8

## Safety/Soundness Order

- Bank was slow to respond to OCC's supervisory concerns (ensuring the BSA program was fully and properly implemented.) Issues were raised beginning in 1999 and continued until the 06/30/02 examination.
- OCC's initial enforcement action (the S&S order) was timely and appropriate.
- OCC's follow-up to the 1999 examination (in 09/00) was not effective and sent the bank mixed messages. There is no evidence of any validation or testing of BSA program from 1999 until the 2001 examination.
- OCC's review at the 2001 examination was appropriate and included testing and validation of the bank's BSA program.
- OCC's follow-up on the 2001 BSA examination deficiencies is not evidenced in EV, however the bank successfully implemented a comprehensive BSA program between the 2001 and 2002 examinations.
- OCC's review at the 2003 examination was appropriate and included testing and validation of the bank's BSA program.
- Appropriate examination guidance was generally followed, except for follow-up on deficiencies between 1999 and 2001, which lacked testing/validation.
- Both DSRC and WSRC were involved in decision to issue S&S order.
- Both DSRC and WSRC remain involved in supervisory decisions.

## Southern District:

CB #9 (\* bank failed 2004)

## Formal Agreement

- Bank corrected BSA/AML deficiencies in response to enforcement action.
- While the bank warranted a C&D per policy, it was responsive to the BSA articles of the Formal Agreement.
- There is no evidence of difficulties with OCC examination staffing.
- Follow-up was not timely between the 2002 and 2003 exams.
- Bank was submitted to DSRC as required by policy, then transferred to SPSU in HQ and monitored by WSRC.

## Southern District:

CB #10

## Formal Agreement

- Bank was responsive to OCC's supervisory concerns.
- OCC's actions, including the FA and personal C&D, were timely and appropriate.
- OCC's follow-up was timely and effective.
- There is no evidence of OCC examination staffing difficulties.
- Appropriate examination guidance was followed.
- Bank was presented to both DSRC and WSRC for approval.

Western District:

CB #11

Formal Agreement

- While bank warranted a C&D per policy, it was responsive to the Formal Agreement.
- OCC follow-up was timely and comprehensive.
- There is no evidence of difficulties with OCC examination staffing.
- Bank was not presented to Washington SRC, as required.

Western District:

CB #12

Memorandum of Understanding

- While the bank warranted a C&D per written policy, the bank was responsive to the MOU and OCC's supervisory concerns regarding BSA issues.
- OCC's supervisory activities relative to BSA were appropriate.
- OCC's follow-up was timely.
- There is no evidence of difficulties with OCC examination staffing.
- Appropriate examination guidance was followed, with one exception:
  - Bank was not presented to Washington SRC.

Western District:

CB #13

Formal Agreement

- While bank warranted a C&D per policy, it was responsive to the Formal Agreement.
- FA was removed early, despite recurring deficiencies relative to suspicious activity reporting and monitoring that continued through the most recent exam in late 2004.
- OCC follow-up was timely and comprehensive.
- There is no evidence of difficulties with OCC examination staffing.
- Bank was not presented to Washington SRC, as required.

Western District:

CB #14

Formal Agreement

- Bank initially failed to fully implement an effective BSA program (2000 to 2003); however, once enforcement action was taken (late 2003), the bank quickly responded to OCC's supervisory concerns.
- While the bank warranted a C&D per policy, OCC's supervisory activities, including placing a Formal Agreement on the bank, were effective.
- OCC's follow-up was timely and effective.
- There is no evidence of difficulties with OCC examination staffing.
- Appropriate examination guidance was followed, with one exception:
  - E&C concurred with DSRC decision outside of WSRC.



**Banks in which no enforcement actions were taken:**  
 (Some Reports Of Examination included Matters Requiring Attention as noted below.)  
 (None of these banks were presented to District or Washington SRC.)

Central District:  
 CB #15

- Bank was responsive to OCC without enforcement action.
- Enforcement action was not warranted, as repeat criticism was based on BSA training program documentation deficiencies.
- OCC follow-up was timely.
- There is no evidence of difficulties with OCC examination staffing.
- Bank was not presented to DSRC or WSRC, as required. However, the 12 CFR § 21.21 violations were not based on substantive BSA program deficiencies.

Central District:  
 CB #16  
 MRAs

- Bank was responsive to OCC's supervisory activities.
- OCC's supervisory activities were appropriate.
- Decision to NOT present to DSRC was appropriate – as violation was technical; no additional supervisory action was warranted.
- A violation of 12 CFR § 21.21 was captured in EV only – not the ROE (as required by policy existing at that time); technical in nature and easily corrected through the bank's normal course of business.
- There is no evidence of OCC examination staffing deficiencies.
- Appropriate examination guidance was followed.

Central District:  
 CB #17  
 MRAs

- Bank was responsive to OCC's supervisory activities.
- Per OCC policy, stronger supervisory action was warranted. Also, a violation of 12 CFR § 21.21 should have been cited in the ROE in 2001. BSA program weaknesses were substantive and a violation had previously been cited in 1995. While bank management was highly responsive and the institution was deemed to be low risk, a violation did occur.
- There is no evidence of difficulties with examination staffing, however onsite follow-up to include testing and validation did not occur until 18 months after problems were identified.
- To ensure consistent supervisory treatment of BSA program deficiencies, the bank should have been presented to DSRC/WSRC for decisions relative to citing a 12 CFR § 21.21 violation in the ROE and taking enforcement action versus including MRAs in the ROE.

## Southern District:

## CB #18

## Policy/BSA officer not Board approved – reported in EV only

- Bank has been slow to institute an effective BSA compliance program. Initially considered only technical violations of 12 CFR § 21.21 in 2001, and treated as MRAs in 2002; deficiencies have escalated and are now significant.
- Recent OCC's supervisory activities and decision to take enforcement action are appropriate.
- OCC's follow-up was timely.
- There is no evidence of OCC staffing deficiencies.
- While appropriate examination guidance was followed, earlier review by DSRC could have helped ensure consistent supervisory treatment of banks with BSA program deficiencies. DSRC was not consulted relative to the 12 CFR § 21.21 violation until the 10/04 examination.

## Southern District:

## CB #19

## BSA officer not Board approved – reported in EV only

- Bank was responsive to OCC's supervisory activities.
- OCC supervisory actions were appropriate.
- There is no evidence of difficulties with examination staffing.
- Violation of 12 CFR § 21.21 was technical in nature and appropriately should not have been included in a report of examination or presented to DSCR/WSRC for decision.

## Southern District:

## CB #20

## MRAs

- Bank was slow to institute an effective, independent BSA compliance program. Weaknesses identified as early as 2001 were not addressed until after the 2004 exam.
- OCC's initial action in 2001, outlining a MRA and giving bank management an opportunity to address weaknesses, was appropriate.
- OCC did not take appropriate action as a result of the 06/30/02 examination. At that examination, a 12 CFR § 21.21 violation should have been cited, and enforcement action should have been taken. Bank was allowed to let deficiencies linger because OCC action was not as severe as it should have been.
- Better communication of issues by OCC in later reports of examination was warranted.
- OCC's follow-up was timely, but not effective.
- There is no documentation indicating that OCC examination staffing was insufficient.
- Appropriate examination guidance was followed, except as follows:
  - Per conversation with examiner and ADC, initially, issues were discussed with the district compliance cadre lead, who suggested citing an MRA.
  - Bank was never presented to DSRC, initially, or once repeat criticisms were discovered.

## Southern District:

## CB #21

## MRAs

- Bank was initially responsive to OCC's supervisory criticisms of BSA deficiencies identified as early as 1997. However, since that time OCC supervisory efforts have mostly been directed toward highly problematic safety/soundness issues. BSA program deficiencies re-emerged when BSA was again targeted for examination in 2003.
- Enforcement action (C&D) did not address BSA deficiencies until 2003, despite a threat of enforcement action in the 1997 ROE. At that time, MRAs were included in the ROE, but no enforcement action was taken. The status of BSA deficiencies between 1997 and 2003 is somewhat unclear, but improvement was documented by OCC in late 1997. Per policy, stronger OCC supervisory action relative to BSA was appropriate in 1997. Stronger action was implemented in 7-03.
- There is no evidence of difficulties with examination staffing.
- Bank was presented to SRC in early 1998, but not relative to BSA issues. It does not appear that the decisions relative to BSA in the 1997 exam were presented to SRC, as required.
- In light of re-emerging BSA deficiencies, follow-up activities relative to BSA may not have been effective between 1997 and 2003. However, bank problems are extensive and a deficient BSA program is only one of many problems.

## Western District:

## CB #22

## No independent testing of BSA – reported only in EV

- Bank was responsive to OCC's supervisory activities.
- OCC's supervisory activities were appropriate.
- A violation of 12 CFR § 21.21 was captured in EV (as required by policy existing at that time); technical in nature and easily corrected through the bank's normal course of business.
- There is no evidence of OCC staffing deficiencies.
- Decision to NOT present to DSRC/WSRC was appropriate – as violation was technical; no additional supervisory action was warranted.

## Western District:

## CB #23

## No independent testing of BSA – reported only in EV

- Bank was responsive to OCC's supervisory activities.
- OCC's supervisory activities were appropriate.
- A violation of 12 CFR § 21.21 was captured in EV (as required by policy existing at that time); technical in nature and easily corrected through the bank's normal course of business.
- There is no evidence of difficulties with examination staffing.
- Decision to NOT present to DSRC/WSRC was appropriate – as violation was technical; no additional supervisory action was warranted.

Western District:

CB #24

No independent audit

- Bank was responsive to OCC's supervisory activities.
- OCC's supervisory activities and follow-up were appropriate.
- A violation of 12 CFR § 21.21 was cited in the ROE and captured in EV; technical in nature and easily corrected through the bank's normal course of business.
- There is no evidence of OCC staffing deficiencies.
- Decision to NOT present to DSRC/WSRC was appropriate – as violation was technical and bank was willing to correct immediately; no additional supervisory action was warranted.

**Community Banks included in the sample with repeat violations of 12 C.F.R. § 21.21:**

Northeastern District:

CB #1 – C&D

CB #5 – Formal Agreement

Central District:

CB #8 – S&S Order

CB #15 – No action taken

Southern District:

CB #21 - MRAs

Western District:

CB #3 - C&D

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**RISK IDENTIFICATION PROGRAMS**

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**Money Laundering Risk Summary and Tracking Form – Western District**

The Money Laundering Risk Summary and Tracking Form is a tool for the examiner to quantify potential money laundering risks within their respective banks. This form provides an outline for examiners to consistently identify: high-risk areas within the bank, high-risk products and services, and high-risk customers. Examiners complete the Risk Summary by identifying the extent to which the bank is exposed to potential money laundering by answering questions “yes” or “no” and by either verifying or estimating the number of accounts and the aggregate deposit dollar volumes. The gathering of this information assists examiners in identifying areas of risk and areas to sample or test during a BSA/AML examination. Once the areas of potential risk have been identified, the OCC’s examination resources can be focused on evaluating the effectiveness of bank policies and control systems implemented to address those risks.

This form has been used in the Western District and is available on the Western District BSA Intranet site. The form also allows for development of a database on a District-wide basis to capture AML risk levels throughout the District and to identify high-risk banks and resource needs.

**AML Risk Assessment Program and Use of FinCEN Database – Central District**

Each District currently places different emphasis on the use of FinCEN tools as part of its AML Risk Assessment Process. Districts also provide varying degrees of support to field examiners through CTR/SAR download and analyses programs. The process of CTR/SAR download, aggregation, and analysis is a critical element, which through data manipulation can identify high risk and suspect accounts out of tens of thousands of potential accounts. This provides examiners with a review of cash activity, independent from bank provided information, and can validate either the absence of high-risk accounts with cash activity, or identify unusual activity that needs further review and transactional testing. Currently, the OCC is underutilizing this valuable resource of FinCEN data, or in other cases, raw data is used but the appropriate resources or training are not provided for the manipulation of data and ultimate analysis.

There is a prototype AML Analysis Program developed and used in the Central District for all OCC lines of business which uses downloads of FinCEN data, including CTRs, SARs and Exemption Records, and provides data manipulation and analysis through a Microsoft Access program. This program is supported by a small number of compliance specialists, who are trained in the FinCEN database downloads and in Microsoft Access. The program provides a Risk Assessment Memo for each BSA examination. The purpose of the Central District AML Program is to:

- Provide examiners with information to focus AML transactional reviews on identified high-risk accounts, that may lead to identification of suspicious activity, money laundering, or non-compliance with BSA;
- Increase exam efficiency by focusing on higher risk or potentially suspicious accounts; and
- Provide a way to track high-risk accounts in the District.

To reap the fullest benefits of such a program, which handles vast amounts of information and complex analyses, it is recommended that there be centralization at the District level or geographic region for all OCC lines of business, with possible oversight through an AML Committee. A close link between the analyst and the field examiner is a key element to the success of such a program. During a bank examination there needs to be flexibility for additional FinCEN searches to follow the trails that examiners uncover on-site.

Western District Money Laundering Risk Summary							
Bank:	City, State and County:	Chart #	As of Date:				
Total Assets:	EIC Name:	Field Office:					
Determine the extent of activity occurring within certain areas of the bank: <sup>3</sup>				Y/N	Aggregate Number of Accounts <sup>4</sup>	Aggregate Dollar Volume (2)	Estimated or Verified
Wire Transfer Department: (Wire volumes are average daily volume)							
Domestic Wires only							
Payable Upon Proper ID (PUPID) Activity:							
International Wires							
High Risk Location (sending and receiving)*:							
* See Advisory Letter 2000-8, and CCP BSA website for a list of high-risk countries. <a href="http://www.state.gov/www/global/narcotics_law/1998_narc_report/money28tables.xls">http://www.state.gov/www/global/narcotics_law/1998_narc_report/money28tables.xls</a>							
Trust Department:							
Charitable Trusts and Foundations (Foreign & Domestic)							
Customer Directed (non-discretionary) Accounts							
Custodial Accounts							
Investment Advisory Accounts							
Revocable Trusts							
Foreign Grantor or beneficiaries							
Loans or Closely held corporations							
Private Banking Department:							
Domestic Customers only							
International Customers							
Geographic focus:							

<sup>3</sup> Examiners-For a definition of terms used in this Risk Summary Form, please refer to the "Glossary of Terms" accessed through the Risk Summary Form instructions (Western District BSA Intranet Site).

<sup>4</sup> Please note that the aggregate number and aggregate dollar volumes are the accounts outstanding on the as-of date, except as otherwise noted. (Wire transfer, monetary instruments, undisclosed counter-party, and e-cash are based on average daily transaction volume.)

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International Department: Geographic focus:				
Correspondent Accounts with Foreign Banks: Geographic focus:				
Brokerage Department / Operations:				
Investment Advisory / Management:				
International Branch Facility: (if yes, locations)				
<b>Determine the extent of activity occurring from certain products and services:</b>	Y/N	Aggregate Number of Accounts (2)	Aggregate Dollar Volume (2)	Estimated Or Verified
Issuance of travelers checks, official bank checks, and money orders (Monetary instrument volume is based on average daily volume)				
Loans secured by cash collateral				
Payable Through Accounts (identify which countries)				
Special Use (Concentration) Accounts ( i.e. intra-day, suspense, etc.)				
Cash Management Services (i.e. sweep accounts) (Average daily volume)				
Smart Cards, e-cash (Issuance of electronic products that permit the rapid movement of currency) (This volume is based on average daily volume)				
<b>Determine the extent that certain types of customers have deposit relationships with the bank:</b>	Y/N	Aggregate Number of Accounts (2)	Aggregate Dollar Volume (2)	Estimated Or Verified
Non-traditional financial entities: Casa de Cambios /currency exchanges (est. number)				
Money transmitters (includes services incidental to other retail business)				
Check Cashing Businesses /Facilities (includes services incidental to other retail business)				
Cash-intensive businesses:				

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Convenience Stores				
Truck Stops				
Liquor Stores				
Restaurants				
Foreign (Off-shore) Corporations with transaction accounts: List Countries:				
Charitable Organizations (Foreign & Domestic):				
Non-Resident Alien Transaction Accounts (personal):				
Car and Truck Dealerships (new and used)				
Boat and Airplane Dealerships				
Jewelry Store (retail) and Jewelry, gem, and precious metal dealers (wholesale)				
Travel agencies				
Import / export companies				
Casinos				
Stock Brokerage firms (Broker dealers)				
Tele-marketers				

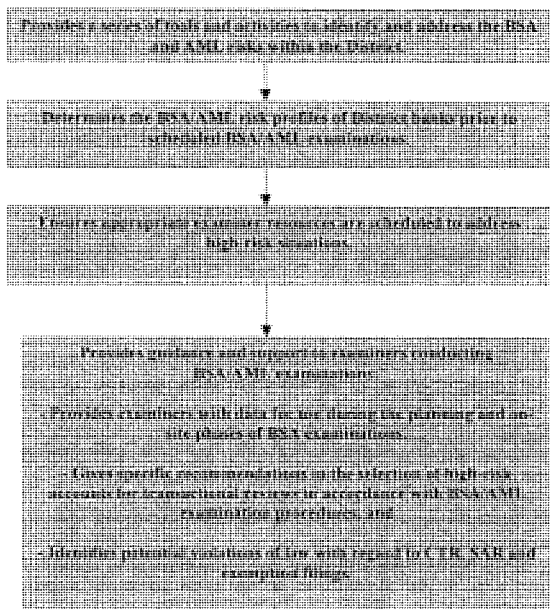
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CTR/SAR data and Optional Examiner feedback:		
<b>Estimated</b> Currency Transaction Report (CTR) volume (by number) for the previous 12 months (column 1). Estimated Suspicious Activity Report (SAR) volume (by number) for prior 12 months (column 2).	CTR Volume (12 months)	SAR Volume (12 months)
	<b>Examiner's comments</b> regarding the <u>Compliance and Reputation risk</u> associated with BSA/AML (High, Medium, or Low). We also encourage comments on the <u>quality of the bank's BSA/AML risk management system</u> .	
<b>Optional; Feedback/ suggestions</b> on ways to improve this Risk Assessment form, and our analysis of BSA/AML Compliance and Reputation risk:		

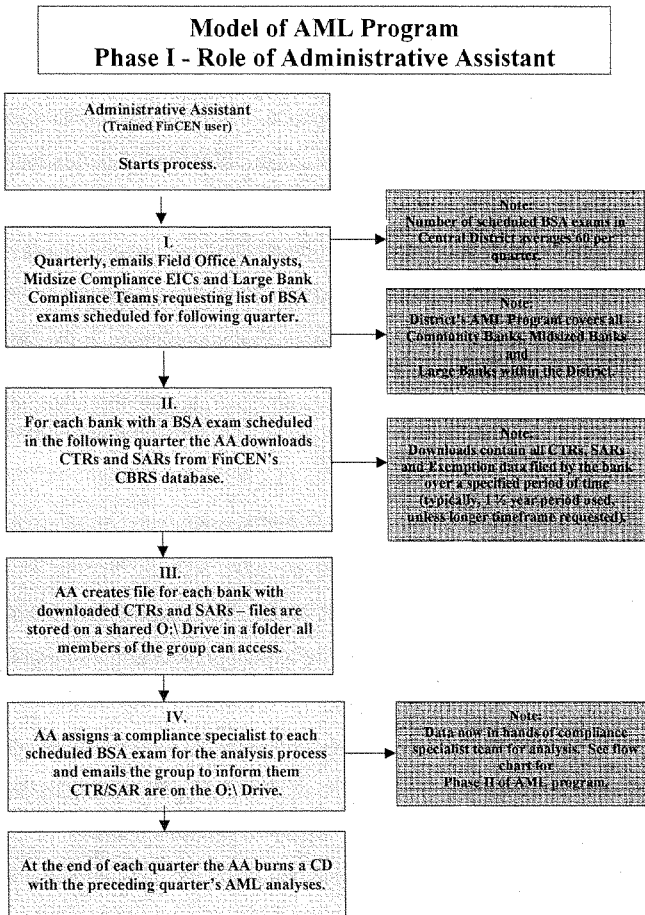
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## AML Risk Assessment Program

**Model of AML Program – Central District  
Purpose of AML Risk Assessment Program**



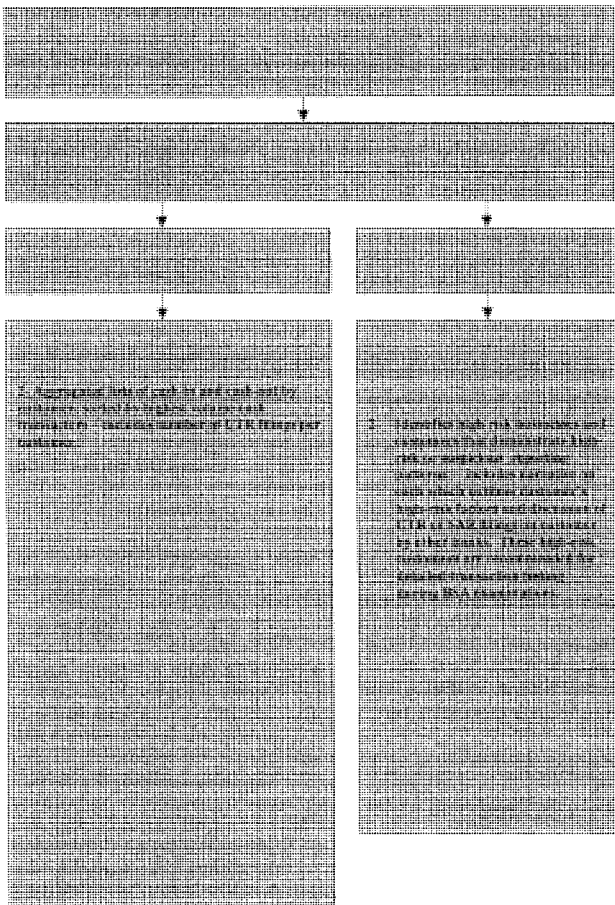
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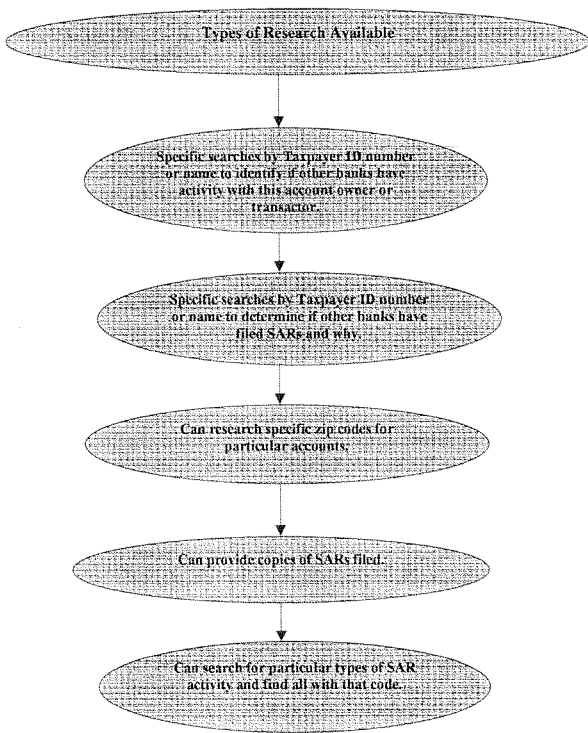
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**Model of AML Program  
Phase II - Role of Compliance Specialist Team**



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**Model of AML Program  
Other Research Available**



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**ABBREVIATIONS**


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ADC	Assistant Deputy Comptroller
AML	The Annunzio-Wylie Anti-Money Laundering Act, enacted in 1992
BSA	Bank Secrecy Act; universal name used for the "Currency and Foreign Transactions Reporting Act" passed in 1970
C&D	Cease and Desist Order, a formal enforcement action
CBS	Committee on Bank Supervision
CMP	Civil Money Penalties; a formal enforcement action
CTR	Currency Transaction Report
DC	Deputy Comptroller
DSRC	District Supervisory Review Committee
E&C	Enforcement and Compliance; a division of the Chief Counsel's Office
EIC	Examiner-in-Charge
ESSP	Examiner Specialized Skills Program
EV	Examiner View; now called SIS-EV (Supervisory Information System-Examiner View). The official electronic file for entities supervised by the Midsize/Community Bank line of business.
FA	Formal Agreement; a formal enforcement action
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
FEIC	Functional Examiner-in-Charge – responsible for a functional area of a bank
FFIEC	Federal Financial Institutions Examinations Council
FinCEN	Financial Crimes Enforcement Network

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FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act of 1989
FTE	Full-time Equivalent
ITS	Information Technology Services
LBS	Large Bank Supervision
M/CBS	Midsize/Community Bank Supervision
MOU	Memorandum of Understanding; an informal enforcement action
MRA	Matters Requiring Attention; an informal enforcement action (See next page for details.)
MRBA	Matters Requiring Board Attention; an informal enforcement action (See next page for details )
NAMLG	National Anti-Money Laundering Group
OCC	Office of the Comptroller of the Currency
PCA	Prompt Corrective Action
RAS	OCC's Risk Assessment System
ROE	Report of Examination
SAR	Suspicious Activity Report
SDC	Senior Deputy Comptroller
SIS - LB	Supervisory Information Systems – Large Banks; The official electronic file for entities supervised by the Large Bank line of business.
SPSU	Special Supervision division in OCC headquarters that oversees supervision of the most critical problem national banks.
SO	Supervisory Office
S&S	Safety and Soundness Order; a formal enforcement action
WSRC	Washington Supervisory Review Committee

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USAPA

USA PATRIOT Act, enacted in 2001, as a result of the 9/11 terrorist attacks

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**MATTERS REQUIRING ATTENTION (MRA)**

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The Bank Supervision Process, Large Bank Supervision, Community Bank Supervision, and Examination Planning and Control booklets of the *Comptroller's Handbook* provide guidance on examining and communication methods used by the OCC as part of the bank supervision process.

The Bank Supervision Process Handbook dated April, 1996 defines Matters Requiring Board Attention (MRBA) as bank practices that:

- 1) Deviate from sound fundamental principles and are likely to result in financial deterioration if not addressed; or
- 2) Result in substantive noncompliance with laws.

The Examiner View User's Guide dated November, 2004 defines Matters Requiring Attention (MRA) as bank practices that:

- 1) Deviate from sound fundamental principles and are likely to result in financial deterioration if not addressed; or
- 2) Result in substantive noncompliance with laws.

The Bank Supervision Process, Large Bank Supervision, and Examination Planning and Control booklets state: "As part of the bank supervision process, examiners must clearly and concisely communicate significant deficiencies and unwarranted risks to the bank. In situations in which examiners find significant weaknesses or unwarranted risks, examiners should discuss thoroughly these issues with bank management, allowing bank management an opportunity to resolve differences, commit to corrective action, or correct the weakness. The significant issues along with the board's commitment for corrective action should be detailed in the Matters Requiring Board Attention (MRBA) section of the report of examination (ROE).

The Community Bank Supervision booklet states: "Examiners should detail significant deficiencies, along with the corrective action to which the board or management has committed, in the report of examination's Matters Requiring Attention (MRA) page or in other written communications."

Collectively, in practice, examiners typically use either term (MRA or MRBA) when discussing bank practices, unwarranted risks, or significant issues that require attention and corrective action. The review team found that EV is used in the midsize/community bank line of business for tracking MRAs. The EV electronic system tracks OCC follow-up activities and is used to document bank responsive actions to MRAs. In large banks, EICs use a variety of methods to track MRAs and to document OCC follow-up activities. In all lines of business, EICs have discretion as to what MRAs are conveyed in the Report of Examination versus communicated informally through discussions with bank management and supplemental memorandum provided to the bank.

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**REVIEW TEAM MEMBERS**

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Certified Quality Auditor  
Program Accountability

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2Q06 London Banknotes Review Meeting -- 24<sup>th</sup> July 2006Attendees

Stephen J Allen (SA) Chairperson  
 Gordon Brown (GB) KYC \*  
 Richard Bordett (RB) Trader  
 Francesca Cain (FC) CIBM Central Compliance\*  
 Kevin Dicken (KD) Trader  
 Lee Foster (LF) Banknotes Vault  
 David Illing (DI) Head Trader  
 Alan Ketley (AK) US Compliance via conference call  
 Jonathan McMull (JM) General Compliance & AML \*  
 Ciara O'Connell (CO) minutes  
 Andrew Rizcala (AR) US Compliance via conference call  
 Ronald Schmick (RS) AML Compliance via conference call  
 Tina Tipping (TT) ISS Compliance  
 Andrew Winterburn (AW) Trader

\* copy of minutes

Issues Covered

1. Compliance
2. KYC
3. High Risk and SCC Reviews

OCC

SA commented on the recent OCC exam. As yet BN have not had the formal report but, the wind-up meeting appeared to go reasonably well and BN look forward to having confirmation of a satisfactory exam.

1. ComplianceUS ComplianceAK comments:

Terry Pesce has been negotiating with Joe Boss (OCC) as to whether there is a need or a requirement, from the OCC's perspective, that BN London performs a retrospective review of every London profile. AK thinks that Terry is trying to propose; if required, a retrospective review can be carried out within a 12 month period for HR and within 24 month period for LR which is essentially what we would otherwise expect to do anyway. AK will keep BN updated.

AK relates on recent news that FFICEC – umbrella organisation of the regulators in US - will be issuing a revised version of its exam guidelines possibly as soon as the end of next week. It is unclear whether it will have any specific language in it about banknotes. It is held out to include additional information on ACH on trade services.

AK updates SA on potential replacements for Linda Cassel - interviews are in process. For now the CO approvers will continue to be Terry and Ann Liddy. AK and AR have also been reviewing some of the profiles to try to prevent back-log. SA

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comments that with the OCC exam completed, prospects will be the focus and we anticipate to push through a back-log of prospective clients but will be mindful that with the departure of Linda there may be some delay with approvals. AK adds that all should be mindful of the letter and the spirit of the OCC's comments and suggestions, this will aid in the approval process

Dan Jack is currently on annual leave and will be back in the office next week.

### CIBM UK Compliance

#### **FC comments:**

FC described the recent personnel changes to CIBM compliance including Christine Jenkins (CJ) move to aid Joe Brownlee, the MLRO. The team has therefore been restructured; FC has come in to head up the team with Beth Logue (BL) as deputy and the primary point of contact for LN BN AML matters and will attend future meetings. In terms of cover, FC and BL will work in tandem.

With regard to the UK regulatory environment, discussions are focused on the UK requirement to take a risk-based approach to AML risk. Discussions are underway over what CIBM should do and GB pointed out that a lot of it has already been done for the US requirements point of view so we should be looking to see how CIBM can find a way of leveraging the work that has already been done in order to fulfil as much as of the UK requirements as needs to be done in terms of documentation – the answer to which is as yet unclear. AK mentions that he has been asked to obtain a copy of AML Operational Risk scorings that were done in US for BN and Metals and will hopefully send this out by the end of the day

FC confirms to SA that, in regard to CIBMs monthly reviews of BN profiles, Beth Logue will manage the process

### General Compliance and AML

#### **JM comments.**

UK regulatory regime, non AML side, the second level is all but complete and there is still no mention of BN trading

SA updates JM on the re-issue of FIM, basically that it is still an on-going issue and the re-release date has still not been set.

Potential restructure of GTB should not have any impact on a general compliance perspective. SA updates the group regarding the GTB restructure namely that Ian Stewart's reporting line has changed, he is now reporting to the Group COO instead of Stewart Gulliver, so technically no longer CIBM and currently waiting to hear if this has any effect for BN. For time being BN continues to be part of GTB.

## 2. KYC

#### **GB comments:**

The majority of the time of the 2<sup>nd</sup> quarter was taken up preparing profiles for the OCC examination. 1<sup>st</sup> quarter identified the profiles that were most likely to be looked at and came up with a list of 55 profiles and enlisted the help of US and HK

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counterparts to review the customer profile. A total of 74 profiles were worked on including those of the examination, updating for example, patriot certificate details, requiring cross referencing with DSU. Since the OCC exam, BN have incorporated suggestions and adhered to comments made by the OCC above all with profiles that are in process, especially those that are getting ready for approval, and new customers. For example, in section 8, BN are now adding to the profile a brief description of the purpose of the relationship that BN has with the customer, leveraging off call reports and asking for trader's input. Also, historic information is being cut down. Information that is no longer relevant or information that can be construed as simply 'cutting & pasting' is being re-read and where needed summarised. In short, reviewers are being more subjective and judgemental with information. AK adds that though it is understood that information for profiles is taken from various sources at differing times, the more all the information flows the easier it is when it comes to the approval process and for anyone to review them. GB responds by saying that there is a great historical record within the file and in some cases this is being considerable reduced, as much of it was relevant at the time but has since become immaterial.

Many of the OCC comments stemmed from trader's call reports, where traders have written a lot of detailed information. Therefore GB has been added to the recipients list when call reports are added to CV, meaning he can look at all new call reports when they come in so he can question traders, if needs be, straight away.

AK concludes by adding that a reasonable portion of the examined profiles came back with no comments and that the quality of customer files was much better than when the OCC last visited.

### 3. High Risk Country and SCC Reviews

A.W. comments:

#### **Egypt**

██████████ is only customer and tweaking pricing and offering better insurance coverage resulted in an increase in business. Though the majority of business comes from other banks in the Middle East and some of it still comes from ██████████ in Amman (a former client of HBUS), BN is now getting more Middle East currency, especially Kuwaiti from them - ¼ million was purchased this morning for example.

#### **India**

██████████ is an SCC. Volumes have gone up and this is mainly due to better tourism. TC (India) recently reported that they have purchased LKP foreign exchange company so that should hopefully increase the numbers even more for the next period.

#### **Jordan**

Although we are still trying to re-gain ██████████ bank, the only currently active commercial bank now is ██████████.

AK inquires after the effects, if any, of the recent troubles in Lebanon and Israel on Jordan. AW guesses there may be a slight increase in volumes over the coming months but thinks the majority of the troubles will be reflected either through Cyprus or Israel themselves. There was an inquiry last week on how BN purchases Lebanese pounds; obviously there are a lot of the refugees fleeing with whatever they can pick.

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up. AK comments on the recent fact that Syria has opened up their boarder with Lebanon and Syria is 'persona non grata' from a US perspective and Jordan is right next door. AW responds that there has been dialogue with the Jordanian Banks in the past with regard to Syria so they are well aware of BN standing.

AK reminds everyone to be sensitive about the Syria issue.

#### Kenya

This has been a relatively steady market and BN has re-gained ██████ the largest indigenous Kenyan bank and their flows are starting to come through us as opposed to going through ██████. BN had slight problems with ██████ Tanzanian branch but they have been very helpful in sorting it out. There is competition in the area particularly from other London correspondents and South African banks.

#### Kuwait

Business has not gone too well here mainly as Bahrain seem to be handling a lot of the business for the Kuwaiti banks and this may be increasing Bahrain's figures but has not been positively affecting Kuwait's.

#### Qatar

Currently have one counter-party here which is ██████ Bank although we have KYC approval for ██████ Bank. Again, Bahrain are serving Qatar locally because Bahrain offer a much cheaper logistic movement than BN can, so figures are quite modest.

#### Tanzania

██████ is the only client here but have recently had ██████ and ██████ KYC approved. Following A.W.'s visit last month we should hopefully see some improved volumes in the next quarter.

#### Uganda

Currently there are three clients here, ██████. Bank is the most active, they have a large account with a money changer in Uganda who is located at the airport as well as around the country so they tend to see the majority of the Foreign Exchange that flows through the branches. It seems Uganda is becoming more of a tourist destination and there was recently a large article in the Times confirming this.

D.I. comments.

#### Bahrain

██████ is our only client in Bahrain and they are an SCC. ██████ in Dubai and ██████ are main specialists for banknote wholesale in the whole region so have a network of customers not only in Bahrain but in neighbouring countries as well. A very good relationship has been fostered with ██████ over the last three or four years and they have a \$10 million credit line which is very unusual for an SCC but is evidence of how highly HSBC regard them. Business is increasing on both the selling and buying front. On the selling side BN sells them most of the surplus Middle East currencies which as AW mentioned earlier is increasing due to taking a lot more Middle Eastern surpluses from ██████ in Egypt and on the buying side, business has increased by 56% compared to the previous quarter that is mainly due to BN improving pricing and allowing them to ship to BN more frequently.

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**Belarus**

Both selling and pricing have seen an increase though the marketing trip that was made in Feb/March 06 established that a little business was lost, mainly to Austrian Banks. After adjustments to pricing and offering the customers a much better service than previously, BN has been able to pick up business again. Unfortunately, last week it was discovered that Lufthansa are changing the aircraft they use to ship money to Belarus and this potentially could mean all business is lost as valuable cargo will not be permitted on the new plane. Other alternatives are being looked into and hopefully business will continue

**Channel Islands**

The only client here is an SCC, [REDACTED] BN have been working closely with [REDACTED] over the last year to increase their business. They are now aggressively going after [REDACTED] business in Jersey, doubling the amount of outlets they have on the island that offer retail foreign exchange for example. They have also changed to using HSBC rates as opposed to [REDACTED] and BN have aided them with their IT so that the rates can be sent everyday.

**Ivory Coast**

There has been a lot of unrest here recently so much so that BN has been told [REDACTED] who are BN last remaining carrier for money into Ivory Coast, are seriously considering pulling out. It is getting increasingly difficult to get money into Ivory Coast, two couriers have to accompany shipments which increases the price and therefore these costs are passed onto the customer. The main competition is from the French bank, [REDACTED] who have a contract with [REDACTED] Paris that makes them the only people who can ship valuable cargo from Paris and attempts at a HSBC BN relationship with [REDACTED] Paris has proved impossible. BN gained [REDACTED] Bank as a client in May 05 which has helped to increase our market share there.

**Libya**

We have to tender for each individual shipment and BN is competing each time with [REDACTED] and on occasions [REDACTED] though 5 good deals have been picked up in the last quarter totalling \$554 million. Each deal is either for \$100 million or €100 million. After losing out to [REDACTED] we have negotiated better terms with [REDACTED] to deliver the money and offer better prices

**Russia**

Russian business thrives on instability, rumours, weakness/strength of the \$ and the Russian population tend to scrutinise the exchange rates, anytime they get an inkling the Central Bank are going to change the Rouble rate Russians sell their or buy dollars. The last quarter had a lot of rumours and comments from the Russian Central Bank that the Rouble was going to be trading under 20 per dollar; it was trading at almost 27 prior to that. There was almost panic, with Russians selling their \$ and buying Roubles. The volume figures jumped up hugely in the month; BN bought nearly \$2 billion in the quarter from Russia against \$625 million last year. This is the biggest amount of business conducted in Russia for three years - when [REDACTED] Bank was rumoured to be in trouble. Selling side also increased, two of BN major counterparts have developed much bigger wholesale networks which has taken business away from [REDACTED] who are the main banknote bank in Russia - BN are not trading with them but KYC has been submitted for approval [REDACTED] have around a 40% share in the business in Russia and this is therefore a considerable amount of business that BN is missing out on

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**Saudi Arabia**

The business is fairly stable, volumes decreased \$3 million on the quarter last year but we are experiencing a lot of competition from Commerz who are shipping directly from NY into Saudi and they are offering nearly 50% cheaper prices than BN quote, so work has had to be done to offer better prices to re-gain volume in this business. We only have two customers here; Saudi American Bank and National Commercial but we continue to press for the re-instatement of Al Rahji but there remain ongoing KYC issues.

**Ukraine**

Delta Airlines in June introduced a new flight from NY direct to Kiev and prior to this BN were losing a lot of business with a major wholesaler in the Ukraine, [REDACTED] Bank, but have managed to persuade clients to use this earlier flight and have already picked up more business. Hopefully BN will see bigger increases, while [REDACTED] and [REDACTED] remain the biggest competitors.

**Uzbekistan**

[REDACTED] is the SCC client here. Market share has been lost to [REDACTED] Bank and BN has had to reduce pricing as [REDACTED] has undercut BN previous pricing by 50%. Though fairly stable market.

**UAE**

[REDACTED] and [REDACTED] are the two major counterparts in this region and BN continue to see a very good share of their business, mainly on the buying side but have increased business selling to them. BN have started selling them their surplus United Arab Dirhams since negotiating better terms for them and going forward should see increases. On the buying side, BN offer them a very good service which outdoes that of competitors resulting in more business.

**UK**

[REDACTED] is a major competitor to BN in the wholesale market and we only trade with one another when either party is short of a currency.

[REDACTED] Operating outlets in approximately 105 HSBC branches. Business increased in the last quarter which was mainly due to tourism – natural with the Easter period and now into summer, saw increase in sales from 32 million to 46 million but overall year on year, business with [REDACTED] going down.

[REDACTED] Another major competitor in particular markets, especially in Africa. They come to BN only for certain currencies, they are not particularly flexible in how they do business. Have seen an increase on our buying side as BN buys more Scandinavian currencies from them, this is simply down to other wholesalers not purchasing them.

[REDACTED] This is the biggest client in UK who operates a number of Bureaux particularly at Stansted and Gatwick airports. Seasonal increase is down to tourism but BN has recently worked closely with [REDACTED] and are now their main supplier of currencies and offer direct delivery to Stansted and Gatwick.

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They are a Russian airline based at [REDACTED] airport. They operate massive cargo planes all over the world. The main purpose of the relationship is for them to use cash to pay for fuel and services in varying countries. Typically, orders are approximately \$200 000 per week. They are in the process of merging with their competitor which will hopefully mean increases in business for us.

KD comments:

**Georgia**

Only selling to Georgian banks at present; anything that they want to sell is small and not profitable

Sales have gone down 2005 – 2006. This is due to competition from [REDACTED] Vienna but could also be that [REDACTED] has lost business to [REDACTED]

These sales figures have gone up. They are a relatively new client to BN and KD guesses that the figures will continue to increase. NY has lost business from [REDACTED] to [REDACTED] but BN has gained it through [REDACTED]

**Latvia**

Sales have increased whereas purchases are quite average. Purchases are unlikely to increase by much but more positive outlook on the sales side.

Purchases have gone down, Latvia has opened up and whereas we previously had a lot of the market we are now seeing a lot more competition. On the selling side, BN has a strong relationship, with a good stock of many currencies and [REDACTED] knows they can get new Euros from KD. KD visited the client this year and met with the new dealer.

Similar scenario here as with [REDACTED] lost out on purchasing side. Unfortunately the selling side has also decreased.

This client use BN as a last resort, for example if the Viennese are closed. There is unlikely to be any big movements with this client. BN gets approximately 10% of [REDACTED] business per year

RB comments:

**Azerbaijan**

Increase in sales for both [REDACTED] and [REDACTED]. This is mainly down to BN using an earlier flight out of London which means that both banks can pay and order on the same day as opposed to previous day. The actual volumes of cash in Azerbaijan have not increased at all more that BN can now service Azerbaijan better than competitors

**Kazakhstan**

[REDACTED] are a new customer so no real comparison. For the rest, there has been a decrease in sales. Principally, in the last five or six months the local currency has grown

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

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stronger against the dollar which has cooled some of the demand for dollars. Last year experienced extra-ordinary growth on the back of a credit boom in the country which, to some extent, has been exhausted. [REDACTED] in London has emerged as another competitor here, resulting in BN having to meet them on price. Volumes have picked up although at a reduced turnover for BN [REDACTED] have taken [REDACTED] though their business with us was small.

**Kyrgyzstan**

[REDACTED] relatively small figures, though up compared to last year. They would tend to sell BN their surpluses three to four times a year. These would be old banknotes that they can not use or sell internally or to neighbouring countries.

**Lebanon**

[REDACTED] Has seen a downturn in business for [REDACTED] SAL and [REDACTED] [REDACTED] SAL, this is perhaps down to BN being more stringent than other counterparts with regard to counterfeit notes so BN is tended to be used as a surplus requirement rather than a general counterpart.

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

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1323

cc: Pierre Betzu/HBUS/HSBC@HSBC  
FIG HBUS@HSBC  
Subject: Fw: Report of Findings - Al Rajhi Commercial Foreign Exchange,  
Jeddah - FIG

Original Al Rajhi report is attached

----- Forwarded by Bob Powers/HBUS/HSBC on 07/13/2005 05:34 PM

FIG HBUS on 13 Jul 2005 17:32

Note  
13 Jul 2005 17:32

From: FIG HBUS Tel:  
Title: Location:  
WorkGroup: Mail Size: 12344  
Sent by: Bob Powers

To: AIM support@HSBC

cc: Pierre Betzu/HBUS/HSBC@HSBC  
FIG HBUS@HSBC  
Subject: Report of Findings - Al Rajhi Commercial Foreign Exchange, Jeddah -  
FIG

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FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS (UPDATE)

SUBJECT: Al Rajhi Commercial Foreign Exchange, Jeddah

ENTITIES: Al Rajhi Commercial Foreign Exchange, Jeddah

REQUESTOR: Kevin O'Donnell

DEPARTMENT: AIM Support

A report of findings in support of enhanced due diligence was requested for Al Rajhi Commercial Foreign Exchange, Jeddah. The most recent update review of the Al Rajhi Trading Establishment in Saudi Arabia was sent in April, 2005. That update provided findings subsequent to the first report regarding Al Rajhi entities that was originally issued from this office in October of 2003. An update was conducted in December of 2004. Text of the more recent update will be pasted at bottom. The text of the original report will be included in the attached PDF file. This current report will address recent information specific to Al Rajhi Commercial Foreign Exchange, Jeddah.

Al Rajhi Commercial Foreign Exchange, Jeddah

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**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 2725167**

According to "Bankers Almanac," Al Rajhi Commercial Foreign Exchange is located in Jeddah, Saudi Arabia. The bank has correspondent banking relationships with Land Bank of the Philippines and Social Investment Bank in Bangladesh.

Our review found no profiles that would provide insight into the bank's operations. However, the bank's own website ([www.bankalrajhi.com](http://www.bankalrajhi.com)) names Mr. Abdul Rahman A.A. Alrajhi, member of the prominent Al Rajhi family, as Vice Chairman, Chief Executive Manager, and President. The chairman is not named on the website.

In 2004 it was announced in numerous press reports that Al Rajhi Commercial Foreign Exchange would be one of eight Saudi money exchangers to merge into the new Al-Bilad Bank, which was expected to launch by mid-2005 with \$800 million in capital. Another of the eight firms involved in the merger was reported to be Al Rajhi Trading Establishment.

"Gulf News" reported on May 2, 2005 that shares in Al Bilad Bank soared to 950 Saudi Riyals (\$253) on its first day of trading.

Our review found no evidence of criminal activity surrounding Al Rajhi Commercial Foreign Exchange or its president Abdul Rahman Al-Rajhi.

Text of previous reports regarding Al Rajhi entities is pasted below and in the attached PDF document.

Please feel free to contact me with any questions regarding this report

Sincerely,

Bob Powers  
FIG Investigations

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FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS (UPDATE)

SUBJECT: Al Rajhi Trading Establishment

ENTITIES: Al Rajhi Trading Establishment

REQUESTOR: Paul DiBenedetto

DEPARTMENT: Client Services – Financial Institutions

Accounts: Al Rajhi Trading Establishment, Banknotes - 000135704

A report of findings in support of enhanced due diligence was requested for the Al Rajhi Trading Establishment in Saudi Arabia. A report conducted on Al Rajhi entities was originally issued from this office in October of 2003. An update was conducted in December of 2004. Text of those previous reports will be pasted at bottom and attached. This current report will address recent information specific to Al Rajhi Trading Establishment.

Al Rajhi Trading Establishment

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1325

Al Rajhi Trading Establishment has appeared in the news very infrequently in the time since the initial report was conducted on Al Rajhi entities in 2003. No evidence of criminal activity relating specifically to Al Rajhi Trading Establishment could be found in our review.

The most significant report concerning Al Rajhi Trading was published in "Ethnic Newswatch" in August, 2004. This article reported that Al Rajhi Trading was one of eight financial institutions to be merged into Al Bilad Bank, a new banking corporation expected to launch operations in mid-2005. Al Bilad will have a capital of \$800 million.

In April, 2005, the "EIU Riskwire" reported that Al Bilad was still waiting to open. Al Bilad will be Saudi Arabia's 11th commercial bank.

Text of previous reports regarding Al Rajhi entities is pasted below and in the attached PDF document.

Please feel free to contact me with any questions regarding this report.

Sincerely,

Bob Powers  
FIG Investigations

Note  
13 Dec 2004 10:04

From: Steven Pichardo           Tel: 212-525-6736  
Title: Associate            Location: 452 5th Ave, Floor 07  
WorkGroup: COMP/ANTI-MONEY LAUNDERING   Mail Size: 7164

To: Susan SALAS/IBEU/HSBC@HSBC

cc: Michael Ellis/HBUS/HSBC@HSBC  
Gloria Strazza/HBUS/HSBC@HSBC  
Sally G LOMAS/HBMD/HSBCMERIDIAN@HSBC  
Daniel Jack/HBUS/HSBC@HSBC  
Subject: Report of Findings - Al-Rajhi Banking & Investment Corp. - FIG

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FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS

SUBJECT: Al-Rajhi Banking & Investment Corporation

ENTITIES: Al-Rajhi Banking & Investment Corporation

REQUESTOR: Sally Lomas

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**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.       HSBC OCC 2725169**

1326

From: PAUL PLESSER/HBUS/HSBC  
Sent: 2/22/2005 11:04:28 AM  
To: ALAN T KETLEY/HBUS/HSBC@HSBC  
CC:  
Subject: Fw: Al Rahji Trading/Al Rahji Banking

so i guess we are ok to continue trading?

----- Forwarded by Paul Plesser/HBUS/HSBC on 02/22/2005 11:04 AM -----

From: Georges Atallah on 22 Feb 2005 10:56

To: Paul Plesser/HBUS/HSBC@HSBC

cc: Alba Khoury  
Sobhi Tabbara  
Subject: Re: Al Rahji Trading/Al Rahji Banking

Paul  
For us is business as usual. Alba spoke to Edmond Carton and Sobhi Tabbara and they were not informed of any decision regarding Al Rahji. Also no instructions from IPB compliance

From: Paul Plesser  
Sent: 02/22/2005 08:19 AM  
To: Georges Atallah  
Cc: Nazem Elsabeh  
Subject: Fw: Al Rahji Trading/Al Rahji Banking

Georges,

As you know, Nazem Elsabeh deals FX with Al Rahji Trading. I have been trying to get some clarity on this issue since the original note was circulated at the end of January. Alan Ketley has told me that you would be able to help.

Is this account being closed or are we still allowed to trade FX with them?

Thanks.

Paul

----- Forwarded by Paul Plesser/HBUS/HSBC on 02/22/2005 08:18 AM -----

From: Joseph A Belfatto on 31 Jan 2005 07:29

To: Patrick McDonald/HBUS/HSBC@HSBC  
Paul Plesser/HBUS/HSBC@HSBC  
Albert Yu/HBUS/HSBC@HSBC  
Mark A Baker/HBUS/HSBC@HSBC  
Karl Fruecht/HBUS/HSBC@HSBC  
Mary-Jo Cohane/HBUS/HSBC@HSBC  
Debra J LODGE/HBUS/HSBC@HSBC  
Thomas Del Zoppo/HBUS/HSBC@HSBC  
Grant Thompson/HBUS/HSBC@HSBC

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1327

Subject: Fw: Al Rahji Trading/Al Rahji Banking

Please note.....

----- Forwarded by Joseph A Belfatto/HBUS/HSBC on 01/31/2005 07:29 AM -----

Joseph M Petri/HBUS/HSBC  
01/30/2005 01:33 PM

To  
Robert Feeney/HBUS/HSBC@HSBC, John A Paganucci/HBUS/HSBC@HSBC, Ethie  
Tensel/HBUS/HSBC@HSBC, Peter G Merritt/HBUS/HSBC@HSBC, Brad  
Meredith/HBCA/HSBC@HSBC02, Joseph A Belfatto/HBUS/HSBC@HSBC, Benjamin  
Welsch/HBUS/HSBC@HSBC, Andrew S Lombara/HBUS/HSBC@HSBC, Tony  
Murphy/HBUS/HSBC@HSBC, Daniel Minerva/HBUS/HSBC@HSBC, Fernando P  
PEREZ/HBMX/HSBC@HSBC, Jose-Luis Guerrero/HBUS/HSBC@HSBC  
cc

Subject  
Fw: Al Rahji Trading/Al Rahji Banking

FYI.

----- Forwarded by Joseph M Petri/HBUS/HSBC on 01/30/2005

01:33 PM -----  
Teresa Pesce on 28 Jan 2005 11:01  
Note  
28 Jan 2005 11:01

From: Teresa Pesce Tel: 212-525-6099  
Title: Executive Vice President Location: 452 5th Ave, Floor 07  
WorkGroup: COMP/ANTI-MONEY LAUNDERING Mail Size: 3172

To: Michael B Gallagher/HBUS/HSBC@HSBC  
Christopher Lok/HBUS/HSBC@HSBC  
Peter G Merritt/HBUS/HSBC@HSBC

cc: Tony Murphy/HBUS/HSBC@HSBC  
Joseph M Petri/HBUS/HSBC@HSBC  
Carolyn M Wind/HBUS/HSBC@HSBC  
Camilus P Hughes/HBUS/HSBC@HSBC  
Alan T Kettle/HBUS/HSBC@HSBC  
William M Wong/HBUS/HSBC@HSBC  
Susan A WRIGHT/HGHQ/HSBC@HSBC  
Subject: Al Rahji Trading/Al Rahji Banking

All -

As some of you may know, the above named clients have been under evaluation by US and Group Compliance based, among other things, on relationships maintained with entities/countries on the OFAC list. Additionally, US law enforcement has placed these entities under scrutiny. After much consideration, Group Compliance has recommended that the US businesses sever ties with these clients based on the current regulatory environment and the interest of US law

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1328

enforcement. Accordingly, I will not approve customer profiles for or transactions with these entities. Please make appropriate arrangements. I am available to answer any questions you might have.

Regards-  
Terry

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1329

From: GEORGE TSUGRANES/HBUS/HSBC  
Sent: 3/15/2005 2:43:07 PM  
To: NANAYO RYAN/HBUS/HSBC@HSBC  
CC: SHARYN MALONE/HBUS/HSBC@HSBC;ALAN T KETLEY/HBUS/HSBC@HSBC;WILLIAM WEHMEYER/HBUS/HSBC@HSBC  
Subject: Hokuriku Bank C/L Activity

Nan - attached is a spreadsheet of cash letter deposit activity on Hokuriku Bank. Over the last few months deposits totalling over \$2 million have been deposited through cash letter deposits. Although forms have been provided for each deposit (with one exception) the explanation for each deposit states that the companies are all in the used car sales business and the purpose is "business funds".

Can you reach out to the bank and ask that adequate KYC is on file for each name listed on the spreadsheet, whether the customer activity is consistent with the KYC, and also who is their customer base (local clients, people buying cars for export, etc.) and why US dollar travelers checks would be used for payment.

regards,  
George

Attachment: Hokuriku CL.xls

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A	B	C	D	E	F	G	H	I	
Date	Date Dep	Bank	Account No	A/C Mgr	C/L Ticket	Amount	Details	Name of Client's Cust	
2	20-Jan	19-Jan	The Hokuriku Bank	50385	NXR	10070114	43000	43X1000 Amex T/C	Gondal Corporation
3	21-Jan	20-Jan	The Hokuriku Bank	50385	NXR	10070116	36000	36X1000 Amex T/C	Kaho Sangyo
4	25-Jan	24-Jan	The Hokuriku Bank	50385	NXR	10070124	66000	66X1000 Amex T/C	Gondal Corporation
5	25-Jan	24-Jan	The Hokuriku Bank	50385	NXR	10070122	71000	71X1000 Amex T/C	R.S. Corporation Ltd
6	25-Jan	24-Jan	The Hokuriku Bank	50385	NXR	10070121	65000	65X1000 Amex T/C	Sando Corporation
7	25-Jan	24-Jan	The Hokuriku Bank	50385	NXR	10070130	46000	Total Deposit	Gondal Corporation
8	25-Jan	27-Jan	The Hokuriku Bank	50385	NXR	10070132	56300	Total Deposit	R.S. Corporation Ltd
9	31-Jan	28-Jan	The Hokuriku Bank	50385	NXR	10070135	28000	28X1000 Amex T/C	Gondal Corporation
10	31-Jan	28-Jan	The Hokuriku Bank	50385	NXR	10070134	21000	21X1000 Amex T/C	J.P. Trading Ltd
11	1-Feb	31-Jan	The Hokuriku Bank	50385	NXR	10070138	48000	48X1000 Amex T/C	RS Corporation Ltd
12	1-Feb	31-Jan	The Hokuriku Bank	50385	NXR	10070139	22000	22X1000 Amex T/C	RS Corporation Ltd
13	6-Feb	7-Feb	The Hokuriku Bank	50385	NXR	10070150	20000	20X1000 Amex T/C	Shiyou Sigeru
14	9-Feb	8-Feb	The Hokuriku Bank	50328	NXR	10070154	20000	20X1000 Amex T/C	Shiyou Sigeru
15	14-Feb	11-Feb	The Hokuriku Bank	50385	NXR	10070167	85000	85X1000 Amex T/C	Shiotani Shigeru
16	17-Feb	16-Feb	The Hokuriku Bank	50385	NXR	10070174	80000	80X1000 Amex T/C	Gondal Corporation
17	17-Feb	16-Feb	The Hokuriku Bank	50385	NXR	10070173	54500	Total Deposit	RS Corporation Ltd
18	23-Feb	22-Feb	The Hokuriku Bank	50385	NXR	10070179	161,162	103000 Total Deposit	RS Corporation Ltd;Shiotani Shigeru
19	23-Feb	22-Feb	The Hokuriku Bank	50385	NXR	10070183	50000	Total Deposit	Shiotani Shigeru
20	23-Feb	22-Feb	The Hokuriku Bank	50385	NXR	10070180	56000	Total Deposit	Shiotani Shigeru
21	24-Feb	23-Feb	The Hokuriku Bank	50385	NXR	10070191	66210	20X1000 Amex T/C	Awalling
22	24-Feb	23-Feb	The Hokuriku Bank	50385	NXR	10070188	95000	95X1000 Amex T/C	Awan International
23	24-Feb	23-Feb	The Hokuriku Bank	50385	NXR	10070187	59500	Total Deposit	Shiotani Shigeru
24	24-Feb	23-Feb	The Hokuriku Bank	50385	NXR	10070198	52000	Total Deposit	R.S. Corporation
25	24-Feb	23-Feb	The Hokuriku Bank	50385	NXR	10070190	36000	Total Deposit	Gondal Corporation
26	24-Feb	23-Feb	The Hokuriku Bank	50385	NXR	10070186	28000	Total Deposit	JP Trading
27	1-Mar	28-Feb	The Hokuriku Bank	50385	NXR	10070198	23000	23X1000 Amex T/C	Syeki Ltd
28	1-Mar	28-Feb	The Hokuriku Bank	50385	NXR	10070197	55500	Total Deposit	R.S. Corporation
29	1-Mar	28-Feb	The Hokuriku Bank	50385	NXR	10070196	42500	Total Deposit	Awan International
30	1-Mar	28-Feb	The Hokuriku Bank	50385	NXR	10070195	60000	Total Deposit	Sando Corporation
31	2-Mar	1-Mar	The Hokuriku Bank	50385	NXR	10070203	20000	Total Deposit	Awan International
32	3-Mar	2-Mar	The Hokuriku Bank	50385	NXR	10070207	20000	Total Deposit	Gondal Corporation
33	3-Mar	2-Mar	The Hokuriku Bank	50385	NXR	10070205	20000	Total Deposit	Shaki Corporation
34	3-Mar	2-Mar	The Hokuriku Bank	50385	NXR	10070206	26000	Total Deposit	Awan International
35	9-Mar	8-Mar	The Hokuriku Bank	50385	NXR	10070226	75000	Total Deposit	Gondal Corporation
36	9-Mar	8-Mar	The Hokuriku Bank	50385	NXR	10070225	86000	Total Deposit	Sando Corporation
37	10-Mar	9-Mar	The Hokuriku Bank	50385	NXR	10070230	101000	Total Deposit	Awan International
38	11-Mar	10-Mar	The Hokuriku Bank	50385	NXR	10070234	85000	Total Deposit	Gondal Corporation
39	11-Mar	10-Mar	The Hokuriku Bank	50385	NXR	10070235	40000	Total Deposit	Shiotani Shigeru
40	11-Mar	10-Mar	The Hokuriku Bank	50385	NXR	10070236	50000	Total Deposit	Shiotani Shigeru
41	11-Mar	10-Mar	The Hokuriku Bank	50385	NXR	10070233	28000	Total Deposit	Sando Corporation
42	12-Mar	11-Mar	The Hokuriku Bank	50385	NXR	10070237	24000	Total Deposit	Gondal Corporation

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 Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3113977

1331

From: WILLIAM WEHMEYER/HBUS/HSBC  
Sent: 11/29/2005 4:37:56 PM  
To: MARK BALAWENDER/HBUS/HSBC@HSBC  
CC: GEORGE TSUGRANES/HBUS/HSBC@HSBC; ALAN T KETLEY/HBUS/HSBC@HSBC  
Subject: Fw: Brooklyn cash letter

Mark,

Here are some statistics we obtained from MIS earlier in the year. The period is from December 2004 to January 2005 the total dollar amount processed was USD39,297,815,252.59. Feel free to call me with any questions.

Regards,  
William

----- Forwarded by William Wehmeyer/HBUS/HSBC on 11/29/05 04:15 PM -----

George Tsugranes/HBUS/HSBC  
11/29/05 03:17 PM

To  
William Wehmeyer/HBUS/HSBC@HSBC  
cc

Subject  
Fw: Brooklyn cash letter

Bill -can you dig up cash letter figures that involves the corps and banks and forward to Mark Balawender. If there is a report on items for PCM etc (Angelo Focarazzo rpts etc) use those figures.

regards,  
George

----- Forwarded by George Tsugranes/HBUS/HSBC on 11/29/05 03:15 PM -----

Alan T Ketley/HBUS/HSBC  
11/28/05 08:36 AM

To  
George Tsugranes/HBUS/HSBC@HSBC  
cc

Subject  
Fw: Brooklyn cash letter

George

Can you give Mark the cash letter figures we have for what Brooklyn processes.

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1332

Thanks

Alan

----- Forwarded by Alan T Ketley/HBUS/HSBC on 11/28/2005 08:28 AM -----  
From: Mark Balawender on 25 Nov 2005 13.41

To: Alan T Ketley/HBUS/HSBC@HSBC

cc: Karin O'Neill/HBUS/HSBC@HSBC  
Carol A Setter/HBUS/HSBC@HSBC  
Subject: Re: Brooklyn cash letter

Alan,

After a few phone informal calls, there are some more ways in for large check deposits and I do not believe there are any formal or documented checks in place that would identify potential unlicensed money service business activity. Generally, it is heads down volume processing. Money Centers process the currency for their customers, replace it with a cash in ticket and forward the checks on to Proof for processing without a formal review. Large pre-encoded or unencoded courier deposits (including those from the Money Center) to Proof or MICR also receive no formal review. Given the volume/deadline driven/processing nature of the departments above, I am not sure what we can do. Historically, I do not think this has been seen as a big risk. We should probably discuss the risks and potential rewards of such any such reviews with Denise and Terry to see how they view the risk. I would anticipate a rather strong push-back from Ops and the branches, if AML Compliance were to suggest additional processes. I will see what I can gather on the Money Center, Proof and MICR customers across the state and their related check volumes and dollars. When I get the lists, can you assist with scrubbing out the CIBM customers? I would have no way of identifying them

Also, I wouldn't really worry about Wholesale Lockbox as they have to get invoice/payee information and the checks should receive more individual scrutiny. Lastly, I misspoke. It is 5 checks and a 'fan' review of deposits in the branches, as below.

Services: DEPOSIT & PAYMENT PROCESSING - DEPOSIT PROCESSING (REV 9/1996) 40.1

Services Section 40-1

DEPOSIT & PAYMENT PROCESSING - DEPOSIT PROCESSING (REV 9/1996) 40.1

REQUIREMENTS

Checks payable to a corporation, organization, estate, etc. may only be accepted for deposit to the respective corporation, organization, estate, etc. account.

Checks being deposited should be reviewed on the back for endorsement and on the front to verify that the name is the same as payee and matches the name on the deposit ticket. This should be completed individually, for deposits

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1333

containing up to five (5) checks. Scan through larger quantities of checks by fanning the batch.  
Second endorsed checks may be deposited upon approval, however, the last endorsement must match the name on the deposit ticket.

Alan T Ketley/HBUS/HSBC  
11/23/2005 03:41 PM

To  
Mark Balawender/HBUS/HSBC@HSBC  
cc  
Subject  
Re: Brooklyn cash letter

Mark

You have misunderstood my intent - probably due to my poor way of explaining it.  
Correspondents I know about - for who else do Brooklyn clear checks?

Alan

From: Mark Balawender on 23 Nov 2005 14:03

To: Alan T Ketley/HBUS/HSBC@HSBC

Subject: Re: Brooklyn cash letter

Alan,

i am told by Float Management that the best list of inclearing correspondents was generated from Judy and George in response to the correspondent banking audit. Is there a time that is good for you to briefly discuss?

Thanks.

Alan T Ketley/HBUS/HSBC  
11/18/2005 04:02 PM

To

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3180774

1334

"Mark Balawender" <mark.balawender@us.hsbc.com>

cc

Subject  
Brooklyn cash letter

Mark

Is there a way to identify for which non-PCM clients the Brooklyn check processing area handles cash letter?

We have strong monitoring procedures in place for PCM clients but I don't know what's in place for other clients.

Thanks

Alan

Attachment: CASHLETTER.xls

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3180775



	A	B	C	D	E	F	G
1	A/C#	ACCOUNT NAME	TYPE	CASH LETTER VOLUME 3/04 - 3/05	ENVELOPES	Total CL \$'s	SYS
2							
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14	50385	THE HOKURIKU BANK	BANK	24,448	562	\$11,223,460.29	WDA
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Permanent Subcommittee on Investigations

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Permanent Subcommittee on Investigations

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1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48				
DATE	A	B	C	D	E																																														
		ACCOUNT NO	ACCOUNT NAME	COUNT	TOTAL AMOUNT																																														
						Redacted by the Permanent Subcommittee on Investigations																																													
		60365	THE HOKURIKU BANK	43	507,567.93																																														

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 Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3180777

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Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03566420  
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3180778

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Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03566421  
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157	5/1/2004	50385	THE HOKURIKU BANK	30	311,075.41
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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3180780

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229	7/1/04	50385	THE HOKURIKU BANK	38	355,682.00
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Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03566423  
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265	8/1/04	50385	THE HOKURIKU BANK	33	252,786.21
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Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03566424  
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3180782

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301	9/1/2004	50385	THE HOKURIKU BANK	35	399,005.83
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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSB03566425 HSB03566425



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337	10/1/04	50385	THE HOKURIKU BANK	48	783,724.07
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373	11/1/04	50385	THE HOKURIKU BANK	42	734,381.75
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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3180784

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 Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3180785

1345

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by  
Permanent Subcommittee  
on Investigations**

HSBC OCC 3180786 -- HSBC OCC 3180797

1346

From: ALAN T KETLEY/HBUS/HSBC  
Sent: 12/14/2005 8:13:10 AM  
To: GILLIAN E BACHSTEIN/HBUS/HSBC@HSBC  
CC:  
Subject: Fw: KYC Profiles - Impact of CO Denial

Gillian

As promised yesterday - these were the 'headline names' way back when but I know things are much better now.

Alan

----- Forwarded by Alan T Ketley/HBUS/HSBC on 12/14/05 08:12 AM -----

Alan T Ketley/HBUS/HSBC  
02/02/05 03:24 PM

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Subcommittee on Investigations

To  
Daniel Jack/HBUS/HSBC@HSBC, George Tsugranes/HBUS/HSBC@HSBC  
cc  
Lynda J Cassell/HBUS/HSBC@HSBC  
Subject  
Fw: KYC Profiles - Impact of CO Denial

Guys

Can you check up on the status of these profiles please, I'd like to know where we stand on these CO Denials

Thanks

Alan

----- Forwarded by Alan T Ketley/HBUS/HSBC on 02/02/2005 03:22

PM  
Alan T Ketley on 06 Dec 2004 15:31  
Note  
06 Dec 2004 15:31

From: Alan T Ketley Tel: 212-525-6147  
Title: First Vice President Location: 452 5th Avenue, Floor 7  
WorkGroup: COMP/ANTI-MONEY LAUNDERING Mail Size: 7618

To: Christopher Lok/HBUS/HSBC@HSBC  
Stephen J ALLEN/HBMD/HSBCMERIDIAN@HSBC  
Gyanen Kumar/HBUS/HSBC@HSBC  
Roger T K SO/SVP NBD RNH/HBUS/HSBC@HSBC

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSB03570665

Kauko I Aro/HBUS/HSBC@HSBC  
Sally G LOMAS/HBMD/HSBCMERIDIAN@HSBC  
Wing Kin - Hk CHAN/NBD RNH/HBUS/HSBC@HSBC  
Sharyn Malone/HBUS/HSBC@HSBC  
George Luszczyk/HBUS/HSBC@HSBC  
Masao M FUJII/TKY/HBAP/HSBC@HSBC

cc: Rita Gonzalez/HBUS/HSBC@HSBC  
Michael B Gallagher/HBUS/HSBC@HSBC  
Daniel Jack/HBUS/HSBC@HSBC  
George Tsugranes/HBUS/HSBC@HSBC  
Teresa Pesce/HBUS/HSBC@HSBC  
Suzanne K Matthews/HBUS/HSBC@HSBC  
Sandra Peterson/HBUS/HSBC@HSBC  
Lynda J Cassell/HBUS/HSBC@HSBC  
Subject: KYC Profiles - Impact of CO Denial

Ladies and Gentlemen

A review of the Lotus Notes KYC system has shown up an anomaly in the way we handle customers who may be 'CO Denied'. If a new customer is CO Denied then they are not able to transact with us until the profile is approved but if a current customer is CO Denied then transacting has continued without interruption.

This e-mail notification addresses both current customers who have been CO Denied as well as any customer that may be CO Denied in the future.

With immediate effect, CO Denial must be handled as follows:

PCM customers must be given 10 days notice that we will cease processing their payments (inbound and outbound) unless a dispensation is obtained from the AML Director and an updated profile is approved by the AML Director within that 10 day period.

Banknote customers must be given 10 days notice of trading termination unless a dispensation is obtained from the AML Director and an updated profile is approved by the AML Director within that 10 day period.

For current customers that 10 day clock will commence on December 7 (so December 17 will be the final day we will transact with them unless a dispensation is obtained).

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All current customers affected by this are listed below and have been subject to enhanced monitoring so we do not feel that the bank is at risk beyond the obvious inconsistency in the treatment of customers.

Customer Name	BN or PCM per Lotus Notes KYC
[Redacted]	BN & PCM
[Redacted]	BN
[Redacted]	BN & PCM
[Redacted]	BN & PCM
[Redacted]	PCM
[Redacted]	BN & PCM
[Redacted]	PCM
[Redacted]	BN
Al Rajhi Banking & Investment, Saudi Arabia	BN & PCM
Al Rajhi Trading Establishment, Saudi Arabia	BN
[Redacted]	PCM
[Redacted]	BN

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1348

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If you have any questions about this please let me know.

Regards

Alan

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3185025

1349

From: ALAN T KETLEY/HBUS/HSBC  
Sent: 3/20/2006 5:31:20 PM  
To: BETH FISHER/HBUS/HSBC@HSBC  
CC:  
Subject: Re: Al-Rajhi

Beth

I gather than Banknotes wants to revive the relationship but has not yet done so.

Do you know what the facility is supporting?

Alan T. Ketley  
First Vice President, Anti Money Laundering  
Tel: 212 525 6147  
Fax: 212 382 7580

Beth Fisher/HBUS/HSBC  
03/20/06 04:51 PM

To  
Alan T Ketley/HBUS/HSBC@HSBC  
cc

Subject  
Al-Rajhi

Alan,

I thought we exited this name! I am surprised to find a facility. In fact, the LN KYC was de-activated a year ago.

I will ask London CRM to cancel if your understanding is the same as mine.

AL-RAJHI BANKING & INVESTMENT CORPORATION

Thank you.

Beth Fisher  
RM, CIB-Financials  
HSBC Securities (USA) Inc.  
Tel 212-525-6644

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3224893

1350

From: BETH FISHER/HBUS/HSBC  
Sent: 3/21/2006 3:53:51 PM  
To: DOROTHY A GULMAN/HBUS/HSBC@HSBC  
CC: ALAN T KETLEY/HBUS/HSBC@HSBC; CHRISTOPHER J HEUSLER/HBUS/HSBC@HSBC; MANWEI HUANG/HBUS/HSBC@HSBC;  
ROBERT ABREU/HBUS/HSBC@HSBC  
Subject: Re: Updated TSO/TCS2 spreadsheet

RE: [REDACTED] AL-RAJHI BANKING & INVESTMENT CORPORATION

FYI, this was an HBUS London Banknotes (only) relationship which was exited a year ago due to AML Compliance concerns. Unfortunately, no one canceled the TCS2 facility -- a USD50M TSL line. I have asked GHQ CRM London to cancel the line. This is NO LONGER an HBUS relationship. We must remove this bank from our list.

Thanks.

Beth Fisher  
RM, CIB-Financials  
HSBC Securities (USA) Inc  
Tel. 212-525-6644

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

Dorothy A Gulman/HBUS/HSBC  
Tel: 212-525-2550  
03/21/2006 01:08 PM

To  
Alan T Ketley/HBUS/HSBC@HSBC, Robert Abreu/HBUS/HSBC@HSBC, Beth Fisher/HBUS/HSBC@HSBC, Manwei Huang/HBUS/HSBC@HSBC  
cc  
Christopher J Heusler/HBUS/HSBC@HSBC  
Subject  
Updated TSO/TCS2 spreadsheet

I am back. Here is the updated spreadsheet showing KYC's in AIM and Lotus Notes. You should know that most of the AIM accounts that I looked had did NOT have the KYC information. These accounts are part of the 2003 conversion that dragged the names over but no real information. I think we are still waiting for something sort of dispensation on those.....

[attachment "tso tcs2 2006 review.xls" deleted by Beth Fisher/HBUS/HSBC]

Dorothy

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSB03611028



1351

From: MICHAEL ELLIS/HBUS/HSBC  
Sent: 5/15/2006 4:08:42 PM  
To: PIERRE NASSER/HBUS/HSBC@HSBC  
CC: STEPHANIE L NAPIER/HBUS/HSBC@HSBC; MUHAMMAD SHOHIDUZZAMAN/IB  
DAK/HBAP/HSBC@HSBC; AFTAB HAIDER/IB DAK/HBAP/HSBC@HSBC;  
GEORGE TSUGRANES/HBUS/HSBC@HSBC; ALAN T KETLEY/HBUS/HSBC@HSBC; FIG HBUS@HSBC  
Subject: Report of Findings - Islami Bank Bangladesh Ltd - FIG

Pierre,

I am sending the below report on behalf of one of our new investigators,  
Kathleen Dischner, who does not have access to Lotus Notes yet. Please feel  
free to contact me with any questions.

-----  
Thanks,

Mike

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INVESTIGATIVE CONTROL AND REPORTING OFFICE (ICRO)  
FINANCIAL INTELLIGENCE UNIT  
REPORT OF FINDINGS (UPDATE)  
(Research as of 05/11/06)

INVESTIGATOR: Kathleen Dischner

SUBJECT: Islami Bank Bangladesh

ENTITIES: Islami Bank Bangladesh

REQUESTOR: Pierre Nasser

DEPARTMENT: Banknotes

An updated Report of Findings in support of Enhanced Due Diligence was  
conducted for Islami Bank Bangladesh, located in the HSBC-designated high-risk  
country of Bangladesh. This is an update to a previous report prepared for  
this bank on 4/19/2005, which is also provided below for your reference. Only  
items impacting adversely on money laundering, terrorist financing or other  
substantive criminal activity concerns will be detailed in this updated report.

UPDATE:

ISLAMI BANK BANGLADESH LTD

Most Current Ownership Breakdown Found (5% or higher):

The Banker's Almanac provides the following shareholder list for Islami Bank:

Al Rajhi Company for Industry & Trade, Riyadh Al-Khobara (9.9369%)  
Islamic Development Bank, Jeddah (7.5025%)  
Kuwait Finance House KSC, Safat (5.25%)  
The Public Institution for Social Security, 6.46%  
Arabsas Travel & Tourist Agency, 9.99  
Abdullah Abdul Aziz Al-Rajhi, 7.58%  
Kuwait Awqaf Public Foundation, 4.3%

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Other shareholders with less than 2% ownership.

(www.bankersalmanac.com, accessed 5/10/2005)

Most Current List of Top Executives Found:

Kazi Harun-Ar-Rashed, Chairman  
 Abdur Raquib, Executive President & Chief Executive Officer  
 M. A. Mannan, Executive Vice President International Banking Wing/Foreign  
 Exchange  
 Md Fariduddin Ahmed, Executive Vice-President of Operations

www.bankersalmanac.com, accessed 5/10/2006

Please note that we were unable to confirm in our ordinary sources either Mus'ad Abdullah Al-Rajhi or Moulana Zainul Abedin's positions with Islami Bank, as indicated in its KYC profile.

Notable Information Regarding the Financial Institution, its Ownership or its Top Executives:

On March 2nd, 2006, Abdur Rahman, chief of the Jamaatul Mujahideen of Bangladesh (JMB), and his second-in-command, Bangla Bhaj, were arrested for being responsible for the terrorist bomb blasts of August 17, 2005 in Bangladesh. The police found three different checkbooks in Rahman's Sylhet hideout, one of the accounts being with the Islami Bank Lal Dighirparh Branch in Sylhet. Around 400,000 taka (approximately US \$ 5,908) was reportedly transferred from the bank's Savar and Gazipur branches. ("BBC Monitoring International Reports," Load Date March 9th, 2006 ) Bangladesh Bank, the central bank, launched an investigation as to whether JMB militants maintained these Islami Bank accounts, and found suspicious transactions in the Savar and Gazipur branches it inspected. According to Bangladesh Bank, the Islami Bank branches reportedly violated some of the regulations specified in the Anti-Money Laundering Act and failed to report these dubious transactions to the central bank, as required by law. ("BBC Monitoring International Reports," Load Date: March 15, 2006.) Bangladesh Bank fined the Islami Bank Bangladesh Tk 100,000 (approximately US\$1,477) on charge of "surreptitious transactions connected with militancy," and also asked bank authorities to take measures against the 20 officers for their alleged involvement. The Islami Bank denied involvement in terrorist financing, but did admit that certain officials violated some of the country's money-laundering provisions, and therefore suspended five officers and gave warnings to 15 others. ("Indo-Asian News Service," Load Date: April 6th, 2006.)

It is reported in various articles that this is the third time that Islami Bank Bangladesh has been fined for covering up militants' transactions. ("World Market Analysis," Load Date: April 6, 2006, and "BBC Monitoring South Asia – Political," Load Date: April 7, 2006.) No further information was found in our regular sources concerning this matter.

Kuwait Finance House, which owns 5.25% of Islami Bank Bangladesh, is listed on World-Check as a Politically Exposed Person (PEP) due to the fact that the government of Kuwait owns 49% of its equity.

Issufo Sanha, Executive Director of the Islamic Development Bank of Saudi Arabia (which owns 7.5025% of Islami Bank Bangladesh), is listed on World-Check as a Politically Exposed Person (PEP). He was named the Minister of Economic Affairs in April 2005. He was also the former Minister of Industry, Tourism, and Trade (2004-05).

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Aissa Abdellaoui, Executive Director of the Islamic Development Bank, is also listed on World-Check as a Politically Exposed Person (PEP), due to the fact that he was the former Minister of Water Resources of Saudi Arabia.

Ibrahim Al-Mofleh, Executive Director of the Islamic Development Bank, is also listed on World-Check as a Politically Exposed Person (PEP), as he was the Director General for the Saudi Fund for Development.

In June of 2005, M Abdullah, an "official" of Islami Bank, was arrested for embezzling Tk 2,238,000 lakh (approximately US\$33,057) from the district branch of the bank. M Abdullah plead guilty to these charges. ("Untied News of Bangladesh," Load Date: June 1, 2005.) Our sources do not indicate whether M Abdullah is still employed at the bank.

In March 2006, Setaur Rahman, a branch manager of the Islami Bank, and one of his associates were sued for misappropriating TK 2,500,000 (approximately US\$36,927). In 1996 he had reportedly opened a false account in the name of Anwaer Hossain. (No further information was found regarding the identity of this individual.) The Anti-Corruption Commission found the bank official and his associate, whose name was not provided, guilty. ("United News of Bangladesh," Load Date: March 9th, 2006.)

Information Found Regarding this Financial Institution, its Ownership or its Top Executives that Warrants SCC Consideration.

You may wish to consider the Islami Bank Bangladesh for SCC status, due to one of its shareholders, the Kuwait Finance House, along with several officers from another shareholder, the Islamic Development Bank (Issufo Sanha, Ibrahim Al-Mofleh, and Aissa Abdellaoui), being categorized as Politically Exposed Persons on World-Check, as detailed above.

\*\*\* Should you find any discrepancies between the ownership and/or executives named in this report and those named in your current, up-to-date KYC information, please let us know so that we may check any differing names for items impacting adversely on money laundering, terrorist financing or other substantive criminal activity concerns.

This report is confidential and is intended solely for the use of the HSBC business to which it is addressed and those who need to know the information pursuant to that business' internal procedures. This report is not to be disseminated to any other person or entity. Our investigative findings are, in part, based upon information available to us through a variety of third-party providers at the time our search is performed. While every attempt is made to find all substantive information, we make no representation that the information provided to, or gathered by us, is complete.

Please feel free to contact me with any questions regarding this report.

Kathleen Dischner

Text of Previous Report of Findings Dated 4/19/2005:

FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03627336  
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3241694

1354

SUBJECT: Islami Bank Ltd. -Bangladesh

ENTITIES: Islami Bank Ltd. -Bangladesh

REQUESTOR: Rhonda Lee Thomas CC: Nanayo Ryan, Alan T Ketley

DEPARTMENT: Client Services -Financial Institutions

ACCOUNTS: N/A

A request was made for a Report of Findings in support of Enhanced Due Diligence for Islami Bank Ltd. as the bank is located in an HSBC-designated high-risk country. This account should be considered for SCC status due to the bank's Chairman being a former Chairman and Secretary of Bangladesh National Board of Revenue (details below).

Islami Bank Limited

In a Bankers' Almanac entry dated February 14, 2005, Islami Bank Bangladesh Ltd. is listed under the address of PO Box 233, Islami Bank Tower, 40 Dilkusha Commercial Area, Dhaka 1000, Bangladesh. The Islami Bank is described as a private bank and member of the International Association of Islamic Banks. The Bankers' Almanac also reports that the Islami Bank Bangladesh Ltd. is ranked 1,533rd in the world and 2nd in Bangladesh, and that the bank currently has 143 branches nation-wide and 4,774 employees.

According to A Gale Group company brief, dated April 18, 2005, Islami Bank Bangladesh Limited was established on March 13, 1983. This Bank is the first of its kind in South-East Asia. It is committed to conducting all banking and investment activities on the basis of interest-free profit-loss sharing system. With the active co-operation and participation of Islamic Development Bank (IDB) and some other Islamic banks, financial institutions, government bodies and eminent personalities of the Middle East and the Gulf countries, Islami Bank Bangladesh Limited has by now earned the unique position of a leading private commercial bank in Bangladesh.

The Bankers' Almanac listing dated February 14, 2005 reports the following executives for Islami Bank Ltd.:

Shah Abdul Hannan, Chairman, Abdur Raquib, Executive President & Chief Executive Officer, Md Velayet Hossain, Deputy Executive President, Md Fariduddin Ahmed, Executive Vice-President Audit & Inspection, Md Shahjahan Chowdhury, Executive Vice-President Asset Management, Md Setaur Rahman, Executive Vice-President Project Investment Division -1, A T M Harun-ur-Rashid Chowdhury, Executive Vice-President Operations Wing, M. A. Mannan, Senior Vice President International Banking Wing & Foreign Exchange, A W Shamsuzzuha, Vice-President International Banking Wing & Documentary Credits, Md Siddiqur Rahman, Senior Principal Officer Correspondent Banking, Abu Zafar Md Sheikhul Islam, Vice-President Information Technology, Md Nural Islam Khalifa, Senior Vice President Human Resources, Md Shouquat Ali, Executive Vice-President Legal, Md Nurul Islam, Executive Vice-President Rural Development.

Chairman of Islami Bank Shah Abdul Hannan appears to be an important political and social figure in Bangladesh. A December 26, 1999 article from THE INDEPENDENT, reported the following:

"Former secretary and Islamic thinker Shah Abdul Hannan has called upon the

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Muslims to be moderate shunning the path of extremism. "Islam directs its followers to be moderate. But the Muslims are now resorting to extremism in many cases though teachings of the Holy Quran does not approve it," he said while speaking at a discussion organized in the city yesterday by the Islami Bank Bangladesh Ltd."

In several articles Shah Abdul Hannan discussed the need to stem administrative corruption. He is named in at least eight articles as a former high-ranking secretary. It appears that he was chairman of the National Board of Revenue for several years. An Agence France Presse article dated February 16, 1998 reported the following:

"A senior official of Bangladesh's National Board of Revenue has resigned after being pressured by an influential minister and a local business group to drop a tax evasion case, newspapers reported Monday. Several hundred customs officers in the southeastern port city of Chittagong demonstrated there in protest at the resignation of Shah Abdul Hannan. Hannan resigned as board chairman and as secretary of the finance ministry's internal resources division in a surprise move two months before his scheduled retirement."

No further information could be found regarding the details of Mr. Hannan's resignation or on his former post as chairman and secretary of the National Board of Revenue.

One M.A. Mannan (whose name matches that of Islami Bank's Senior Vice President International Banking Wing & Foreign Exchange) is listed in World-Check as a politically exposed person due to his former position as Cabinet Minister in Bangladesh. The listing, which was entered on 11/06/2000 and updated on 08/06/2004, has the following information: "Former Minister of Labour & Employment, former Member of Parliament. In May 2002, he was reportedly charged with corruption for allegedly illegally spending the government money." No further information could be found on Mr. Mannan's alleged corruption charges and the individual named in the World-Check listing could not be confirmed to be the same individual as the Islami Bank executive of the same name.

One Islam Nurul (whose name matches that of Islami Bank's Executive Vice-President Rural Development), has a World-Check entry that reports him as listed on the UK Disqualified Directors Registrar- 10/24/2002-10/23/2010. No further information could be found on this individual listed on World-Check and he could not be confirmed to be the same individual as the executive of Islami Bank named Islam Nurul.

One Islam Nurul is also listed on World-Check as a politically exposed person due to his former position as Chief of Naval Staff in Bangladesh. The World-Check listing reports the following: "Former Naval Chief. August 2003- reportedly charged with co-accused, Seikh Hasina Wajed in connection with military purchases of the DW 2000h frigate from South Korea's Daewood Corporation between 1996 and 2001, during Sheikh Hasina's tenure as Prime Minister, causing loss to the state (nearly \$88 million)." No further information could be found on this individual listed on World-Check and he could not be confirmed to be the same individual as the executive of Islami Bank named Islam Nurul.

No tax liens, bankruptcy, civil or criminal filings were found for any of the executives listed under Islami Bank:

No further information was found linking any of the executives listed under Islami Bank to corruption or criminal activity.

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## 1356

The Banker's Almanac provides the following shareholder list for Islami Bank:

Al Rajhi Company for Industry & Trade, Riyadh Al-Khobara (9.9369%), Islamic Development Bank, Jeddah (7.5025%), Kuwait Finance House KSC, Safat (5.25%), The Public Institution for Social Security, 6.46%; Arabsas Travel & Tourist Agency, 9.99. Abdullah Abdul Aziz Al-Rajhi, 7.58%.

A search for the Al-Rajhi Company pulled up several World-Check listings for politically exposed persons due to one of the Company's owner's position as a member of the Northern Borders Provincial Council of Saudi Arabia. This individual is named as Abdullah Abdul Aziz Al-Rakhi, and he is also a 7.58% shareholder in Islami Bank. According to World-Check, Mr. Al-Rajhi was appointed to the Council by Royal decree on June 24, 2001.

This office issued a report of findings on Al Rajhi Banking and Investment Corporation in October of 2003. In this report it was stated that Abdullah Abdul Aziz Al Rajhi was the chairman of Al Rajhi Company for Industry and Trade, and that he was on the board of directors for Al Rajhi Banking and Investment Corporation. It is unclear whether he remains chairman of Al Rajhi Company for Industry and Trade, but recent documentation indicates that he still sits on the board of Al Rajhi Banking and Investment Corporation. Please refer to the chart labeled "Exhibit A" in the attached \*.PDF file. As several reports have previously been provided for Al Rajhi related entities, we are providing these below for your reference.

No information was found linking any of Islami Bank's shareholders listed above to criminal activity.

The following civil case was retrieved in a search for Islami Bank, although it could not be confirmed that the Islami Bank that is named as a defendant below is the same entity as the subject of this Report of Findings:

CASE NAME: IMPAK INC v. FROST NATIONAL BANK ET AL  
PLAINTIFF: IMPAK INC  
DEFENDANT: ED INDEX GARMENTS LIMIT, FROST NATIONAL BANK  
SH LIMITED ISLAMI BANK BANGLADE  
FILING DATE: 1/5/1987  
CASE NUMBER: 1987CI00014  
COURT: 57TH JUDICIAL DISTRICT  
CASE TYPE: INJUNCTION  
STATUS: DISPOSED  
COUNTY: BEXAR  
STATE: TEXAS

No further tax liens, bankruptcy, civil or criminal filings were found for Islami Bank.

No information was found linking Islami Bank to corruption or criminal activity

Feel free to contact me if you have any questions regarding this report.

Sincerely,

Maria Shkolnik  
FIG Investigator

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1357

From: FIG HBUS Tel:  
Title: Location:  
WorkGroup: Mail Size: 241871

Sent by: Bob Powers

Subject: Report of Findings - Al-Rajhi Trading Establishment - FIG

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FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS (UPDATE)

SUBJECT: Al Rajhi Trading Establishment

ENTITIES: Al Rajhi Trading Establishment

REQUESTOR: Paul DiBenedetto

DEPARTMENT: Client Services – Financial Institutions

Accounts: Al Rajhi Trading Establishment, Banknotes - [REDACTED]

[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations

A report of findings in support of enhanced due diligence was requested for the Al Rajhi Trading Establishment in Saudi Arabia. A report conducted on Al Rajhi entities was originally issued from this office in October of 2003. An update was conducted in December of 2004 for Al-Rajhi Banking and Investment Corp. Text of those previous reports will be pasted at bottom and attached. This current report will address recent information specific to Al Rajhi Trading Establishment.

Al Rajhi Trading Establishment

Al Rajhi Trading Establishment has appeared in the news very infrequently in the time since the initial report was conducted on Al Rajhi entities in 2003. Dun and Bradstreet lists Sheikh Abdul Rahman S Al Rajhi as the 100% shareholder in Al Rajhi Trading Establishment.

The most significant recent press report concerning Al Rajhi Trading was published in "Ethnic Newswatch" in August, 2004. This article reported that Al Rajhi Trading was one of eight financial institutions to be merged into Al Bilad Bank, a new banking corporation expected to launch operations in mid-2005. Al Bilad will reportedly have a capital of \$800 million. This press report refers to Al Rajhi Trading as a "Money Changer."

In April, 2005, the "EIU Riskwire" reported that Al Bilad was still waiting to open. Al Bilad will be the 11th commercial bank to base its operations in Saudi Arabia.

As indicated in a chart in our 2003 review of Al Rajhi Banking and Investment,

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the owner of Al Rajhi Trading, Sheikh Abdul Rahman S Al-Rajhi, is the son of Saleh Abdul Aziz Al-Rajhi, founder and director of Al-Rajhi Banking and Investment Corp. According to business records we've found, Al-Rajhi Trading is not a subsidiary company of Al-Rajhi Banking and Investment, but is 100% owned by Sheikh Abdul Rahman S Al Rajhi.

A review of press found infrequent references to Sheikh Abdul Rahman S Al Rajhi, usually in reports on his various business dealings.

No evidence of criminal activity relating specifically to Al Rajhi Trading Establishment or its owner could be found in our review.

Text of previous reports regarding Al Rajhi entities is pasted below and in the attached PDF document.

Please feel free to contact me with any questions regarding this report.

Sincerely,

Bob Powers  
FIG Investigations

**Redacted by the Permanent Subcommittee on Investigations**

\*\*\*\*\*

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\*\*\* FOR INFORMATIONAL PURPOSES ONLY \*\*\*

FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS (UPDATE)

SUBJECT: Al-Rajhi Banking & Investment Corporation

ENTITIES: Al-Rajhi Banking & Investment Corporation

REQUESTOR: Sally Lomas

DEPARTMENT: Banknotes

ACCOUNTS: Al-Rajhi Banking & Investment Corporation (Reference # [REDACTED])

An enhanced due diligence was conducted on Al-Rajhi Banking & Investment Corporation. A report of findings was sent on this company in May 2004. The objective of this report is to procure additional information subsequent to the filing date of the initial report.

Al-Rajhi Banking & Investment Corporation:

In 2004, Al-Rajhi Banking & Investment Corporation (ARAJ) filed a suit against the Wall Street Journal (WSJ). ARAJ alleges that the WSJ defamed the bank by accusing it of supporting of terrorism in article published on 2/6/02. After 30 months of active litigation, a settlement was reached, leading to the paper publishing a "clarification" and a letter from Al-Rajhi's chief executive. The clarification basically states that the article published by WSJ did not intend to imply an allegation that ARAJ supported terrorist activity, or had engaged in the financing of terrorism.

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1359

Under the terms of that settlement the WSJ paid no damages, nor was any order made prohibiting the paper from repeating the same allegations in the future.

In all, no charges stemming from the aforementioned article have been levied against ARAJ. Therefore, no substantially adverse information, subsequent to the previous report provided for this company, was found regarding ARAJ.

If you have any questions, feel free to contact the undersigned.

Sincerely,  
Steven Pichardo  
Financial Investigator (FIG)

From: Pierre Nasser on 11 Apr 2006 12:08

To: FIG HBUS@HSBC

cc: Stephanie L Napier/HBUS/HSBC@HSBC  
Muhammad SHOHIDUZZAMAN/IB DAK/HBAP/HSBC@HSBC  
Attab HAIDER/IB DAK/HBAP/HSBC@HSBC  
Subject: Fw: Islami Bank Bangladesh Ltd - EDD Report - New Management

Please add these names in addition to the recent requested EDD report of Mar 17 2006.

Mr Mohammad Abdul Mannan, Executive Vice President, Islami Bank Bangladesh Limited  
Mr Abdur Raquib, Executive President, Islami Bank Bangladesh Limited

Regards  
Pierre Nasser  
Payment Services Regulatory Risk Unit  
Tel: 302-636-2711  
Fax: 302 636-2211  
E-mail: Pierre.Nasser@us.hsbc.com  
---- Forwarded by Pierre Nasser/HBUS/HSBC on 04/11/06 12.04 PM ----

Pierre Nasser/HBUS/HSBC  
03/17/06 11.31 AM

To  
FIG HBUS  
cc  
Stephanie L Napier/HBUS/HSBC@HSBC, PSRR@HSBC  
Subject  
Islami Bank Bangladesh Ltd - EDD Report - New Management

Please perform an EDD report on Islami Bank Bangladesh Ltd, specifically on the new management team:

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1360

Kazi Harun-ar-Rashed-Chairman  
Mus'ad Abdullah Al-Rajhi-Vice Chairman  
Moulana Zainul Abedin-Vice Chairman  
Mominul Islam Patwary-Chairman of the Executive Committee

Regards  
Pierre Nasser  
Payment Services Regulatory Risk Unit  
Tel: 302-636-2711  
Fax: 302 636-2211  
E-mail: Pierre.Nasser@us.hsbc.com

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3241701

1361

From: TERESA PESCE/HBUS/HSBC  
Sent: 5/30/2006 7:51:41 AM  
To: ALAN T KETLEY/HBUS/HSBC@HSBC  
Subject: Re: U-Turns

Alan - we have no choice. JPMC won't take them.

Sent from my BlackBerry Wireless Handheld

From: Alan T Ketley  
Sent: 05/30/2006 08:28 AM  
To: Gary BOON; Alan KERR  
Cc: Pallavi KEMPAIAH; Teresa Pesce; Denise Reilly; Sandra Peterson  
Subject: Re: U-Turns

Gary, Alan

I tried calling you (Gary) but understand that you are out of the office until June 1.

I'm unclear why you would be seeking to have HBUS handle this activity at no notice and am uncomfortable making arrangements for such sensitive activity in this fashion.

As requested in my note below, I would like to receive copies of the types of payment orders that you propose to send to us (my fax is 212 382 7580) in order that we can review them.

Given that you intend passing us as many U-Turns in a day as we would handle in a busy month I'd like to see this activity pass over a dedicated account and for Delaware to have the opportunity to set aside appropriate resources to handle this activity. For that reason I have copied Sandra Peterson.

I would like to invoke some of the protocols set out in the attached document so that this activity may be suitably monitored and controlled

Please advise who in HBME will be available to discuss this issue with HBUS and confirm that activity will not start to flow until we have appropriate controls in place.

Alan T. Ketley  
First Vice President, Anti Money Laundering  
Tel: 212 525 6147  
Fax: 212 382 7580

Gary BOON/HBME/HSBC  
05/28/2006 01:35 AM

To  
Alan T Ketley/HBUS/HSBC@HSBC  
cc  
Alan KERR/HBME/HSBC@HSBC

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1362

Subject  
Re: U-Turns

Alan, as you've seen HBME is now in a situation where we now have to route the Iranian Payments through HBUS and our understanding from David is that this is now ok to do.

After consultation with David, Alan and I contacted JPMC and advised them of the Group's decision to route payments using the serial method but we cannot do this for Iranian related payments as they have to be processed as cover payments (as per Group Compliance) to comply with the U-Turn process. However in our drive to be 100% transparent (and to follow the directive on the last GCL re Serial Payments) HBME would complete field 72 on cover payments (MT202's) with the wording "Iranian transaction in compliance with OFAC sanctions". Following JPMC's refusal to process these specific instructions we seek your urgent assistance to get these payments processed asap through HSBC USA.

We now have a requirement that wef from Tuesday 30th May - HBME need to process these payments through HBUS. It seems a good idea that we talk about this urgently - can we call you today? Please advise appropriate number.

Alan, I was going to copy Sandra Peterson but I leave this to you. We have 40 payments a day on average of which a majority are order a Group entity with about 10 a day from Bank Keshavarzi, Iran - the only a/c remaining open with HBME with this kind of volume.

The good news is that we've a weekend and a bank holiday, the bad news is that we have to do this wef Tuesday as we have no other route open to us!

Gary

Alan T Ketley/HBUS/HSBC  
HBUS  
05/26/2006 10:33 PM  
Mail Size: 3000

To  
Alan KERR/HBME/HSBC@HSBC, Gary BOON/HBME/HSBC@HSBC  
cc

Subject  
U-Turns  
Entity  
HSBC Bank Middle East Limited

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3243966

1363

Alan, Gary

I have received thru Terry Pesce a copy of your (Alan) correspondence with JPM Chase and David Bagley about your imminent move to serial + cover payments with field 72 completed.

I have asked around and we're not sure what you mean by this. My view would be that the move to serial payments would render a cover payment unnecessary; none of us has been able to figure out what the reference to field 72 means - even though David seems to be aware.

Can you send me an example of two of the type of payment structure you have in mind so we can evaluate it properly; I'd also like you to send me examples of the types of payments that you have currently (as discussed previously).

I do not see a date on which JPM Chase will stop handling these items for you - please advise on this score so we can explore establishing the necessary infrastructure.

Thanks

Alan T. Ketley  
First Vice President, Anti Money Laundering  
Tel: 212 525 6147  
Fax: 212 382 7580

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1364

From: SALMAN HUSSAIN/HBME/HSBC  
Sent: 6/22/2006 12:08:40 PM  
To: ALAN T KETLEY/HBUS/HSBC  
CC: DAVID B ILLING/HBMD/HSBCCMERIDIAN;EMRAN.ALIREZA@HSBC.COM;SHARIQ Z  
SIDDIQI/HBME/HSBC;HAMMAD ZAIDI/HBUS/HSBC;  
STEPHEN D LOFFREDO/HBUS/HSBC@HSBC;GARY BOON/HBME/HSBC  
Subject: Al Rajhi Banking & Investment Corp. (Al Rajhi Bank), Saudi Arabia

Dear Alan

I am sending you this email seeking your assistance to address any issues pertaining to Al Rajhi Bank in order to obtain compliance approval. I am also copying the parties involved in the relationship.

- Sharif Siddiqi, GRM Amanah Finance, Dubai  
- David B Illing, Banknotes HBEU, London  
- Emran Ali Reza, Amanah Finance, London

As I understand from talking to all parties that we had an excellent relationship with Al Rajhi Bank until year 2004, banknote (David Illing) stopped doing business while being the largest revenue generator in the Middle East. Amanah Finance in London (Emran Ali Reza) still trade with Al Rajhi Bank under the Murabaha agreement. From my side, I would like to use the Islamic Overnight Investment that Hammad Zaidi and Stephen Lofferdo are working on as an intro to this bank. The amount of potential business/revenue is quite substantial and if their Sharia'a board approved it, this means that other Islamic banks in the region will follow.

Any issues compliance have that I or the rest of the players can assist. Your feedback and assistance is highly appreciated.

Best regards,

Salman Hussain  
Regional Sales Manager  
Global Transaction Banking

HSBC Bank ME Ltd.  
P.O. Box 57  
Manama, Kingdom of Bahrain

Tel.: +973 17569599  
Mobile: [REDACTED]  
Fax.: +973 17564343  
Email. salman.hussain@hsbc.com

[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations

.....  
HSBC Bank Middle East Limited  
Registered Office: HSBC House, Esplanade, St Helier, Jersey, JE4 8UB  
Registered Number 85600  
.....

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3250655

1365

From: ALAN T KETLEY/HBUS/HSBC  
Sent: 6/22/2006 12:38:30 PM  
To: SALMAN HUSSAIN/HBME/HSBC@HSBC  
CC: DAVID B ILLING/HBMD/HSBCMERIDIAN@HSBC;EMRAN.ALIREZA@HSBC.COM;GARY BOON/HBME/HSBC@HSBC;HAMMAD ZAIDI/HBUS/HSBC@HSBC;  
SHARIQ Z SIDDIQI/HBME/HSBC@HSBC;STEPHEN D LOFFREDO/HBUS/HSBC@HSBC;LYNDA J CASSELL/HBUS/HSBC@HSBC.  
STEPHEN J ALLEN/HBMD/HSBCMERIDIAN@HSBC  
Subject: Fw: AlRajhi Banking & Investment Corp., Saudi Arabia

Salman

Good evening.

This must be the week for Al Rajhi as yours is the second e-mail about the bank that I have received.

HBUS exited the relationship in 2004 primarily for Compliance reasons. Earlier this year, Banknotes London expressed their desire to re-establish the relationship and there has been a fair amount of discussion about whether or how to do this.

I'm attaching the last correspondence that we have on the subject identifying certain questions that need to be addressed before any Compliance decision can be made about resuming the relationship. For your information, Banknotes London has been fully embroiled in (preparing for and now in the midst of) an OCC exam so are unlikely to have been able to pursue these questions.

The concerns about this name in the US have been rather long standing and we will need to get extremely comfortable with Al Rajhi before we would be willing to re-establish a relationship

Regards

Alan T. Ketley  
First Vice President, Anti Money Laundering  
Tel: 212 525 6147  
Fax: 212 382 7580  
----- Forwarded by Alan T Ketley/HBUS/HSBC on 06/22/2006 01:16 PM -----

Lynda J Cassell/HBUS/HSBC  
04/10/2006 12:03 PM

To  
Stephen J ALLEN/HBMD/HSBCMERIDIAN@HSBC  
cc  
Gordon BROWN/IBEU/HSBC@HSBC, Alan T Ketley/HBUS/HSBC@HSBC, Anne Liddy/HBUS/HSBC@HSBC, Teresa Pesce/HBUS/HSBC@HSBC  
Subject  
AlRajhi Banking & Investment Corp., Saudi Arabia

Upon review of available information on Al Rajhi Banking and Investment Corp. HBUS' AML Compliance would need the following information included in the KYC

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1366

Profile for consideration:

Address AML procedural areas noted in February 8th e-mail (see below)  
Confirm with client the countries that they do business with. If any of these countries are OFAC sanctioned, the client will need to provide information as to how they ensure that none of the products/services offered by HBUS are utilized in these cases.

Detail the client's intended use of USD banknotes, e.g. percentage to client's bank branches versus commercial enterprises (subsidiaries/affiliates). Usage by customer type, e.g. construction / currency exchanges houses.

Comment on how the client monitors unusual usage of banknote activity and whether they will discontinue doing business with their customer for unexplained activity.

Would want confirmation that the institution would advise of changes in market(s) / customer types of USD Banknote business.

This profile will require review and consideration by Terry Pesce

If you have any questions or need clarification to any of the above, please feel free to contact me.

ljjc/

Lynda J Cassell  
1st Vice President, Sr. AML Policy Advisor  
HSBC USA NA  
452 Fifth Ave 7th Floor  
New York, NY 10018  
Telephone: (212) 525-6026  
Fax: (212) 525-5769  
----- Forwarded by Lynda J Cassell/HBUS/HSBC on 04/10/2006 10:56 AM -----

Lynda J Cassell/HBUS/HSBC  
02/08/2006 05:46 PM

To  
Gordon BROWN/BEU/HSBC  
cc  
Alan T Kettley/HBUS/HSBC@HSBC, Ciara O'CONNELL/BEU/HSBC@HSBC, Daniel Jack/HBUS/HSBC@HSBC, Susan SALAS/BEU/HSBC@HSBC, Teresa Pesce/HBUS/HSBC@HSBC, Stephen J ALLEN/HBMD/HSBCMERIDIAN@HSBC, Christopher Lok/HBUS/HSBC@HSBC  
Subject  
Re: AML Procedures: AlRajhi Banking & Investment Corp., Saudi Arabia

Gordon, in accordance to our previous conversation, the AML compliance decision to do business with Al Rajhi lies with Terry Pesce and as suggested, Stephen should speak to Terry regarding his desire to enter into a Banknotes relationship. ( understand that he is in NYC and I will reach out to Terry's Assistant on Thursday morning to see if what time she has available to meet with Stephen to discuss this and the upcoming OCC exam of Banknotes in London.

In regards to Al Rajhi's AML Policy and Procedures, I find them comprehensive covering many of the areas that our own AML Policy and procedures cover. Their high risk client base generally mirrors our high risk type clients. There is

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1367

little that I could suggest to improve on content.

If a relationship would come under consideration, I would be curious as to whether they have successfully implemented their automated monitoring process, (which was to be implemented in November 2005). Also, if a relationship would be considered we would need to have more information regarding their handling of unlicensed money remitters. There is a comment in their procedures (18.4.11) "monitoring of all transactions to that unlicensed money changers are not remitting funds outside the Kingdom". This comment would require further clarification.

Lynda J Cassell  
1st Vice President, Sr AML Policy Advisor  
HSBC USA NA  
452 Fifth Ave 7th Floor  
New York, NY 10018  
Telephone: (212) 525-6026  
Fax: (212) 525-5769

Gordon BROWN/IBEU/HSBC  
02/06/06 11:50 AM

To  
Lynda J Cassell/HBUS/HSBC@HSBC  
cc  
Susan SALAS/IBEU/HSBC@HSBC, Ciara O'CONNELL/IBEU/HSBC@HSBC, Daniel  
Jack/HBUS/HSBC@HSBC, Alan T Ketley/HBUS/HSBC@HSBC  
Subject  
AML Procedures: Alrajhi Banking & Investment Corp., Saudi Arabia

Lynda,

Attached is the subject bank's AML Policies and Procedures as of December 2005. Please contact me with comments or questions.

Regards,  
Gordon

[attachment "Alrajhi AML Procedures Dec 2005 pdf" deleted by Lynda J Cassell/HBUS/HSBC]

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3250667

1368

From: ANNE LIDDY/HBUS/HSBC  
Sent: 6/22/2006 4:34:59 PM  
To: ALAN T KETLEY/HBUS/HSBC@HSBC  
Subject: Re: You Turn Payments

Amusing. Also - before it was about 40. Yesterday 10. Now 25ish. BTW I am going to set up a mtg with Terry and Denise (as our financier) to discuss resourcing for OFAC. It is out of hand.

From: Alan T Ketley  
Sent: 06/22/2006 05:31 PM  
To: Anne Liddy; Grace C Santiago-Darvish  
Subject: Fw: You Turn Payments

Too funny!

Alan T. Ketley  
First Vice President, Anti Money Laundering  
Tel: 212 525 6147  
Fax: 212 382 7580

----- Forwarded by Alan T Ketley/HBUS/HSBC on 06/22/2006 05:29 PM -----

Bob Shetty/HBUS/HSBC  
06/22/2006 09:00 AM

To  
Alan T Ketley/HBUS/HSBC@HSBC  
cc  
  
Subject  
Fw: You Turn Payments

FY!  
-----  
Bob Shetty  
Global Payments & Cash Management  
HSBC Bank USA,  
212 525 2601

----- Forwarded by Bob Shetty/HBUS/HSBC on 06/22/2006 08:57 AM -----

Gary BOON/HBME/HSBC  
06/22/2006 07:24 AM

To  
Bob Shetty/HBUS/HSBC@HSBC  
cc  
Richard C Boyle/HBUS/HSBC@HSBC  
Subject  
Re: You Turn Payments

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3250730

1369

Bob, you better call me as I'm fully aware of this and in fact its already been in effect since 30 May. Unsure activity statement adds value and too be honest no one will thank me for sending you this if you use it to increase HBME charges.  
If you need volumes - these have already been provided to Compliance Alan Ketley - its about 10 a day but some days could be 25 ish.

Gary

Bob Shetty/HBUS/HSBC  
06/22/2006 03:13 PM  
Mail Size: 6652

To  
Gary BOON/HBME/HSBC@HSBC  
cc  
Patrick K Byrne/HBUS/HSBC, Richard C Boyle/HBUS/HSBC  
Subject  
Re: You Turn Payments  
Entity  
HSBC Bank Middle East Limited

Gary, it appears this activity has been referred to us and is being implemented with urgency and we are now doing the due process. Shall appreciate your help. My fax number is 212 525 5699. Thanks.

.....  
This E-mail is confidential. It may also be legally privileged. If you are not the addressee you may not copy, forward, disclose or use any part of it. If you have received this message in error, please delete it and all copies from your system and notify the sender immediately by return E-mail. Internet communications cannot be guaranteed to be timely, secure, error or virus-free. The sender does not accept liability for any errors or omissions.  
.....

From: Gary BOON  
Sent: 06/22/2006 12:08 AM  
To: Bob Shetty  
Cc: Patrick Byrne; Richard Boyle  
Subject: Re: You Turn Payments

Bob, can you give me any reasons why you need them? I don't have them anyway - I'll have to search around to find them first.

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**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3250731**

1370

Gary

Bob Shetty/HBUS/HSBC  
HBUS  
06/21/2006 11:00 PM  
Mail Size: 2538

To  
Gary BOON/HBME/HSBC@HSBC  
cc  
Patrick K Byrne/HBUS/HSBC@HSBC, Richard C Boyle/HBUS/HSBC@HSBC  
Subject  
You Turn Payments  
Entity  
HSBC Bank Middle East Limited

Gary,

Greetings. I am advised that HBME volumes relating to the above activity will now be migrated from the current service providers to HBUS. May I request you therefore to please provide me a copy of their recent billing statement by return email? Many thanks for your cooperation.

Best Regards

\_\_\_\_\_  
Bob Shetty  
Global Payments & Cash Management  
HSBC Bank USA,  
212 525 2601

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03636374  
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3250732

1371

From: SHARYN MALONE/HBUS/HSBC  
Sent: 8/3/2006 4:07:56 PM  
To: STEPHANIE L NAPIER/HBUS/HSBC@HSBC; AFAF ABDELSAYED/HBUS/HSBC@HSBC  
CC: GILLIAN E BACHSTEIN/HBUS/HSBC@HSBC; PRINCELY P MURO/HBUS/HSBC@HSBC; HERSEL MEHANI/HBUS/HSBC@HSBC;  
ALAN T KETLEY/HBUS/HSBC@HSBC; GEORGE TSUGRANES/HBUS/HSBC@HSBC; ROBERT A MCARTHUR/HBUS/HSBC@HSBC;  
SANDRA PETERSON/HBUS/HSBC@HSBC; ANTHONY JULIAN/HBUS/HSBC@HSBC; NANCY HEDGES/HBUS/HSBC@HSBC;  
GEORGE DALLY/HBUS/HSBC@HSBC; ANN HAGAN/HBUS/HSBC@HSBC; ANDREW P DROLET/HBUS/HSBC@HSBC  
Subject: Social Investment Bank, Bangladesh

To all,

Based on the attached U.S. Treasury announcement designating "the Philippine & Indonesian branch offices of the Saudi-based International Islamic Relief Organization (IIRO) for facilitating fundraising for al Qaida and affiliated terrorist groups", we have today (8/3/06) placed a debit block on Social Investment Bank account # [REDACTED]

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

IIRO holds a 8.62% stake in Social Investment Bank (SIB), Bangladesh who is a US PCM client of HBUS since Oct. 2003. Their value to US PCM is \$44k annualized, split between BDP income & NIL. Also, SIB holds USD accounts with Amex & Stanchart N.Y.

\* Name of Principals or Beneficial Owners: (List all shareholders with 10% or more ownership. If Corporate Client not publicly traded, Special Category Client or High Risk Country, then list all shareholders with 5% or more ownership):

\* % of ownership:

Int'l Islamic Relief Organization (IIRO)  
Social Trust Fund  
Publicly Traded; Widely Held - None with 5% or > holdings 8.62  
8.19  
83.19

After speaking with Compliance, we have placed a debit block on outgoing payments subject to the receipt of a response from Sr. Management of SIB, and HSBC, Dhaka. Stephanie Napier is managing the block, therefore GFT Risk should only accept authorization to release from either Stephanie or myself.

If you have any questions, please let Stephanie or I know.

August 3, 2006

hp-45

Treasury Designates Director, Branches of Charity Bankrolling Al Qaida Network  
The U.S. Department of the Treasury today designated the Philippine and

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Indonesian branch offices of the Saudi-based International Islamic Relief Organization (IIRO) for facilitating fundraising for al Qaida and affiliated terrorist groups. Treasury additionally designated Abd Al Hamid Sulaiman Al-Mujil, the Executive Director of the Eastern Province Branch of IIRO in the Kingdom of Saudi Arabia.

"Abd Al Hamid Sulaiman Al-Mujil, a high-ranking IIRO official in Saudi Arabia, has used his position to bankroll the al Qaida network in Southeast Asia. Al-Mujil has a long record of supporting Islamic militant groups, and he has maintained a cell of regular financial donors in the Middle East who support extremist causes," said Stuart Levey, Treasury's Under Secretary for Terrorism and Financial Intelligence (TFI). "Today we are holding him to account."

The IIRO was established in 1978 and, according to its website, the organization has branch offices in over 20 countries in Africa, Europe, Asia, and the Middle East.

"It is particularly shameful when groups that hold themselves out as charitable or religious organizations defraud their donors and divert funds in support of violent terrorist groups," said Levey. "We have long been concerned about these IIRO offices; we are now taking public action to sever this link in the al Qaida network's funding chain."

Today's action was taken pursuant to Executive Order 13224, which is aimed at detecting and disrupting financial flows to terrorists. Under this authority, U.S. persons are prohibited from engaging in transactions with the designees, and any assets they may have under U.S. jurisdiction are frozen.

**IDENTIFIER INFORMATION**

Abd Al Hamid Sulaiman Al-Mujil

Abd Al Hamid Sulaiman Al-Mujil (Al-Mujil) is the Executive Director of the IIRO Eastern Province (IIRO-EP) branch office in the Kingdom of Saudi Arabia. Al-Mujil has been called the "million dollar man" for supporting Islamic militant groups.

Al-Mujil provided donor funds directly to al Qaida and is identified as a major fundraiser for the Abu Sayyaf Group (ASG) and Jemaah Islamiyah (JI). Both ASG and JI are al Qaida-associated terrorist groups in Southeast Asia designated pursuant to the authorities of E.O. 13224. These terrorist groups are also on the United Nations 1267 Committee's consolidated list of individuals and entities associated with the Taliban, al Qaida and/or Osama Bin Ladin.

In 2004, Al-Mujil invited a Philippines-based JI supporter to Saudi Arabia under the cover of traveling for the hajj (the Muslim pilgrimage), and planned to provide him with cash to carry back to the Philippines to support organizations including JI.

Al-Mujil was also present in Afghanistan in the late 1990s and personally knew Osama Bin Ladin and deceased al Qaida co-founder Abdallah Azzam. Al-Mujil traveled continuously to meet with members of Bin Ladin's organization in Arab countries. In the 1990s, Al-Mujil established a relationship with senior al Qaida operational planner Khalid Shaykh Muhammad.

Al-Mujil has a long history of providing support to terrorist organizations. He has contributed direct financial assistance to ASG leaders, including Abdurajak Janjalani (deceased).

The Indonesian and Philippines branches of IIRO have received support from IIRO-EP, which in turn is controlled by Al-Mujil. Indeed, he is often responsible for authorizing payment transfers for IIRO Philippines (IIRO-PHL) and IIRO Indonesia (IIRO-IDN).

**Name:**

Abd al-Hamid Sulaiman Al-Mujil

**AKAs:**

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Dr. Abd al-Hamid Al-Mujal  
 Dr. Abd Abdul-Hamid bin Sulaiman Al-Mu'jil  
 Dr. Abd Al-Hamid Al-Mu'ajjal  
 Abd al-Hamid Mu'jil  
 A.S. Mujel

DOB:  
 Abu Abdallah

Nationality:  
 Saudi Arabian

International Islamic Relief Organization, Philippines Branch Offices  
 The IIRO-PHL is a source of funding for the al Qaida-affiliated ASG IIRO-PHL has served as a liaison for the ASG with other Islamic extremist groups. A former ASG member in the Philippines familiar with IIRO operations in the country reported that a limited amount of foreign IIRO funding goes to legitimate projects and the rest is directed to terrorist operations.

The Philippine branches of the IIRO were founded sometime in the late 1980s or early 1990s by Muhammad Jamal Khalifah, who is Usama bin Laden's brother-in-law and has been identified as a senior al Qaida member. IIRO-PHL's director, Abd al-Hadi Daguit, is a trusted associate of Khalifah.

While working as the director of IIRO-PHL, Khalifah maintained close connections with al Qaida through his relations with senior al Qaida supporters, including Specially Designated Global Terrorist (SDGT) Wa'el Hamza Julaidan. At the time Khalifah directed the IIRO-PHL, he employed an ASG intelligence officer as the provincial director of the IIRO-PHL in the Tawi-Tawi region of the Southern Philippines until that officer's death in 1994.

In the mid 1990s, a major ASG supporter, Mahmud Abd Al-Jalil Afif, served as the director of the IIRO-PHL and used the organization to funnel money to terrorist groups including the ASG. Afif was implicated in the assassination of Father Salvatore Carzeda in San Jose Gusu, Zamboanga City, Philippines on June 20, 1992.

AKAs:  
 International Islamic Relief Agency  
 International Relief Organization  
 Islamic Relief Organization  
 Islamic World Relief  
 International Islamic Aid Organization  
 Islamic Salvation Committee  
 IIRO  
 The Human Relief Committee of the Muslim World League  
 World Islamic Relief Organization  
 Al Igatha Al-Islamiya  
 Hayat al-Aghatha al-Islamia al-Namiya  
 Hayat al-Igatha  
 Hayat Al-Igatha  
 Igatha  
 Igassa  
 Igasa  
 Igase  
 Egassa

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 Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3259938

1374

Address.

International Islamic Relief Organization, Philippines Offices  
201 Heart Tower Building  
108 Valero Street  
Salcedo Village, Makati City  
Manila, Philippines

Other Locations:

Zamboanga City, Philippines  
Tawi Tawi, Philippines  
Marawi City, Philippines  
Basilan, Philippines  
Cotabato City, Philippines

International Islamic Relief Organization, Indonesia Branch Office

The IIRO Indonesia director has channeled money to two Indonesia-based, JI-affiliated foundations. Information from 2006 shows that IIRO-IDN supports JI by providing assistance with recruitment, transportation, logistics, and safe-havens. As of late 2002, IIRO-IDN allegedly financed the establishment of training facilities for use by al Qaeda associates.

AKAs:

International Islamic Relief Agency  
International Relief Organization  
Islamic Relief Organization  
Islamic World Relief  
International Islamic Aid Organization  
Islamic Salvation Committee  
IIRO  
The Human Relief Committee of the Muslim World League  
World Islamic Relief Organization  
Al Igatha Al-Islamiya  
Hayat al-Aghatha al-Islamia al-Alamiya  
Hayat al-Igatha  
Hayat Al-Igatha  
Ighatha  
Igatha  
Igassa  
Igasa  
Igase  
Egassa

Address:

International Islamic Relief Organization, Indonesia Office  
Jalan Raya Cipinang Jaya No. 90  
East Jakarta, 13410, Indonesia  
P.O. Box 3654  
Jakarta, Indonesia 54021

-30-

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1375

From: ANDREW RIZKALLA/HBUS/HSBC  
Sent: 8/7/2006 8:01:39 AM  
To: GEORGE TSUGRANES/HBUS/HSBC@HSBC  
CC: ALAN T KETLEY/HBUS/HSBC@HSBC  
Subject: Re: Fw: Social Invst Bank Bangladesh

I remain firm to my first opinion, the account should be close in an orderly fashion. We still don't know if there is a nominee shareholder interest to IIRO, the U.S. Govt has designated IIRO for supporting terrorism, so even the small shareholder ownership entitles them to profits and dividends from Soc Invst Bank to reinvest where?? Any decision Social takes to remove IIRO should be on their own decision, irrespective of what HBUS does, the reason below sounds like a cope out and in no way should HBUS be bound by any decision management of that institution makes.

Hershel says monitor the accounts for 6 months, will he be doing the monitoring??

Andrew W. Rizkalla, CAMS, CFE, CRCM  
VP, AML Compliance  
HSBC USA, N.A.  
452 Fifth Avenue 7th Floor  
New York, NY 10018  
Tel. No. (212) 525-6346  
Fax No. (212) 525-6550

George Tsugranes/HBUS/HSBC  
08/07/2006 08:27 AM

To  
Alan T Ketley/HBUS/HSBC@HSBC  
cc  
Andrew Rizkalla/HBUS/HSBC@HSBC  
Subject  
Re: Fw: Social Invst Bank Bangladesh

Although the Philippine and Indonesia branch offices were cited, the Treasury action also cited Abd Al Hamid Sulaiman Al-Muji who is a high ranking IIRO official. So although only the 2 branches were cited, having a top official in the organization mentioned should be cause for concern involving IIRO. As this organization has a 9.0 % stake and does not involve itself in the day to day operations or mgmt - who is to say that they won't sooner or later or start moving funds through this acct.

Also, the support attached is "luke warm" in my opinion.

regards,  
George

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3260409

1376

Alan T Ketley/HBUS/HSBC  
08/07/06 08:12 AM

To  
"George Tsugranes" <george.tsugranes@us.hsbc.com>, "Andrew Rizkalla"  
<andrew.rizkalla@us.hsbc.com>  
cc

Subject  
Fw: Social Invst Bank Bangladesh

Thoughts?

Alan T. Ketley  
First Vice President, Anti Money Laundering  
Tel: 212 525 6147  
Fax: 212 382 7580  
----- Forwarded by Alan T Ketley/HBUS/HSBC on 08/07/2006 08:10 AM -----  
Hersel Mehani/HBUS/HSBC  
08/06/2006 05:43 PM

To  
Alan T Ketley/HBUS/HSBC, George Tsugranes/HBUS/HSBC@HSBC, Sharyn  
Malone/HBUS/HSBC@HSBC, Stephanie L Napier/HBUS/HSBC@HSBC  
cc

Subject  
Fw: Social Invst Bank Bangladesh

Dear all  
CEO email from Dhaka is selfexplanatory .  
My decision is to maintain the acct and monitor activities for six month  
Dhaka banking system is closely monitored by the RM and also GRM  
Steve comments and RM feedback indicate that the bank is aware of the present  
situation and they have no directors on their board from IIR and this should  
allow us to document that EDD was swiftly Performed and will continue to be  
performed as long as the IIR has share in this bk I am visiting all these bank  
next month  
We need to discuss if possible early tom the execution of payments held on  
friday and whether to close and release these funds as indicated in the email  
. Again I wish to support Dhaka in maintaining the acct.

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1377

Cc:  
HSteve BANNER

From: Steve BANNER  
Sent: 08/06/2006 09:06 AM  
To: Hersel Mehani  
Cc: Sharyn Malone; Alan T Ketley; George Tsugranes; Stephanie Napier;  
Iftkhar ALAM; Muhammad SHOHIDUZZAMAN Subject: Fw: Social Invst Bank  
Bangladesh

Hersel,

I refer to your note sent on Friday. I attach a self explanatory note from Shohid, who has (along with Iftkhar) been following up on this matter with SIBL's management.

Based on the feedback from SIBL, IIRO's role remains that of a minority shareholder that does not seek to engage in the management of the bank. We have no reason to disbelieve SIBL's statements. There are therefore no grounds for me to recommend an account closure or account freeze.

I appreciate, however, that HBUS may feel compelled to act firmly in the light of OFAC's position. This is obviously a decision that rests with HBUS and I can confirm that we will not object to such an action. That said, we would much prefer it if SIBL is allowed to withdraw the balances held with HBUS before you freeze or close the account. From our perspective there appears to be no justification for depriving SIBL of their funds and to do so would open HSBC to unwanted reputational damage / regulatory scrutiny locally.

SIBL will, of course, wish to receive some written explanation of why their account has been frozen / closed. This letter will need to emanate from HBUS and we need to be conscious that it may be used by SIBL management to force IIRO to sell their shares. No doubt you will consult your lawyers on this matter but we believe it would be prudent if you were to avoid specifically mentioning IIRO in any such correspondence and more generically state something along the lines that "the account has been frozen or closed in accordance with HBUS' interpretation of OFAC regulations, by which we are bound".

If you let us know in advance that you are going to freeze / close the account we can start preparing the ground work with SIBL ahead of your action.

Please let me know if you want to discuss.

Steve

----- Forwarded by Steve BANNER/CEO DAK/HBAP/HSBC on 08/06/2006 06:19 PM -----  
Muhammad SHOHIDUZZAMAN/IB DAK/HBAP/HSBC  
IB DAK/HBAP  
08/06/2006 05:45 PM  
Phone No. 880 2 9660536 x 255  
Mail Size: 29029

To  
Steve BANNER/CEO DAK/HBAP/HSBC@HSBC  
cc

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3260411

1378

Iftexhar ALAM/IB DAK/HBAP/HSBC@HSBC  
Subject  
Fw: Social Invst Bank Bangladesh  
Our Ref

Your Ref

Steve

Iftexhar and I paid a visit to Social Investment Bank (SIBL) this afternoon and discussed the matter with the following executives:

01. Mr. K. M. Ashaduzzaman, Managing Director (MD)
02. Mr. Abu Sadek Md. Sohel, Deputy Managing Director (DMD)
03. Mr. Mahamud Hassan, Senior Vice President and Company Secretary (CS)

I briefly described the background of the present issues and asked for their feedback and views. The MD advised/confirmed us the following:

-The present shares holding of IIRO still remains at the previous 8.62%  
-Apart from subscribing the shares IIRO has never took part in any activities of SIBL. IIRO did not even take possession of the shares certificates issued in their favour. The shares are in the custody of SIBL. IIRO has never been a member of SIBL's board of Directors. -MD advised that there was scope of removing director/sponsor of the bank in the memorandum and Articles of association of the bank (supported by the Banking Companies Act), if the director/shareholders were involved in such acts which were "contrary/derogatory to the objective or interest of the bank or Shariah." He unofficially advised that if any involvement of any executive/director/sponsor of IIRO transpires in closing down their nostro accounts or any such actions then the management will present the case as "contrary to the interest of the bank" to the board of directors and recommend taking action as per the above provision of the M&A. He also requested us to provide details of the US Treasury's findings (if possible) so that he could peruse the case in the upcoming AGM of the Bank due in November 06. -MD asked us not to freeze their account so that they could continue to route their USD clearing activities through the account.

In view of the above, we are of the opinion that since IIRO is not involved in the operation of SIBL, there is no issues of concern locally. But since the matter has been raised by the US treasury, HBUS should take appropriate measure after careful examination of all the present and potential aspects. FYI, presently SIBL is maintaining two nostro accounts with HBUS and INM. We do not have any credit relationship with this bank.

Regards

Shohid

----- Forwarded by Muhammad SHOHIDUZZAMAN/IB DAK/HBAP/HSBC on 08/06/2006 03:10 PM -----

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1379

Hersel Mehani/HBUS/HSBC  
HBUS  
08/04/2006 07:35 PM  
Mail Size: 24719

To  
Muhammad SHOHIDUZZAMAN/IB DAK/HBAP/HSBC@HSBC  
cc  
Steve BANNER/CEO DAK/HBAP/HSBC@HSBC, Sharyn Malone/HBUS/HSBC@HSBC, Alan T  
Ketley/HBUS/HSBC@HSBC, George Tsugranes/HBUS/HSBC@HSBC, Stephanie L  
Napier/HBUS/HSBC@HSBC, Iftekhar ALAM/IB DAK/HBAP/HSBC@HSBC  
Subject  
Social Invest Bank Bangladesh  
Our Ref  
  
Your Ref

Dear Shohid

I just finished updating Ifekhar on Social Invest Bank . He will call you to discuss this issue . Tomorrow he will speak to Sr. Management of the bank to obtain their reaction to the announcement. Of specific interest to HBUS will be the actions they are taking and the exact role in management and day to day operations that IIRO has in the bank.

Compliance in NY has asked that I obtain from Mr. Steve Banner his input and comments as well , and whether we have a valid case to keep this account on our books

As indicated below the OFAC has added this name to their SDN list  
We have blocked all outgoing payments for value Friday and all further payments until further notice.

Quote

The following entities have been added to OFAC's SDN list:  
INTERNATIONAL ISLAMIC RELIEF ORGANIZATION INDONESIA BRANCH OFFICE (a.k.a. AL IGATHA AL-ISLAMIYA; a.k.a. EGASSA; a.k.a. HAYAT AL-AGHATHA AL-ISLAMIA AL-ALAMIYA; a.k.a. HAYAT AL-IGATHA; a.k.a. HAYAT AL-'IGATHA; a.k.a. IGASA; a.k.a. IGASE; a.k.a. IGASSA; a.k.a. IGATHA; a.k.a. IGHATHA; a.k.a. IIRO; a.k.a. INTERNATIONAL ISLAMIC AID ORGANIZATION; a.k.a. INTERNATIONAL ISLAMIC RELIEF AGENCY; a.k.a. INTERNATIONAL RELIEF ORGANIZATION; a.k.a. ISLAMIC RELIEF ORGANIZATION; a.k.a. ISLAMIC SALVATION COMMITTEE; a.k.a. ISLAMIC WORLD RELIEF; a.k.a. THE HUMAN RELIEF COMMITTEE OF THE MUSLIM WORLD LEAGUE; a.k.a. WORLD ISLAMIC RELIEF ORGANIZATION), Jalan Raya Cipinang Jaya No. 90, East Jakarta, Java 13410, Indonesia; P.O. Box 3654, Jakarta, Java 54021, Indonesia [SDGT]  
INTERNATIONAL ISLAMIC RELIEF ORGANIZATION PHILIPPINES BRANCH OFFICE (a.k.a. AL IGATHA AL-ISLAMIYA; a.k.a. EGASSA; a.k.a. HAYAT AL-AGHATHA AL-ISLAMIA AL-ALAMIYA; a.k.a. HAYAT AL-IGATHA; a.k.a. HAYAT AL-'IGATHA; a.k.a. IGASA; a.k.a. IGASE; a.k.a. IGASSA; a.k.a. IGATHA; a.k.a. IGHATHA; a.k.a. IIRO; a.k.a. INTERNATIONAL ISLAMIC AID ORGANIZATION; a.k.a. INTERNATIONAL ISLAMIC RELIEF AGENCY; a.k.a. INTERNATIONAL RELIEF ORGANIZATION; a.k.a. ISLAMIC RELIEF ORGANIZATION; a.k.a. ISLAMIC SALVATION COMMITTEE; a.k.a. ISLAMIC WORLD RELIEF; a.k.a. THE HUMAN RELIEF COMMITTEE OF THE MUSLIM WORLD LEAGUE; a.k.a. WORLD

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1380

ISLAMIC RELIEF ORGANIZATION), Marawi City, Philippines; Zamboanga City, Philippines; Tawi Tawi, Philippines; Basilan, Philippines; Cotabato City, Philippines; 201 Heart Tower Building, 108 Valero Street, Salcedo Village, Makati City, Metropolitan Manila, Philippines [SDGT]  
Hersel Mehani  
Senior Vice President  
Global Payments and Cash Management  
----- Forwarded by Hersel Mehani/HBUS/HSBC on 08/04/2006 09:03 AM -----  
Hersel Mehani/HBUS/HSBC  
Tel: 212-525-6239  
08/04/2006 08:54 AM

To  
minar03@  
cc  
Subject

Redacted by the Permanent Subcommittee on Investigation

Just to confirm our discussions this afternoon regarding IIRO's designation by the US Department of Treasury as a supporter of Al Qaida. Hersel will be speaking with HSBC Dhaka and Social Investment to obtain their reaction to the announcement. Of specific interest to HBUS will be the actions they are taking and the exact role in management and day to day operations that IIRO has in the bank.  
Notwithstanding that Bangladesh is close on Friday we will require an answer by start of business on Monday and will evaluate our options at that time. With immediate effect outbound payments are to be blocked. We will continue to allow inbound payments to be credited to Social Investment's account.  
Hersel Mehani  
Senior Vice President  
Global Payments and Cash Management  
----- Forwarded by Hersel Mehani/HBUS/HSBC on 08/04/2006 09:03 AM -----  
Hersel Mehani/HBUS/HSBC  
Tel: 212-525-6239  
08/04/2006 08:58 AM

To  
minar03@hotmail.com  
cc  
Subject

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03646056  
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSB OCC 3260414

1381

From: ALAN T KETLEY/HBUS/HSBC  
Sent: 8/7/2006 8:47:40 AM  
To: HERSEL MEHANI/HBUS/HSBC@HSBC; SHARYN MALONE/HBUS/HSBC@HSBC  
CC: "ANDREW RIZKALLA" <ANDREW.RIZKALLA@US.HSBC.COM>; "GEORGE TSUGRANES" <GEORGE.TSUGRANES@US.HSBC.COM>; PRINCELY P MURO/HBUS/HSBC@HSBC  
Subject: Social Investment Bank

Hersel, Sharyn

After reviewing the information provided by HSBC Dhaka my provisional decision is that this relationship be allowed to continue. It will need to be designated as an SCC Category 4 (reputational risk) with immediate effect and will be subject to closer monitoring as a result (George - an ALT of \$50,000 should be applied).

I am not willing to commit to the 6 months suggested by Hersel and we will review activity and determine what further action may be required as events warrant. In this regard, the timing of Hersel's upcoming visit is fortuitous and give the bank some more time to react to the Treasury announcement. We will have some specific questions for Hersel to ask the bank when he visits them next month (George/Andrew please draft appropriate questions). We will review the status of the account in the light of the information Hersel brings back with him as well as any news received in the interim.

By copy of this note would George please confirm that the names contained in the Treasury announcement last week are now in our payment filter.

JIRO's shareholding is a minority holding and information received indicates that they exert neither management control nor have board representation. While this entity clearly represents a heightened reputational risk to the bank, I believe that with the knowledge we have today and the controls that are being implemented we have mitigated that risk adequately.

I see that an EDD RoF is pending and have asked FIG if they can hasten its production.

The block on outbound payments that was imposed on Thursday may be lifted (and teh account returned to normal operation) as soon as George confirms that the names are in the filter.

Alan T. Ketley  
First Vice President, Anti Money Laundering  
Tel: 212 525 6147  
Fax: 212 382 7580

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3260426

1382

From: TERESA PESCE/HBUS/HSBC  
Sent: 8/11/2006 9:46:45 AM  
To: ALAN T KETLEY/HBUS/HSBC@HSBC; ANDREW RIZKALLA/HBUS/HSBC@HSBC  
CC:  
Subject: Fw: Report of Findings - Social Investment Bank Limited - Bangladesh - FIG

This makes me very uncomfortable. Can we talk to the business about this?

---

Teresa A. Pesce  
EVP/Managing Director  
Anti-Money Laundering Compliance  
HSBC North America Holdings  
452 Fifth Avenue  
New York, NY 10018  
ph - (212) 525-6099  
fax- (212) 525-5769  
----- Forwarded by Teresa Pesce/HBUS/HSBC on 08/11/2006 10:44 AM -----

FIG HBUS  
Sent by: Michael Ellis  
08/10/2006 06:27 PM

To  
George Tsigranes/HBUS/HSBC@HSBC, Alan T Ketley/HBUS/HSBC@HSBC  
cc  
Gillian E Bachstein/HBUS/HSBC@HSBC, Melissa Oggenfuss/HBUS/HSBC@HSBC, Pierre  
Nasser/HBUS/HSBC@HSBC, PSRR@HSBC, Andrew Rizkalla/HBUS/HSBC@HSBC, Gloria  
Strazza/HBUS/HSBC@HSBC, Teresa Pesce/HBUS/HSBC@HSBC, FIG HBUS@HSBC, Kathleen  
Dischner/HBUS/HSBC@HSBC  
Subject  
Report of Findings - Social Investment Bank Limited - Bangladesh - FIG

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George and Alan,

Please find below an updated Report of Findings for Social Investment Bank Limited of Bangladesh, prepared by one of our FIG Investigators, Kathleen Dischner. As you will read in this updated Report of Findings and the two prior ones attached below, there are several concerns pertaining to terrorist financing in regards to Social Investment Bank Limited's largest single shareholder, the International Islamic Relief Organization (IIRO). We especially recommend that you consider the following information in evaluating the reputational risk posed by a continued account relationship with Social Investment Bank Limited:

On August 3, 2006, the U.S. Treasury Department designated the Philippine and Indonesian branch offices of the Saudi-based IIRO as Specially Designated Global Terrorists (SDGT). The Treasury Department also designated Abd Al Hamid Sulaiman Al-Mujil, the Executive Director of IIRO's Eastern Province Branch in

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Saudi Arabia, as a SDGT.

According to Bankers' Almanac and Social Investment Bank's KYC profile, the Saudi-based IIRO owns an 8.62% stake in the bank, and is its largest single shareholder.

As documented in the Reports of Findings below, prior to the SDGT designation of IIRO's Philippine and Indonesian branches, there have been numerous allegations of the organization's involvement in terrorist financing over the years. In fact, it appears that the IIRO is rarely mentioned in the press without it also being alleged that the group is a source of terrorist financing.

Please feel free to contact me with any questions.

Michael Ellis  
Manager, AVP - Financial Intelligence Group  
Investigative Control & Reporting Office  
452 5th Avenue, Tower 7  
New York, NY 10018  
Telephone: (212) 525-8931  
Fax: (212) 525-5769  
Mail Code: 31

INVESTIGATIVE CONTROL AND REPORTING OFFICE (ICRO)  
FINANCIAL INTELLIGENCE UNIT  
REPORT OF FINDINGS (UPDATE)  
(Research as of 08/04/06)

INVESTIGATOR: Kathleen Dischner

FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS

SUBJECT: Social Investment Bank Limited

ENTITIES: Social Investment Bank Limited

REQUESTOR: Rhonda Lee, Nanayo Ryan, George Tsugranes, Alan Ketley, Daniel Jack

DEPARTMENT: PCM/Banknotes

A Report of Findings in support of Enhanced Due Diligence was conducted for the Social Investment Bank Limited located in the HSBC-designated high-risk country of Bangladesh. This is an update to a previous report prepared for this bank on 3/2005, which is provided below for your reference. Only items impacting adversely on money laundering, terrorist financing or other substantive criminal activity concerns will be detailed in this updated report.

UPDATE:  
Social Investment Bank Limited

Most Current Ownership Breakdown Found (5% or higher):

Banker's Almanac indicates that the International Islamic Relief Organization owns 8.62% of the Social Investment Bank Limited.

Most Current List of Top Executives Found:

Dr Md Afzal Haque, Chairman

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Ahaj Mohd Afzal Hossain, Vice-Chairman  
 K M Ashaduzzaman, Managing Director  
 Abu Shadek Sohel, Deputy Managing Director  
 Shafiqul Islam, Senior Vice-President

Notable Information Regarding the Financial Institution, its Ownership or its Top Executives:

An article in "The Los Angeles Times" on January 15, 2006 reports that US officials have cited such organizations as the International Islamic Relief Organization, the majority shareholder of the Social Investment Bank, as "engaging in highly suspect activities overseas." A "National Review" article from December 14, 2005 reports that the Egyptian magazine "Rose al-Youssef," describes the IIRO as "firmly entrenched with Osama bin Laden's Al-Qaeda organization."

World-Check identifies the International Islamic Relief Organization (Indonesia) under Category 2: Terrorism. It is listed on the USA OFAC list – SDGT (Specially Designated Global Terrorist). It was identified as providing assistance to Jemaah Islamiyah in terms of recruitment, transportation, logistics, and safe-havens. (Jemaah Islamiyah is a militant Islamic terrorist organization dedicated to the establishment of a fundamentalist Islamic theocracy in Southeast Asia. Financial links between Jemaah Islamiyah and other terrorist groups, such as Abu Sayyaf and al-Qaeda, have reportedly been found to exist. <http://en.wikipedia.org>). The IIRO also allegedly financed training facilities for Al-Qaeda associates. (World-Check entry dated 8/3/06, citing U.S. Treasury Department press release at <http://www.treas.gov/press/releases/hp45.htm>).

World-Check identifies the International Islamic Relief Organization (Philippines) under Category 2: Terrorism. It is listed on USA OFAC under SDGT (Specially Designated Global Terrorist). It was reportedly founded in the late 1980's or early 1990's, by a senior Al-Qaeda member and brother in law of Osama Bin Laden. The Director, Abd al-Hadi Daguit, is allegedly a close associate of the founder. (World-Check entry dated 8/3/06). The organization is allegedly used as a source of funding for Abu Sayyaf Group. (The ASG is reportedly primarily a small, violent Muslim terrorist group operating in the southern Philippines. Some ASG leaders allegedly fought in Afghanistan during the Soviet war and are students and proponents of radical Islamic teachings. Terrorist Group Profiles - <http://library.nps.navy.mil/home/tgp/asc.htm>).

A separate World-Check entry also identifies the International Islamic Relief Organization, with locations listed as Virginia, Saudi Arabia, and the Philippines, under Category 2: Terrorism. The description indicates the following:

"Headed by Mohammed Khalifa, Osama bin Laden's brother-in-law. Member of the Board and the Executive Committee - Sheikh Hani Ahmad Zaki Yamani. Suspected of giving financial support to Islamic fundamentalist groups in Mindanao, Philippines (on behalf of) and could be linked to Osama bin Laden. Reportedly funded organizations that aid and abet terrorism including Al-Qaeda, Hamas and Islamic Jihad. Allegedly linked to the 1993 World Trade Centre Bombings, involved in plots to assassinate Bill Clinton and the Pope and the planned destruction of the Lincoln Tunnel and Brooklyn Bridge. Sister organization Sana-Bell, Inc allegedly gives financial support to Islamic groups - suspected of laundering money for Al-Qaeda and other terrorist organizations - linked to SAAR Network, The Golden Chain, the Saudi evangelical charity the Muslim World League - offices world-wide. Dec 2002 - reported to be 1 of 10 charities being sued by the families of the 11 Sep 2001 World Trade Centre victims. Allegedly

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active in Afghanistan during the Taliban regime and considered a major sponsor of terrorist training camps there."

World-Check identifies a Shafiqul Islam under the Category 2 of Terrorism. He is reportedly a suspected Jama'atul Mujahidden Bangladesh (JMB) suicide squad member. However, we could not confirm that he is the same individual who is also a Senior Vice-President at the Social Investment Bank Limited. It appears that he may not be the individual listed on World-Check, as he was reportedly arrested in February 2006. (World-Check entry dated: 2/13/06, citing "The Independent" of Bangladesh).

Information Found Regarding this Financial Institution, its Ownership or its Top Executives that Warrants SCC Consideration:

The International Islamic Relief Organization is the majority shareholder of the Social Investment Bank Limited. The IIRO allegedly has connections to terrorist organizations such as Al Qaeda, and its Indonesian and Philippine branches have been designated by OFAC as SDGTs.

\*\*\* Should you find any discrepancies between the ownership and/or executives named in this report and those named in your current, up-to-date KYC information, please let us know so that we may check any differing names for items impacting adversely on money laundering, terrorist financing or other substantive criminal activity concerns.

This report is confidential and is intended solely for the use of the HSBC business to which it is addressed and those who need to know the information pursuant to that business' internal procedures. This report is not to be disseminated to any other person or entity. Our investigative findings are, in part, based upon information available to us through a variety of third-party providers at the time our search is performed. While every attempt is made to find all substantive information, we make no representation that the information provided to, or gathered by, us is complete. This is not a credit report and should not be used as a credit report. The information contained herein is intended as a supplement to the Know Your Customer information gathered by the HSBC business unit and may not be considered when determining the creditworthiness of the customer (see Regulation B, 12 CFR 202.7).

Please feel free to contact me with any questions regarding this report.

Kathleen Dischner

Note  
10 Mar 2005 18:02

From: FIG HBUS Tel:  
Title: Location:  
WorkGroup: Mail Size: 30784  
Sent by: Bob Powers

To: Rhonda Lee-Thomas/HBUS/HSBC@HSBC  
Nanayo Ryan/HBUS/HSBC@HSBC  
Gloria Strazza/HBUS/HSBC@HSBC

cc: Teresa Pesce/HBUS/HSBC@HSBC  
Alan T Ketley/HBUS/HSBC@HSBC  
Lynda J Cassell/HBUS/HSBC@HSBC  
FIG HBUS@HSBC

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1386

Subject: Report of Findings - Social Investment Bank Ltd - FIG (UPDATE)

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FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS (UPDATE)

SUBJECT: Social Investment Bank Ltd

ENTITIES: Social Investment Bank Ltd

REQUESTOR: Rhonda Lee-Thomas, Nanayo Ryan

DEPARTMENT: Banknotes

ACCOUNTS: Social Investment Bank Ltd Acct# [REDACTED]

[REDACTED] Redacted by the Permanent  
Subcommittee on Investigations

A report of findings in support of enhanced due diligence for Social Investment Bank Ltd was conducted in November of 2003. The text of that report has been pasted below. As of today, March 10, 2005, we have conducted an update review for this bank to determine if there have been any reports of criminal activity surrounding this corporation, or any notable news or changes, since November of 2003. Our findings are as follows:

Recommendation

In consideration of the below-mentioned allegations of terrorist financing against Social Investment Bank's largest shareholder, the International Islamic Relief Organization, we strongly recommend that a relationship with Social Investment Bank not be approved until the matter is discussed with Senior Compliance Management.

International Islamic Relief Organization (IIRO)

Of primary concern in the November, 2003 report was the issue of Social Investment Bank's majority shareholder, the International Islamic Relief Organization (IIRO), and the IIRO's alleged connections to terrorist organizations such as Al Qaeda.

According to the Bankers Almanac profile published on Lexis-Nexis on February 14, 2005, the IIRO remains the largest shareholder of the Social Investment Bank, with an 8.62% stake in the bank. The Bankers Almanac profile provides a very specific breakdown of the shareholders, naming dozens of individual shareholders who hold a smaller than 1% stake in the bank. Of all the shareholders named, the IIRO is the only shareholder that claims a 5%-or-larger stake in Social Investment Bank Ltd.

As the November, 2003 report made clear, the International Islamic Relief Organization is alleged to have provided funding to terrorist groups such as Al Qaeda in the past. The group endorses Wahhabism, a strict interpretation of Sunni Islam that values martyrdom. Wahhabism is the school of Islam that Osama Bin Laden is reported to have practiced. While the group has avoided any official sanctions from a governing body, they are still widely reported as being suspected of terrorist financing. Based on the frequency with which the group is connected to terrorist financing in the press, it is likely that their

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activities will always be under scrutiny, and future government sanctions against the group are highly probable.

As recently as February, 2005, the Associated Press reported that the US expressed concern when the IIRO took part in Tsunami relief efforts in Indonesia. The assistant secretary for terrorist financing at the US Treasury Department was quoted in the article as saying that the IIRO's presence could lead to extremist ideologies gaining a foothold in the region and establishing a foundation for terrorist activity.

Reporting on the IIRO's Tsunami relief efforts on February 25, 2005, the "Associated Press" stated that the IIRO is alleged to have acted as a cover for Al-Qaeda operations in the Philippines. "The Manila Standard" reported on January 22, 2005 that Filipino law enforcement has adopted measures to cut off funding to an alleged new Islamic fundamentalist group that trains its members in terrorism and has already plotted a bombing in Manila, which was foiled by police. Filipino officials believe funding for the group, and other fundamentalist groups in the region, comes from Al-Qaeda linked organizations. The only such organization named specifically in the article was the International Islamic Relief Organization, which is alleged to provide funding for Islamic Fundamentalist groups in the Philippines by channeling the funds to local Islamic non-governmental organizations.

The World-Check profile on the IIRO classifies the group as a terrorist entity, based on reports that the IIRO has funded groups that are acknowledged by the federal government and the United Nations as having aided and abetted terrorism.

On January 10, 2005, it was reported that the IIRO had merged with the Muslim World League. World-Check's profile on the Muslim World League classifies the group as a terrorist entity. World-Check claims that the group was initially funded by Osama Bin Laden and, like the IIRO, is alleged to have funded groups that aid and abet terrorism. Additionally, partial funding to the groups responsible for the 1993 World Trade Center bombing has reportedly been traced back to both the IIRO and the Muslim World League.

In conclusion, the IIRO is rarely mentioned in the press without it also being alleged that the group is a source of terrorist financing. Even the frequent reports on the group's charity activities and relief efforts make mention of the group's link to terrorism. These allegations have yet to lead to government sanctions against the group, and none of the reports found have made mention of Social Investment Bank Ltd in any manner.

#### Social Investment Bank Ltd

Social Investment Bank Ltd maintains headquarters at 15 Dilkusha Commercial Area, Dhaka 1000, Bangladesh. According to the Bankers Almanac profile published on February 14, 2005, the bank is ranked 12th in its country and 2,257 in the world. In 2003, the bank reported \$359.9 million in total assets.

Kamaluddin Ahmed is the current Chairman of the bank, with Kazi Anwarul Mahbub listed as the bank's Managing Director. The bank's correspondent banking relationships do not extend far beyond its relationships with the global branches of Standard Chartered Bank and American Express Bank Ltd. Its relationships with these two corporations does extend the bank's presence into most of the global banking regions, but it should be noted that Social Investment Bank Ltd does not appear to have correspondent relationships with many of the other major global banking corporations.

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Our review found no evidence of criminal activity directly related to Social Investment Bank Ltd or its management. Social Investment Bank Ltd does not appear on World-Check.

The Bankers Almanac profile of Social Investment Bank Ltd published on February 14, 2005 on Lexis-Nexis reports that the International Islamic Relief Organization (IIRO) is the bank's largest shareholder with an 8.62% stake in the bank. As detailed above, the IIRO is alleged to have provided funding for numerous terrorist organizations, including Al Qaeda.

See below for November, 2003 report of findings. Feel free to contact me with any questions regarding this report.

Bob Powers  
FIG Investigations

.....  
Prior Report of Findings from November 2003:

Rhonda,

I am providing a copy of our Report of Findings for SOCIAL INVESTMENT BANK LTD., as you requested, which includes my Remarks/Recommendations and a Summary prepared by Laura Spadanuta, and investigator for the FIG. If you have any questions, please do not hesitate to contact Laura or myself..

FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS

SUBJECT: Social Investment Bank Ltd.

REMARKS / RECOMMENDATIONS

Although the allegations presented in this report, primarily against the International Islamic Relief Organization (IIRO) and the Lajnat al-Birr Al Islamiah, are highly adverse, no U.S. or foreign government law enforcement or regulatory body has stated, unconditionally, that these organization are under sanction. The reputational risk is significant, however, and the possibility that further investigations by U.S. authorities may ultimately uncover substantiating proof of a connection to terrorism. The risk of future sanctions and the reputational risk based on the allegations noted in this report should be measured against the current risks involved in our relationship when ultimately deciding a course of action.

Kind Regards,

Peter Javier  
Director, FIG

\*\*\*

SUMMARY OF FINDINGS

INVESTIGATOR: Laura Spadanuta

ENTITIES: International Islamic Relief Organization, Islamic Charitable Society Lajnat al-Birr Al Islam, Dr. M.A. Mannan, Mohammad Azam, Late Abdul Majid, Abdul Matin Khan, Rukhsana Habibullah, Late Munshi Fazlur Rahman, Mohammad Ismail

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REQUESTOR: Rhonda Lee-Thomas

An ALE search was requested for the shareholders of Social Investment Bank Ltd. Enhanced due diligence was performed on the shareholders whose names appeared on the FIG databases and on the World-Check database.

International Islamic Relief Organization (IIRO)

IIRO is a Saudi-Arabian charity. The Muslim World League, which is an organization dedicated to spreading Wahhabism that is funded by the Saudi government, is the parent organization of the IIRO. It has been reported that the IIRO claims on its website to have a relationship with the United Nations High Commissioner for Refugees.

The IIRO was named in the 2002 lawsuit brought forward on behalf of family members of victims of the September 11, 2001 terrorist attacks. The IIRO was accused of having "played key roles in laundering of funds to terrorist for the 1998 African embassy bombings" and having been involved in the "financing and aiding and abetting of terrorists in the 1993 World Trade Center bombing." The IIRO has also reportedly funded al-Qaeda directly, as well as several of its satellite groups. Osama bin Laden's brother-in-law, Mohammed Jamal Khalifa, headed the Philippine branch of the IIRO in the 1990's. The Philippine government has charged that the group contributed to terrorist causes there. IIRO opened its U.S. branch (under the name International Relief Organization) in 1991 at the 555 Grove St. complex in Herndon, Virginia that was raided in March 2002 by the F.B.I. in a counter-terrorism investigation. Several other Islamic charities were also raided in the same complex. Money received by the International Relief Organization by the Saudi government was used to set up Sana Bell Inc., which was responsible for investing the money. Sana Bell Inc. was accused of giving \$3.7 million to BMI Inc. from 1992-1998. BMI Inc. was a New Jersey investment company that adhered to Islamic principles. One of BMI's chief investors, Yasin Qadi, was designated by the U.S. and the U.N. as a "specially designated terrorist" for his support of al-Qaeda and Hamas. Another of BMI's major investors was Hamas leader Mousa Abu Marzook. BMI's founder, Soliman S. Biheini, was indicted in 2003 by the U.S. government for immigration violations.

Furthermore, Israeli forces reportedly found a large collection of documents in the West Bank with the IIRO logo and a list of aid recipients including the highlighted names of families of suicide bombers. Additionally, it has been reported that the IIRO has sent at least \$280,000 to the Tulkarm Zakat Committee, a Hamas-affiliated organization in the West Bank. IIRO has also been linked to several other organizations that have been accused of terrorist financing, including Al-Shamal Islamic Bank (which was supported by Osama bin Laden), and the SAAR Foundation, which is related to the al-Rajhi family (who have also been named in the September 11 families lawsuit).

It has been further reported that the Success Foundation is the successor to the U.S. office of the IIRO. The Success Foundation was directed by Abdur Rahman Alamoudi, a Muslim-American activist who was indicted on October 23, 2003 on money laundering, tax, immigration and customs-fraud charges. Mr. Alamoudi is also being investigated for his connections to the bin Mahfouz family and Yaqub Mirza, which have been accused of supporting terrorists.

Islamic Charitable Society Lajnat A-Birr Al Islam

Lajnat al-Birr Al Islamiah was established in 1987. It has been stated that Lajnat al-Birr Al Islamiah was the original name of the Benevolence

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International foundation, and that it originally had offices in Saudi Arabia and Pakistan. According to the U.S. government, among the purposes of Lajnat was to "raise funds in Saudi Arabia to provide support to the Mujahadeen then fighting in Afghanistan," as well as to provide "cover for fighters to travel in and out of Pakistan and obtain immigration status." Benevolence International has been tied to terrorism and its director, Enam Aamout, was indicted in 2002 with conspiring to defraud his group's donors by secretly providing financial and logistical help to al-Qaeda for a decade. The indictment alleged that the group was originally Lajnat al-Birr Al Islam, although the defense lawyers claimed that the groups are separate. Additionally it has been alleged that Lajnat al-Birr took over a "health project" for Makhtab al-Khidemat, the precursor to al-Qaeda, which was active in the 1980's.

M/S Rabbani Trading Co.

Rabbani Trading Co. appears to be a trading company headquartered in Dubai, UAE. No adverse information was found regarding the company. There is a Mohammad Rabbani of Afghanistan who has been designated as a terrorist by the U.N. and the U.K., but there is no evidence that he is linked to the company.

Dr. M.A. Mannan, Ph. D.

Dr. M.A. Mannan was the chairman and founder of Social Investment Bank Ltd. He was fired in 2000 after fault was found with his banking procedure. It was alleged that he created an obstacle to the team of Bangladesh Bank during their visit to Social Investment Bank Ltd. Additionally, he was accused of interfering with bank administrative work and with harassing a bank employee. Additionally, an individual named M.A. Mannan was also the Bangladeshi minister of Labor and Employment. He was charged in a 2002 government white paper with illegal spending of government money. Because M.A. Mannan appears to be a common name in Bangladesh, it is unclear whether the two individuals are one and the same. The Social Investment Bank Ltd. has not been mentioned in any articles about the Mannan who was Labor Minister, which might imply that they are separate individuals.

Mohammad Azam

There is a Mohammad Azam of Kashmir who is reportedly a leader of the terrorist organization Lashkar-e-Toiba. It is important to note that Mohammad Azam is a fairly common name and there is no evidence linking the terrorist to Social Investment Bank Ltd.

Late Abdul Majid

There has been an Abdul Majid from Singapore that is reported to have been arrested by the Singapore government for terrorism-related activities. No adverse information was found regarding a "Late Abdul Majid."

Rukhsana Habibullah

Nothing adverse was found regarding any individual named Rukhsana Habibullah. An individual by the name "Habibullah" from Singapore is believed to have been arrested by the Singapore government on terrorism-related charges. There is no evidence that this individual is related to Rukhsana Habibullah.

Late Munshi Fazlur Rahman

An individual named Fazlur Rahman from Pakistan was reportedly a pro-Taliban

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cleric. He was placed under house arrest from 2001 through 2002. There is no evidence that his name was actually "Late Munshi Fazlur Rahman."

Mohammed Ismail

A Mohammed Ismail of Connecticut was indicted by the U.S. Attorney's Office for dealing in firearms. This individual does not appear connected to the Social Investment Bank Ltd.

In conclusion, it is of significant concern that the leading shareholder of Social Investment Bank Ltd. (at 8.62%), International Islamic Relief Organization, has been accused in both the Philippines and in America of funding terrorist groups. The group is currently under investigation by the F.B.I. Another of the bank's shareholders, Lajnat al-Birr Al Islam (at 1.54%) has also been connected to terrorist groups. Additionally, the bank's founder and chairman was let go on allegations of interference and harassment. Other adverse connections to individuals with the names of the bank shareholders could not be confirmed and were quite possibly merely cases of two individuals having the same name. Finally, it is important to note that Social Investment Bank Ltd. is located in Bangladesh, which was ranked as the world's most corrupt nation by Transparency International.

From: George Tsugranes on 21 Jul 2006 13:05

To: FIG HBUS@HSBC

cc. Gillian E Bachstein/HBUS/HSBC@HSBC  
Melissa Oggenfuss/HBUS/HSBC@HSBC  
Pierre Nasser/HBUS/HSBC@HSBC  
PSRR@HSBC  
Andrew Rizkalia/HBUS/HSBC@HSBC  
Subject: Re: Social Investment Bank Limited - Bangladesh

Please expedite a rpt of findings as this bank scored a 33.

Shannon - I changed the scoring template as the allegations have been out there for a few years and we have not designated this bank an SCC. We should ask the RM/GRM for an update on the allegations as part of this review.

regards,  
George

Shannon M Jones/HBUS/HSBC  
07/21/06 12:15 PM

To  
George Tsugranes/HBUS/HSBC@HSBC  
cc  
PSRR@HSBC, Gillian E Bachstein/HBUS/HSBC@HSBC, Pierre Nasser/HBUS/HSBC@HSBC,  
Melissa Oggenfuss/HBUS/HSBC@HSBC  
Subject

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Social Investment Bank Limited - Bangladesh

George

We are reviewing and updating the KYC profile of the above subject client. The last Report of Finding was presented on 03/18/05.

I have attached a ROF for your review.

Please advise any questions or concerns regarding this request.

Regards  
Shannon Jones  
Payment Services Regulatory Risk Group  
Compliance Officer  
Tel: 302-636-2103  
Fax: 212-642-4065

Attachment: ROF Social Investment Bank.xls  
Attachment: Social Investment Bank Limited(ROF)v.2.xls

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A	B	C	D	E	F
1	REPORT OF FINDINGS FORM				
2	("ENHANCED DUE DILIGENCE" SEARCH REQUEST FORM)				
3					
4	I. Purpose of Investigative Search (check one)				Points
5					
6	(5 pts) Initial search (if checked, please circle appropriate reason)	(New Customer/New Owner/New Officer)			
7	(3 pts) Search in connection with an annual review				
8	(3 pts) Update of initial search (Explain reason(s) under red flags)	X			3
9	(3 pts) Other (please explain)				
10					
11	II. Complete All Sections:				Points
12	Is Client High Risk or in a High Risk Industry? (7 points for a yes response)	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No			7
13	If yes, Provide Details				
14	Is the Client known to be an SCC or a PEP? (7 points for a yes response)	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No			
15	If Yes, Provide Details (and specify Source of knowledge)				
16	Was the Client the subject of an Enforcement Action by any government agency, regulator and/or industry association in the last 5 years from ROF request date? (5 points for a yes response)	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No			
17	If Yes, Specify, provide Date				
18	Is the Client publicly traded on any U.S. stock exchange (include ADRs) or regulated by a federal financial regulator e.g. SEC, FFIEC agencies, etc. (Small Cap markets do not count)? (If Yes, subtract 5 points)	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No			
19	If Yes, Specify the Exchange, Stock Symbol, and/or regulator	Exchange: Symbol:			
20	List All "Red Flags" or any other potential information/activity of concern (2 or 4 points may be added as a business unit judgement score, factor adverse information here (LOOs should factor judgement scores based on items listed here))	Due to client's majority owner, International Islamic Relief Organization (IIRO), allegations linking them to Al-Qaeda, Osama Bin Laden and terrorism financing			4
21	(Attach Additional Sheets If Necessary)				
22	III. Complete All Sections:				
23	Subject of Search	International Islamic Relief Organization (IIRO)			
24	If Subject is a person or entity associated with the Client, please specify relationship to Client, i.e., owner, executive officer, etc.	Majority Owner			
25	Full Name of Client:	Social Investment Bank Limited			

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	A	B	C	D	E	F
37	Street Address of Client (Low = 1 pt, Mid = 2 pts, Mod = 3 pts, Higher = 5 pts)	15, Dilkusha C/A				5
38		Bangladesh Bank				
39	Specify licensing agency (include country) & TIN, Bank Charter # or unique identifier: (Low = 1 pt, Mid = 2 pts, Mod = 3 pts, Higher = 5 pts)					5
40						
41	Nature of Client's Business.	Co-operation and Savings Bank, Commercial, Investment, Private, Retail and Wholesale Banking				
42						
43	Is Client a Central Bank or exempt from Patriot Act Certificate (e.g. World Bank, development banks, etc)? (If yes, subtract 5 points)	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No				
44	Country / State where Client is Formed (Low = 1 pt, Mid = 2 pts, Mod = 3 pts, Higher = 5 pts)	Bangladesh				5
45	Country / State where Client has principal places of business	Bangladesh				
46	Names and Addresses of Principal Shareholders who require investigation*	1. International Islamic Relief Organization, (IIRO), Jeddah				
47		2				
48	Include SSN, if applicable					
49	If any Shareholder is a PEP or SCC, specify (Add 5 points if an SCC owns over 5% for high-risk or 10% for other)					
50						
51	(attach additional pages, if necessary)	3				
52						
53						
54	Names and Addresses of Executive Officers who require search per your AML Procedures*	1				
55						
56	(Note: Executive Officers are those who control or set policy for the Client)	2				
57						
58	Include SSN, if applicable					
59	If any Executive Officer is a PEP or SCC, specify (Add 5 points for any SCC or PEP)	3				
60						
61	(attach additional pages, if necessary)					
62						
63	Other Pertinent Factors Known To You					
64						
65						
66	List Total Points in the last column.	Scoring Legend				29
67		Low = 1 - 12				
68		Middle = 13 - 24				
69		Moderate = 25 - 36 (ROF Required)				
70		Higher = >36 (ROF Required)				
71						
72	Date Request Created	July 21, 2006				
73						

	A	B	C	D	E	F
74						
75	LCO Score	Can assign 8, 4, 2, 0, 7, 4, 8				4
76	IGRO Score					
77	IGRO Score					
78	Judgment Information	Due to allegations noted above				
79	Judgment Information					
80	If applicable					
81						
82	Grand Total Points					23
83						
84	*As defined by business unit's AML Procedures					

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1396

From: ALAN T KETLEY/HBUS/HSBC  
Sent: 11/14/2006 2:59:42 PM  
To: BETH FISHER/HBUS/HSBC@HSBC  
CC:  
Subject: Re: KYC Approval needed for: AL RAJHI BANKING & INVESTMENT CORP

It was exited once (2004?) - Banknotes London is looking to reopen the relationship.

The profile had better be bullet proof.

Alan T. Ketley  
Senior Vice President, Anti Money Laundering  
Tel: 212 525 6147 / Fax: 212 382 7580

Beth Fisher/HBUS/HSBC  
11/14/2006 02:48 PM

To  
Christopher Lok/HBUS/HSBC@HSBC  
cc  
Alan T Ketley/HBUS/HSBC@HSBC, Daniel Jack/HBUS/HSBC@HSBC  
Subject  
Re: KYC Approval needed for: AL RAJHI BANKING & INVESTMENT CORP

I thought this was an HSBC exit name.

Beth

Christopher Lok/HBUS/HSBC  
Tel: 212-5252062  
11/14/2006 02:18 PM

To  
Beth Fisher/HBUS/HSBC@HSBC  
cc  
Subject  
KYC Approval needed for: AL RAJHI BANKING & INVESTMENT CORP

A KYC Customer Profile in SAUDI ARABIA is ready for your approval (Reference

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1397

#1000157).

Click on the attachment to open the Profile.

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1398

From: STEPHEN J ALLEN/HBMD/HSBCMERIDIAN  
Sent: 11/17/2006 9:22:35 AM  
To: BETH FISHER/HBUS/HSBC@HSBCAMERICAS;ALAN T KETLEY/HBUS/HSBC@HSBC  
CC:  
Subject: Fw: Al Rajhi Bank KYC & AML Policy

Beth/Alan,

I now have the following additional info from Salman for your kind attention.

Steve

----- Forwarded by Stephen J ALLEN/HBMD/HSBCMERIDIAN on 17/11/2006 14:19 -----

Salman HUSSAIN/HBME/HSBC  
HBME  
17/11/2006 13:56  
Phone No. 0097317569599  
Mail Size: 16093

To  
David B ILLING/HBMD/HSBCMERIDIAN, Gordon BROWN/IBEU/HSBC, Stephen J  
ALLEN/HBMD/HSBCMERIDIAN@HSBC  
cc  
Ciara O'CONNELL/IBEU/HSBC, Shariq Z SIDDIQI/HBME/HSBC, John L SCOTT/HBEU/HSBC,  
Hammad Zaidi/HBUS/HSBC, Stephen D Loffredo/HBUS/HSBC@HSBC  
Subject  
Fw: Al Rajhi Bank KYC & AML Policy  
Entity  
HSBC Bank Middle East Limited

Dear David, Gordon and Stephen,

Further to my phone call with David last week after meeting Al Rajhi Bank in Riyadh, I was given a deadline by Mr. Cassim Docrat, Head of FI until end of Nov. to respond to them whether we will be able to resume the banknote business or not. Mr. Docrat indicated that HSBC Amanah business will be at risk and they will cancel any dealings with HSBC.

Mr. Docrat understand Compliance Dept. requirements and suggested we request further information from Moody (Attn. Mr. Anwar Hasson) or S&P. He also indicated that JP MOrgan Chase, their main US\$ clearer had done the same and accordingly an O/D limit of \$290mm established by JPMC for Al Rajhi.

I can't stress on the fact that we do want to do business with this institution from PCM side. We do stand a good chance to win a US\$ clearing account thru offering Islamic Overnight Investment Product and the US\$ check clearing thru Check 21.

Kindly let me know if you do require any further assistance to obtain compliance approval.

Best regards,

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1399

Salman Hussain  
Regional Sales Manager  
Global Transaction Banking

HSBC Bank ME Ltd.  
P.O. Box 57  
Manama, Kingdom of Bahrain

Tel.: +973 17569599  
Mobile: [REDACTED]  
Fax.: +973 17569888  
Email: salman.hussain@hsbc.com

----- Forwarded by Salman HUSSAIN/HBME/HSBC on 17/11/06 04:25 PM -----

[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations

Salman HUSSAIN  
HBME  
19 Sep 2006 10:10  
0097317569599  
Mail Size: 11765

To: Gordon BROWN/IBEU/HSBC  
cc: Shariq Z. SIDDIQI/HBME/HSBC  
Gary BOON/HBME/HSBC  
Subject: Fw: Al Rajhi Bank KYC & AML Policy  
Our Ref:  
Your Ref:  
Entity: HSBC Bank Middle East Limited

Dear Gordon,

Am forwarding Al Rajhi email just in case you did not receive it and also copying Shariq, GRM for his info. I believe by Al Rajhi responding to the questions is a step ahead in our efforts to re-establish this relationship. I would be grateful if you could forward their reply to compliance to get their blessing and clearance. Please do keep me posted and let me know if you do require any further assistance.

Best regards,

Salman Hussain  
Regional Sales Manager  
Global Transaction Banking

HSBC Bank ME Ltd.  
P.O. Box 57  
Manama, Kingdom of Bahrain

Tel.: +973 17569599  
Mobile: [REDACTED]  
Fax.: +973 17564343  
Email: salman.hussain@hsbc.com

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1400

----- Forwarded by Salman HUSSAIN/HBME/HSBC on 09/19/2006 08:04 AM -----

"Mohd. Fazal Haque" <mfazal@alrajhibank.com.sa>

17 Sep 2006 14:42

To: Salman\_HUSSAIN/HBME/HSBC@notesemea.com  
cc: Gordon.BROWN@mhub1.com  
"Ismail A. Odeh" <Odehia@alrajhibank.com.sa>  
Saleh Alzumaie <saleh\_a@alrajhibank.com.sa>  
"Kottilapurth B. Sudarsan" <sudarsan\_kb@alrajhibank.com.sa>  
Cassim Docrat <docrat@alrajhibank.com.sa>  
Subject: FW: Al Rajhi Bank KYC & AML Policy  
Our Ref:  
Your Ref:  
Entity: HSBC Bank Middle East Limited

Dear Salman,

I refer to your e-mail dated 17th August about KYC and AML questionnaire sent to us. Below is our reply on the questionnaire.

Thanks and best regards,

Mohammad Fazal Haque  
Senior Manager (Europe and Trade Finance)  
Financial Institutions  
AL RAJHI BANK  
P.O. Box 28  
Riyadh -11411 Saudi Arabia

Tel: 966-1-2116303 Fax: 966-1-4601519  
E-mail: mfazal@alrajhibank.com.sa

1. Please confirm the countries outside of Saudi Arabia that you do business with:

All our correspondent banks names are available in the Bankers Almanac.

2. If any of these countries are OFAC-sanctioned, please provide information as to how you ensure that none of the products/services offered by HBUS are utilized in these cases.

We apply strict due diligence and KYC procedures to high risk countries.

3. Please detail your intended use of any USD banknotes that may be purchased

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1401

from the international market e.g. percentage supplied to your own branches compared to commercial enterprises (subsidiaries/affiliates/corporate etc). Usage by customer type, e.g. construction and petroleum companies / currency exchanges houses.

All USD banknotes we purchase is for our own branches use. We have over 450 branches all over the kingdom and as it is well known we have a big population of around 7 million foreign workers in the kingdom who mostly prefer USD when traveling back to their countries on vacation or even when remitting money to their families back in their native countries. Also during summer time we have a high demand from tourist traveling for their vacations.

4. Kindly comment on how unusual usage of banknote activity is monitored and whether your good bank will discontinue doing business with a customer for unexplained activity

Unusual customer activity is monitored through our AML monitoring system (PRISM-ACI) by establishing rules which generate daily alerts in line with FATF recommendations.

5. We should also like confirmation that you would advise us of changes in market(s) / customer types of USD Banknote business:

We can confirm that we will advise changes in market (s) / customer types of USD Banknotes business whenever it occurs.

6. We are interested to know whether you have successfully implemented the automated monitoring process, (which we were previously advised would be implemented in November 2005):

We are now using PRISM a system developed by ACI

7. We should like to have more information regarding your handling of unlicensed money remitters:

We do not deal with any unlicensed money remitters as required by local laws.

8. Further clarification is requested on comments made in your good bank's AML procedures relating to "monitoring of all transactions so that unlicensed money changers are not remitting funds outside the Kingdom"

As stated above we do not deal with ANY unlicensed money remitters. We monitor all customer transactions using a rules based approach. The rules are derived from central bank AML guidelines and FATF standards.

This Email and any files transmitted may contain confidential and/or privileged information and is intended solely for the addressee(s) named. If you have received this information in error, or are being posted by accident, please notify the sender by return Email, do not redistribute this email message, delete it immediately and keep no copies of it. All opinions and/or views expressed in this email are solely those of the author and do not necessarily represent those of Al-Rajhi Bank. Any purchase order, purchase advice or legal commitment is only valid once backed by the signed hardcopy by the authorized person from Al-Rajhi Bank.

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**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3280499**

1402

From: STEPHEN J ALLEN/HBMD/HSBCMERIDIAN  
Sent: 11/17/2006 9:37:00 AM  
To: BETH FISHER/HBUS/HSBC@HSBCAMERICAS  
CC: ALAN T KETLEY/HBUS/HSBC@HSBC; CHRISTOPHER J HEUSLER/HBUS/HSBC@HSBC  
Subject: Re: Al Rajhi Banking

Beth,

I quite understand your position and I will try another tack.

Steve

Beth Fisher/HBUS/HSBC  
HBUS  
17/11/2006 14:23  
Mail Size: 7422

To  
Stephen J ALLEN/HBMD/HSBCMERIDIAN@HSBC  
cc  
Alan T Ketley/HBUS/HSBC@HSBC, Christopher J Heusler/HBUS/HSBC@HSBC  
Subject  
Re: Al Rajhi Banking  
Entity  
HSBC Bank USA. London Branch (Treasury and Capital Markets - TCM)

Steve,

I am not trying to be difficult, but I do not personally feel comfortable IB approving this name. I do not know this bank. Additionally, several years ago, when HBUS had relationships with 2 different Al Rajhi names, management would ask me questions about the customer every time the name appeared in the US newspapers. I do not know this bank personally and am therefore not qualified to render an opinion; I cannot answer questions if/when the Alrajhi name appears in US news media

Therefore, please ask another officer to IB approve. I am IB-Denied the KYC, so that my name can be removed as RM.

Thank you.

Beth

Stephen J ALLEN/HBMD/HSBCMERIDIAN  
Tel: 799 24555; +44 (0) 20 7992 4555

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1403

11/17/2006 08:53 AM

To  
Beth Fisher/HBUS/HSBC@HSBCAMERICAS, Alan T Kelley/HBUS/HSBC@HSBC  
cc  
  
Subject  
Al Rajhi Banking

Beth/Alan,

Salman Hussain, the PCM Regional Sales Manager at HBME in Bahrain, who has recently visited the subject, has called to say that Al Rajhi has now run out of patience waiting for us to re-start our banknote trading relationship and unless we can complete the kyc formalities and advise them accordingly by the end of November, they will terminate all product relationships with the HSBC Group - which I believe to be substantial.

Their main point of contention is that they feel that they were exonerated by all US legal processes from TF suspicion some time ago and yet we have still not been able to re-start trading with them. Gordon finished our latest attempt at the profile on Tuesday and you will find the kyc profile to be currently in the 'B Pending' inbox. Could I please ask you both to expedite your reviews so that we can attempt to prevent the loss of an important client to the Group?

thanks and regards  
Steve

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1404

From: SALMAN HUSSAIN/HBME/HSBC  
Sent: 11/20/2006 5:35:28 PM  
To: ALAN T KETLEY/HBUS/HSBC@HSBC  
CC: GORDON BROWN/BEU/HSBC@HSBC; JOHN L SCOTT/HBME/HSBC@HSBC; SHARIQ Z SIDDIQI/HBME/HSBC@HSBC;  
STEPHEN J ALLEN/HBMD/HSBCMERIDIAN@HSBC  
Subject: Re: Fw: Al Rajhi Bank KYC & AML Policy

Thanks Alan,

The enhancements to the PRIS system was done in Nov. 05 for AML and KYC.

Estimated revenue will be a minimum of \$100k per annum.

Regards,

Salman Hussain  
Regional Sales Manager  
Global Transaction Banking

HSBC Bank ME  
P.O. Box 57  
Manama, Kingdom of Bahrain

Tel: +973 17569599  
Fax: +973 17569888  
Mobile: [REDACTED]  
Email: salman.hussain@hsbc.com

[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations

\*\*\*\*\*

HSBC Bank Middle East Limited  
Registered Office: HSBC House, Esplanade, St Helier, Jersey, JE4 8UB  
Registered Number 85600

\*\*\*\*\*

From: Alan T Ketley  
Sent: 20/11/2006 19:15  
To: Salman HUSSAIN  
Cc: Gordon BROWN; John L SCOTT; Shariq Z SIDDIQI; Stephen J ALLEN  
Subject: Re: Fw: Al Rajhi Bank KYC & AML Policy

Salman

Thanks for this information - one point of clarification. Page 23 of their AML Policy states "The bank is currently working on enhancing its automated AML solution..... It is targeted for completion by November 2005". Was this deadline achieved?

What revenue projections do you have associated with the US\$ clearing and Check 21 "cash letter"?

Thanks

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1405

Alan T. Ketley  
Senior Vice President, Anti Money Laundering  
Tel: 212 525 6147 / Fax: 212 382 7580

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1406

From: ALAN T KETLEY/HBUS/HSBC  
Sent: 11/22/2006 1:17:08 PM  
To: EMMA E V LAWSON/HGHQ/HSBC@HSBC  
CC:  
Subject: Re: Fw: AlRajhi Banking & Investment Corp., Saudi Arabia

Your timing is uncanny and I suspect not entirely unrelated to correspondence last week from Banknotes and PCM.

I have reviewed the new documentation provided by the client and discussed it with Terry - she has indicated a desire to discuss with David.

Will keep you posted.

Alan T. Ketley  
Senior Vice President, Anti Money Laundering  
Tel: 212 525 6147 / Fax: 212 382 7580

Emma E V LAWSON/HGHQ/HSBC  
11/22/2006 12:51 PM

To  
Alan T Ketley/HBUS/HSBC@HSBC  
cc  
Subject  
Re: Fw: AlRajhi Banking & Investment Corp., Saudi Arabia

Alan

Can we pick this up again please. Has progress been made.

Thanks and regards Emma

Alan T Ketley/HBUS/HSBC  
HBUS  
20/06/2006 16:21  
Mail Size: 3309

To  
Emma E V LAWSON/HGHQ/HSBC@HSBC  
cc  
Teresa Pesce/HBUS/HSBC@HSBC  
Subject  
Re: Fw: AlRajhi Banking & Investment Corp., Saudi Arabia  
Entity  
HSBC Holdings plc - HGHQ

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3281773



1407

Emma

We have not received an answer to these questions but Steve and his KYC staff have been fully engaged on an OCC exam for the past few months. The exam will end on June 30 so I expect they will revisit the subject then.

Alan T. Ketley  
First Vice President, Anti Money Laundering  
Tel: 212 525 6147  
Fax: 212 382 7580

Emma E V LAWSON/HGHQ/HSBC  
06/20/2006 03:39 AM

To  
Alan T Ketley/HBUS/HSBC@HSBC  
cc  
Teresa Pesce/HBUS/HSBC  
Subject  
Fw: AlRajhi Banking & Investment Corp., Saudi Arabia

Alan

I understand you asked Steve Allen for further KYC/EDD. Has this progressed?

Please advise.

Thanks and regards Emma Lawson  
----- Forwarded by Emma E V LAWSON/HGHQ/HSBC on 20/06/2006 08:37 -----

Alan T Ketley/HBUS/HSBC  
HBUS  
18/04/2006 22:04  
Mail Size: 14754

To  
Susan A WRIGHT/HGHQ/HSBC@HSBC  
cc  
Teresa Pesce/HBUS/HSBC@HSBC  
Subject  
Fw: AlRajhi Banking & Investment Corp., Saudi Arabia  
Entity  
HSBC Holdings plc - HGHQ

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3281774

1408

From: ELIZABETH PROTOMASTRO/HBUS/HSBC  
Sent: 12/18/2006 1:58:01 PM  
To: DONNA S M CHAN/CMP APH/HBAP/HSBC@HSBC  
CC: GRACE C SANTIAGO-DARVISH/HBUS/HSBC@HSBC;ALAN T KETLEY/HBUS/HSBC@HSBC  
Subject: Fw: TT NSC [REDACTED] / HKPI [REDACTED], 14DEC06

Yes, Donna, you should provide that explanation to your client. The client should also be informed that he must contact the Office of Foreign Assets Control ("OFAC") and apply for a license to try to obtain release and return of the funds.  
He may call OFAC at (800)540-6322 or access the license application via the link pasted below:

<http://ustreas.gov/offices/enforcement/ofac/legal/forms/license.pdf>

Below is the link to the OFAC web site for information on the current sanctions program.

<http://ustreas.gov/offices/enforcement/ofac/index.html>

Let us know if you have any further questions.

----- Forwarded by Elizabeth Protomastro/HBUS/HSBC on 12/18/2006 01:48 PM -----

Alan T Ketley/HBUS/HSBC  
12/18/2006 07:54 AM

To  
Elizabeth Protomastro/HBUS/HSBC, "Grace C Santiago-Darvish"  
<grace.c.santiago-darvish@us.hsbc.com>  
cc  
Donna S M Chan  
Subject  
Fw: TT NSC770937 // HKPI0320-14DEC06

Ladies

Would you be so kind as to reply to Donna.

Thanks

Alan

[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations

From: Donna S M CHAN  
Sent: 12/17/2006 09:44 PM  
To: Alan T Ketley  
Cc: Lily L Y HO; Charissa B CHEN  
Subject: TT NSC770937 // HKPI0320-14DEC06

Dear Alan,

RE TT NSC [REDACTED] DATED 13DEC06 FOR USD15,350.21

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1409

The above payment has been blocked. After examining the outgoing cable, we've noticed that the Payment details quoted "AIR TICKETS MOSCOW HAVANA MOSCOW 3PAX" which we reckon is the possible reason for the incident.

The following message was from HBUS:

//////Quote/////

Please be advised that this payment indicates an interest in Cuba as such, we are obligated by the office of foreign assets control to block this payment and place these funds in a time deposit account. Any further action in regards to these funds are not at the discretion of HSBC Bank USA.

//////Unquote/////

You would like to seek your advise on whether we could issue letter to remitter by quoting the above reason for the blocked payment.

Thanks and Regards,  
Donna Chan  
Compliance Manager - Anti-Money Laundering

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বাংলাদেশ ব্যাংক  
প্রধান কার্যালয়  
মতিবিন্দু, ঢাকা-১০০০  
বাংলাদেশ

বাংলাদেশ প্রকৃতি ও শিল্প উন্নয়ন  
ফাউন্ডেশন লিমিটেড

স্মারক নং: বিসিএস(সিআই)সেং/সিআই(সিআই-২)/১০০৬- ১৩১

কবচূপনা পরিচালক  
সোনাল ইনভেস্টমেন্ট ব্যাংক লিমিটেড  
প্রধান কার্যালয়  
ঢাকা

SVP, D  
to  
11/14/06

তারিখ: ১১ নভেম্বর ২০০৬  
১১/১২/০৬  
১৭/১২/০৬  
১৩/১২/০৬  
সিআই (সিআই-২)  
১১/১২/০৬

প্রিয় মহোদয়,

**Information about Abd Al-Hamid Sulaiman Al-Mujil, suspected to be associated with Al-Qaeda.**



উপরোক্ত বিষয়ে আপনাদের ৩/১০/০৬ তারিখের পত্র সং-এনআইবিএফ/এইচও/সিআই(সিআই)১০১১ এর প্রতিলিপি  
আমরা গভীর কৃতজ্ঞতা জানাই।

০২ অর্থ মন্ত্রণালয়ের ৭/৯/০৬ তারিখের পত্র সং-আইবিবিএফ/সিআই-১/Financing Terrorist-  
১২/২০০৬-২১৯ এ আল-আয়েন নামে অভিহিত সন্দেহজনক এটিচন International Islamic Relief  
Organization (IIRO) ও এর নির্বাহী পরিচালক হিসেবে ডঃ আব্দুল হামিদ বিন সোলায়মান আল মোজিল এর নাম  
উল্লেখ রয়েছে। IIRO এর নামে বর্তমানে ধারণকৃত এসআইবিএস এর ৫০,৯৯টি শেয়ার (প্রতিটি ১০০০ টাকা  
মূল্যমানের) এবং এর উপর এদের ফোনস/রাইটি শেয়ারের কোম্পানি ও উক্ত কোম্পানির উপর প্রদেয় মালিকানা প্রকল্প  
পুনরাবস্থা না দেয়া পর্যন্ত, স্থগিত প্রকারে অন্য আপনাদেরকে পরামর্শ দেয়া হবে।

আপনাদের বিশ্বাস,

(এম. এম. মনির মোমেন)  
উপসহকারী পরিচালক  
ফোন: ৯১২০০২১৭

০৬/১১/২০০৬

ফোন: ৯১৮-৩২-৭১২৬১০১-২০, ফ্যাক্স: ৯১৮-০২-৭১২০০৩৪, ৯০৬৩২১২, www.bangladeshbank.org.bd

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3342182

1411

From: GEORGE TSUGRANES/HBUS/HSBC  
Sent: 3/2/2007 2:47:11 PM  
To: ALAN T KETLEY/HBUS/HSBC@HSBC  
CC:  
Subject: Pouch exam

Alan - 2006 clients with volumes.

Spreadsheet of activity for 11/06 and 12/06 - all accts are being checked to ensure activity is reflected on KYC

Day 1 letter and comments noted:  
The day 1 letter with comments will be tab 1

regards,  
George

Attachment: PCM CashLetter volumes 2006.xls  
Attachment: PCM CashLetter activity NovthruDec2006.xls  
Attachment: Pouch Request Letter.doc

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03737668  
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3352026

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Permanent Subcommittee on Investigations**

	A	B	C	D	E	F
1	Account	Country	RSP	Risk Rating	SCC	CIB CMB
2		CANADA	BANK		N/A	CIB
3		CANADA	BANK		N/A	CIB
4		ISRAEL	BANK		N/A	CIB
5		ISRAEL	BANK		N/A	CIB
6		KOREA	BANK		N/A	CIB
7		UNITED KINGDOM	BANK		N/A	CIB
8		HONG KONG	CORP		N/A	CIB
9		ISLE OF MAN	BANK		N/A	CIB
10		ISRAEL	BANK		N/A	CIB
11		BERMUDA	CORP		N/A	CIB
12		INDIA	CORP		N/A	CIB
13		UNITED KINGDOM	BANK		N/A	CIB
14		INDIA	BANK		N/A	CIB
15		UNITED KINGDOM	CORP		N/A	CIB
16		GERMANY	BANK		N/A	CIB
17		UNITED KINGDOM	BANK		N/A	CIB
18		HONG KONG	CORP		N/A	CIB
19		ISLE OF MAN	BANK		N/A	CIB
20		UNITED KINGDOM	CORP		N/A	CIB
21		HONG KONG	CORP		N/A	CIB
22		MEXICO	CORP		N/A	CIB
23		UNITED KINGDOM	CORP		N/A	CIB
24		SRI LANKA	BANK		N/A	CIB
25		JAPAN	BANK		N/A	CIB
26		UNITED KINGDOM	CORP		N/A	CIB
27		KOREA	BANK		N/A	CIB
28		HONG KONG	CORP		N/A	CIB
29		SINGAPORE	BANK		N/A	CIB
30		HONG KONG	CORP		N/A	CIB
31		SINGAPORE	CORP		N/A	CIB
32		HONG KONG	CORP		N/A	CIB
33		ISLE OF MAN	CORP		N/A	CIB
34		HONG KONG	CORP		N/A	CIB
35		BARBADOS	CORP		N/A	CIB
36		HONG KONG	CORP		N/A	CIB
37		JAPAN	BANK		N/A	CIB
38		ISLE OF MAN	CORP		N/A	CIB
39		HONG KONG	BANK		N/A	CIB
40		CHILE	CORP		N/A	CIB
41		SRI LANKA	BANK		N/A	CIB
42		UNITED KINGDOM	CORP		N/A	CIB
43		UNITED KINGDOM	CORP		N/A	CIB
44		CHANNEL ISLANDS	BANK		N/A	CIB
45		UAE	CORP		N/A	CIB
46		AUSTRALIA	BANK		N/A	CIB
47		FRANCE	CORP		N/A	CIB
48		SINGAPORE	BANK		N/A	CIB

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03737669  
 Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3352027

	G	H	I
	Short Name Description	Deposit Count	Deposit Amount
2		1,627,136	\$ 9,272,448,106.00
3		376,416	\$ 2,519,402,292.00
4		336	\$ 150,440,588.04
5		158	\$ 123,538,144.94
6		254	\$ 82,087,424.21
7		56	\$ 72,141,228.93
8		33	\$ 29,053,942.34
9		912	\$ 23,350,350.36
10		34	\$ 21,083,109.11
11		27	\$ 20,204,979.08
12		658	\$ 16,891,226.12
13		17	\$ 15,954,061.73
14		1,765	\$ 12,166,369.40
15		27	\$ 11,357,310.18
16		67	\$ 10,707,151.99
17		687	\$ 10,095,739.23
18		158	\$ 8,847,443.08
19		110	\$ 7,921,186.36
20		209	\$ 7,221,483.96
21		135	\$ 7,132,443.62
22		35	\$ 7,048,065.71
23		26	\$ 6,739,653.26
24		33	\$ 6,669,719.92
25		490	\$ 6,406,460.00
26		25	\$ 5,156,362.70
27		35	\$ 4,826,522.09
28		62	\$ 4,497,421.28
29		234	\$ 4,481,766.94
30		114	\$ 4,243,764.70
31		84	\$ 3,976,748.39
32		47	\$ 3,837,929.00
33		429	\$ 3,826,944.74
34		171	\$ 3,620,077.78
35		189	\$ 3,202,443.02
36		58	\$ 2,825,413.70
37		242	\$ 2,647,688.05
38		225	\$ 2,629,063.57
39		199	\$ 2,142,304.43
40		24	\$ 1,735,128.06
41		133	\$ 1,426,671.02
42		11	\$ 1,419,168.62
43		4	\$ 1,412,932.12
44		139	\$ 1,378,497.42
45		6	\$ 1,347,984.61
46		2	\$ 1,190,778.11
47		11	\$ 895,862.94
48		38	\$ 763,676.61

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Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03737670  
 Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3352028

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Permanent Subcommittee on Investigations**

A	B	C	D	E	F
48	MEXICO	CORP		N/A	CIB
49	ANTIGUA	CORP		N/A	CIB
50	AUSTRALIA	CORP		N/A	CIB
51	INDIA	BANK		N/A	CIB
52	INDIA	BANK		N/A	CIB
53	KOREA	CORP		N/A	CIB
54	HONG KONG	CORP		N/A	CIB
55	BERMUDA	CORP		N/A	CIB
56	INDIA	CORP		N/A	CIB
57	HONG KONG	CORP		N/A	CIB
58	MEXICO	CORP		N/A	CIB
59	PHILIPPINES	CORP		N/A	CIB
60	ANTIGUA	CORP		N/A	CIB
61	NORWAY	CORP		N/A	CIB
62	HONG KONG	CORP		N/A	CIB
63	HONG KONG	CORP		N/A	CIB
64	UNITED KINGDOM	CORP		N/A	CIB
65	HONG KONG	BANK		N/A	CIB
66	GREECE	CORP		N/A	CIB
67	MEXICO	CORP		N/A	CIB
68	UAE	CORP		N/A	CIB
69	UNITED KINGDOM	CORP		N/A	CIB
70	HONG KONG	CORP		N/A	CIB
71	SINGAPORE	BANK		N/A	CIB
72	MEXICO	CORP		N/A	CIB
73	HONG KONG	CORP		N/A	CIB
74	NORWAY	BANK		N/A	CIB
75	PHILIPPINES	BANK		N/A	CIB
76	HONG KONG	BANK		N/A	CIB
77	PHILIPPINES	BANK		N/A	CIB
78	NETHERLANDS	BANK		N/A	CIB
79	HONG KONG	CORP		N/A	CIB
80	UAE	CORP		N/A	CIB
81	CANADA	CORP		N/A	CIB
82	BARBADOS	CORP		N/A	CIB
83	HONG KONG	BANK		N/A	CIB
84	UNITED KINGDOM	BANK		N/A	CIB
85	HONG KONG	CORP		N/A	CIB
86	SINGAPORE	CORP		N/A	CIB
87	BERMUDA	CORP		N/A	CIB
88	HONG KONG	CORP		N/A	CIB
89	UNITED KINGDOM	CORP		N/A	CIB
90	HONG KONG	CORP		N/A	CIB
91	HONG KONG	CORP		N/A	CIB
92	UNITED KINGDOM	CORP		N/A	CIB
93	HONG KONG	CORP		N/A	CIB
94	HONG KONG	CORP		N/A	CIB
95	UNITED KINGDOM	CORP		N/A	CIB
96	HONG KONG	CORP		N/A	CIB

Confidential - FOIA Treatment Requested by HSBG N. America Holdings, Inc. HSB03737671  
 Confidential - FOIA Treatment Requested by HSBG Bank, USA, N.A. HSBG OCC 3352029



G		H	
80	16	\$	78,824.10
81	14	\$	70,123.87
82	60	\$	678,735.13
83	150	\$	627,287.76
84	46	\$	609,762.54
85	10	\$	602,729.24
86	16	\$	578,035.41
87	16	\$	468,035.41
88	65	\$	468,257.33
89	20	\$	443,244.73
90	11	\$	442,524.17
91	39	\$	411,410.76
92	15	\$	406,288.00
93	18	\$	391,816.50
94	28	\$	342,381.50
95	7	\$	320,123.15
96	16	\$	287,848.76
97	20	\$	237,551.81
98	6	\$	\$205,640.00
99	26	\$	183,357.46
100	4	\$	169,033.00
101	1	\$	100,000.00
102	2	\$	\$85,184.89
103	2	\$	\$83,367.95
104	11	\$	76,000.00
105	5	\$	\$72,872.78
106	34	\$	68,816.50
107	14	\$	68,925.81
108	6	\$	68,475.74
109	17	\$	67,113.19
110	9	\$	64,248.18
111	3	\$	53,549.12
112	10	\$	47,036.41
113	1	\$	46,816.50
114	5	\$	42,184.08
115	14	\$	40,289.28
116	1	\$	\$36,501.00
117	5	\$	\$34,655.25
118	4	\$	\$2,728.00
119	1	\$	\$2,630.00
120	1	\$	\$2,630.00
121	6	\$	25,815.65
122	12	\$	25,472.67
123	2	\$	\$22,728.67
124	2	\$	\$16,640.99
125	12	\$	15,583.72
126	1	\$	14,816.50
127	4	\$	\$13,111.67

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Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03737672  
 Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3352030

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Permanent Subcommittee on Investigations**

A	B	C	D	E	F
97	BARBADOS	CORP		N/A	CIB
98	SINGAPORE	CORP		N/A	CIB
99	HONG KONG	CORP		N/A	CIB
100	GREECE	CORP		N/A	CIB
101	ICELAND	CORP		N/A	CIB
102	UNITED KINGDOM	CORP		N/A	CIB
103	HONG KONG	CORP		N/A	CIB
104	UNITED KINGDOM	CORP		N/A	CIB
105	MEXICO	CORP		N/A	CIB
106	HONG KONG	BANK		N/A	CIB
107	MEXICO	CORP		N/A	CIB
108	HONG KONG	CORP		N/A	CIB
109	HONG KONG	CORP		N/A	CIB
110	HONG KONG	CORP		N/A	CIB
111	UNITED KINGDOM	CORP		N/A	CIB
112	HONG KONG	CORP		N/A	CIB
113	UNITED KINGDOM	CORP		N/A	CIB
114	HONG KONG	CORP		N/A	CIB
115	HONG KONG	CORP		N/A	CIB
116	HONG KONG	CORP		N/A	CIB
117	HONG KONG	CORP		N/A	CIB
118	HONG KONG	CORP		N/A	CIB
119	HONG KONG	CORP		N/A	CIB
120	MEXICO	CORP		N/A	CIB
121	HONG KONG	CORP		N/A	CIB
122	GERMANY	CORP		N/A	CIB
123	CAYMAN ISLANDS	CORP		N/A	CIB
124	BAHAMAS	CORP		N/A	CIB
125	HONG KONG	CORP		N/A	CIB
126	HONG KONG	CORP		N/A	CIB
127					
128					
129					

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03737673  
 Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3352031

	G	H	I
97		4	\$17,000.00
98		1	\$5,000.00
99		1	\$5,454.34
100		6	\$5,560.00
101		1	\$5,500.00
102		2	\$7,455.88
103		2	\$7,185.70
104		2	\$7,185.70
105		1	\$3,188.00
106		3	2,889.13
107		1	\$2,173.50
108		2	1,878.08
109		2	\$1,674.00
110		2	1,674.00
111		2	1,535.60
112		1	\$1,342.41
113		1	1,274.97
114		1	\$1,208.00
115		1	\$911.88
116		1	\$874.45
117		1	\$657.45
118		2	247.35
119		1	\$202.65
120		2	119.63
121		2	\$107.41
122		1	\$86.00
123		1	\$75.00
124		1	12.33
125		1	\$10.01
126		2,045,088	\$ 12,522,823,555.88
127			
128			

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Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03737674  
 Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3352032

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Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03737675  
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3352033

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A	B	C	D	E	F	G	H	I	J	K	L
1	Date	Date Dep Bank	Account No/AC Mgr		Cl. Ticket	Amount	Details	Name of Client's Crst	SDN Match	Form Status	Resolution
2											
3	2-Nov	1-Nov The Hokuriku Bank	50385 NXR		10072502	24000	Total Deposit	Sumimoto Zidosha	No	Yes 11/02/06	Closed
4	2-Nov	1-Nov The Hokuriku Bank	50385 NXR		10072503	48000	Total Deposit	Akiko Koriyama	No	Yes 11/02/06	Closed
5	2-Nov	1-Nov The Hokuriku Bank	50350 NXR		10072504	36000	Total Deposit	I.K. Auto Ltd	No	Yes 11/02/06	Closed
6	2-Nov	1-Nov The Hokuriku Bank	50385 NXR		10072505	60000	Total Deposit	Gondal Corporation	No	Yes 11/02/06	Closed
7	2-Nov	1-Nov The Hokuriku Bank	50385 NXR		10072506	55500	Total Deposit	S.K. Trading	No	Yes 11/02/06	Closed
8	2-Nov	1-Nov The Hokuriku Bank	50385 NXR		10072507	21000	Total Deposit	Shin Kyowa International	No	Yes 11/02/06	Closed
9	2-Nov	1-Nov The Hokuriku Bank	50385 NXR		10072508	29000	Total Deposit	Sando Corporation	No	Yes 11/02/06	Closed
10	2-Nov	1-Nov The Hokuriku Bank	50385 NXR		10072509	72000	Total Deposit	Auto Stage Ltd	No	Yes 11/02/06	Closed
11	3-Nov	2-Nov The Hokuriku Bank	50385 NXR		10072511	41000	Total Deposit	S.K. Trading	No	Yes 11/02/06	Closed
12	3-Nov	2-Nov The Hokuriku Bank	50385 NXR		10072512	20500	Total Deposit	Akiko Koriyama	No	Yes 11/03/06	Closed
13	3-Nov	2-Nov The Hokuriku Bank	50385 NXR		10072513	47000	Total Deposit	Auto Stage Ltd	No	Yes 11/03/06	Closed
14											
15	6-Nov	3-Nov The Hokuriku Bank	50385 PKB		10072516	41000	41X1000 Amex T/C	Gondal Corporation	No	Yes 11/06/06	Closed
16	6-Nov	3-Nov The Hokuriku Bank	50385 PKB		10072517	117000	117X1000	J.P. Trading	No	Yes 11/06/06	Closed
17											
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31											
32	13-Nov	10-Nov The Hokuriku Bank	50385 NXR		10072526	50000	Total Deposit	Taniuchi Koueki	No	Yes 11/13/06	Closed
33	13-Nov	10-Nov The Hokuriku Bank	50385 NXR		10072527	24000	Total Deposit	Shigeru Shiotani	No	Yes 11/13/06	Closed
34	13-Nov	10-Nov The Hokuriku Bank	50385 NXR		10072628	28000	Total Deposit	Auto Stage Ltd	No	Yes 11/13/06	Closed
35	13-Nov	10-Nov The Hokuriku Bank	50385 NXR		10072529	113000	Total Deposit	Sando Corporation	No	Yes 11/13/06	Closed
36	13-Nov	10-Nov The Hokuriku Bank	50385 NXR		10072530	134000	Total Deposit	Maric Trading	No	Yes 11/13/06	Closed
37	13-Nov	10-Nov The Hokuriku Bank	50385 NXR		10072533	23000	Total Deposit	Taniguchi Koueki Taniguchi Mikiya	No	Yes 11/13/06	Closed
38	13-Nov	10-Nov The Hokuriku Bank	50385 NXR		10072534	34500	Total Deposit	Auto Stage Ltd	No	Yes 11/13/06	Closed
39	13-Nov	10-Nov The Hokuriku Bank	50385 NXR		10072536	31000	Total Deposit	Akiko Koriyama	No	Yes 11/13/06	Closed
40	13-Nov	10-Nov The Hokuriku Bank	50385 NXR		10072536	27000	Total Deposit	Shigeru Shiotani	No	Yes 11/13/06	Closed
41	13-Nov	10-Nov The Hokuriku Bank	50385 NXR		10072538	34500	Total Deposit	Auto Stage Ltd	No	Yes 11/13/06	Closed
42	13-Nov	10-Nov The Hokuriku Bank	50385 NXR		10072540	31000	Total Deposit	Gondal Corporation	No	Yes 11/13/06	Closed
43	13-Nov	10-Nov The Hokuriku Bank	50385 NXR		10072541	58000	58X1000 Amex T/C	S.K. Trading	No	Yes 11/13/06	Closed
44	13-Nov	10-Nov The Hokuriku Bank	50385 NXR		10072542	208000	Total Deposit	Maric Trading	No	Yes 11/13/06	Closed
45	13-Nov	10-Nov The Hokuriku Bank	50385 NXR		10072543	192000	Total Deposit	Maric Trading	No	Yes 11/13/06	Closed
46											
47											
48											

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Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03737676  
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3352034

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	A	B	C	D	E	F	G	H	I	J	K	L
48												
49												
51	16-Nov	15-Nov	The Hokuriku Bank	50385	NXR	10072549	29000	29X1000 Amex T/C	Gondal Corporation	No	Yes 11/16/06	Closed
52	16-Nov	15-Nov	The Hokuriku Bank	50385	NXR	10072550	34000	34X1000 Amex T/C	I K Auto Ltd	No	Yes 11/16/06	Closed
53	16-Nov	15-Nov	The Hokuriku Bank	50385	NXR	10072551	20000	20X1000 Amex T/C	M.A. Awan Corporation	No	Yes 11/16/06	Closed
54	16-Nov	15-Nov	The Hokuriku Bank	50385	NXR	10072552	32000	32X1000 Amex T/C	S.K. Trading Co	No	Yes 11/16/06	Closed
55												
56												
57												
58	20-Nov	17-Nov	The Hokuriku Bank	50385	NXR	10072558	147000	Total Deposit	R S Corporation	No	Yes 11/20/06	Closed
59												
61	21-Nov	20-Nov	The Hokuriku Bank	50385	NXR	10072562	524000	Total Deposit	Auto Stage Ltd	No	Yes 11/21/06	Closed
62	21-Nov	20-Nov	The Hokuriku Bank	50385	NXR	10072563	44000	Total Deposit	R.S. Corporation	No	Yes 11/21/06	Closed
63	21-Nov	20-Nov	The Hokuriku Bank	50385	NXR	10072564	51000	51X1000 Amex T/C	S.K. Trading	No	Yes 11/21/06	Closed
64												
65												
66												
67	22-Nov	21-Nov	The Hokuriku Bank	50385	NXR	10072566	53000	53X1000 Amex T/C	Gondal Corporation	No	Yes 11/22/06	Closed
68	22-Nov	21-Nov	The Hokuriku Bank	50385	NXR	10072567	228000	Total Deposit	Maric trading	No	Yes 11/22/06	Closed
69	24-Nov	22-Nov	The Hokuriku Bank	50385	NXR	10072570	26000	Total Deposit	Sumimoto Zidoshia	No	Yes 11/22/06	Closed
70	24-Nov	22-Nov	The Hokuriku Bank	50385	NXR	10072571	62000	Total Deposit	S.K. Trading	No	Yes 11/22/06	Closed
71	24-Nov	22-Nov	The Hokuriku Bank	50385	NXR	10072572	47000	47X1000 Amex T/C	R.S. Corporation	No	Yes 11/22/06	Closed
72	24-Nov	22-Nov	The Hokuriku Bank	50385	NXR	10072573	47000	Total Deposit	I K Auto Ltd	No	Yes 11/22/06	Closed
73	24-Nov	22-Nov	The Hokuriku Bank	50385	NXR	10072574	48000	Total Deposit	Auto Stage Ltd	No	Yes 11/22/06	Closed
74	24-Nov	22-Nov	The Hokuriku Bank	50385	NXR	10072575	21000	21X1000 Amex T/C	Gondal Corporation	No	Yes 11/22/06	Closed
75												
76	27-Nov	24-Nov	The Hokuriku Bank	50385	NXR	10072577	42000	42X1000 Amex T/C	S.K. Trading	No	Yes 12/10/06	Closed
77												
78												
79	28-Nov	27-Nov	The Hokuriku Bank	50385	NXR	10072580	60000	Total Deposit	Yasuhiko Nakamoto	No	Yes 11/28/06	Closed
80												
81												
82												
83	28-Nov	28-Nov	The Hokuriku Bank	50385	NXR	10072585	35000	35X1000 Amex T/C	Gondal Corporation	No	Yes 11/28/06	Closed
84	28-Nov	28-Nov	The Hokuriku Bank	50385	NXR	10072590	39000	Total Deposit	R.S. Corporation	No	Yes 11/28/06	Closed
85	28-Nov	28-Nov	The Hokuriku Bank	50385	NXR	10072591	40000	Total Deposit	I K Auto Ltd	No	Yes 11/28/06	Closed
86	28-Nov	28-Nov	The Hokuriku Bank	50385	NXR	10072592	48000	Total Deposit	Auto Stage Ltd	No	Yes 11/28/06	Closed
87	28-Nov	28-Nov	The Hokuriku Bank	50385	NXR	10072593	25100	Total Deposit	Aleko Komiyama	No	Yes 11/28/06	Closed
88												
89												
90												
91												
92	30-Nov	29-Nov	The Hokuriku Bank	50385	NXR	10072588	61000	61X1000 Amex	S.K. Trading	No	Yes 11/30/06	Closed
93	30-Nov	29-Nov	The Hokuriku Bank	50385	NXR	10072589	54000	Total Deposit	Shin Kyowa International	No	Yes 11/30/06	Closed
94	30-Nov	29-Nov	The Hokuriku Bank	50385	NXR	10072590	39000	39X1000 Amex	R.S. Corporation	No	Yes 11/30/06	Closed
95	30-Nov	29-Nov	The Hokuriku Bank	50385	NXR	10072591	40000	40X1000 Amex T/C	I K Auto Ltd	No	Yes 11/30/06	Closed
96	30-Nov	29-Nov	The Hokuriku Bank	50385	NXR	10072592	48000	Total Deposit	Auto Stage Ltd	No	Yes 11/30/06	Closed

1420

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	A	B	C	D	E	F	G	H	I	J	K	L
97	30-Nov	29-Nov	The Hokuriku Bank	50385	NXR	10072593	25100	Total Deposit	Akiko Komiyama	No	Yes 11/30/06	Closed
98												
99												
100												
101												
102	5-Dec	4-Dec	The Hokuriku Bank	50385	NXR	10072699	34000	34X1000 Amex T/C	Sekizawasyouji Co. Ltd	No	Yes 12/05/06	Closed
103	5-Dec	4-Dec	The Hokuriku Bank	50385	NXR	10072600	218500	Total Deposit	Maric Trading	No	Yes 12/05/06	Closed
104	5-Dec	4-Dec	The Hokuriku Bank	50385	NXR	10072602	123000	Total Deposit	Maric Trading	No	Yes 12/05/06	Closed
105	6-Dec	5-Dec	The Hokuriku Bank	50385	NXR	10072604	100500	Total Deposit	I K Auto Ltd	No	Yes 12/06/06	Closed
106	6-Dec	5-Dec	The Hokuriku Bank	50385	NXR	10072605	55000	Total Deposit	Akiko Komiyama	No	Yes 12/06/06	Closed
107	6-Dec	5-Dec	The Hokuriku Bank	50385	NXR	10073606	51000	Total Deposit	R.S. Corporation	No	Yes 12/06/06	Closed
108												
109	7-Dec	6-Dec	The Hokuriku Bank	50385	NXR	10072608	29500	Total Deposit	Shigeru Shiotani	No	Yes 12/07/06	Closed
110	7-Dec	6-Dec	The Hokuriku Bank	50385	NXR	10072609	41000	Total Deposit	Akiko Komiyama	No	Yes 12/07/06	Closed
111	7-Dec	6-Dec	The Hokuriku Bank	50385	NXR	10072610	28000	25X1000 Amex T/C	Shin Kyowa International	No	Yes 12/07/06	Closed
112	7-Dec	6-Dec	The Hokuriku Bank	50385	NXR	10072611	53000	53X1000 Amex T/C	Auto Stage Ltd	No	Yes 12/07/06	Closed
113	7-Dec	6-Dec	The Hokuriku Bank	50385	NXR	10072612	24000	Total Deposit	Sando Corporation	No	Yes 12/07/06	Closed
114	7-Dec	6-Dec	The Hokuriku Bank	50385	NXR	10072613	129000	Total Deposit	S.K. Trading	No	Yes 12/07/06	Closed
115												
116												
117	11-Dec	8-Dec	The Hokuriku Bank	50385	NXR	10072618	20000	20X1000 Amex T/C	Maric Trading	No	Yes 12/05/06	Closed
118												
119												
120												
121												
122												
123												
124												
125												
126	14-Dec	13-Dec	The Hokuriku Bank	50385	NXR	10072624	21500	Total Deposit	Shigeru Shiotani	No	Yes 12/14/06	Closed
127	14-Dec	13-Dec	The Hokuriku Bank	50385	NXR	10072625	20000	20X1000 Amex T/C	Sumimoto Zidosha Ltd	No	Yes 12/14/06	Closed
128	14-Dec	13-Dec	The Hokuriku Bank	50385	NXR	10072626	31300	Total Deposit	Auto Stage Ltd	No	Yes 12/14/06	Closed
129												
130	14-Dec	13-Dec	The Hokuriku Bank	50385	NXR	10072627	28000	28X1000 Amex T/C	Sando Corporation	No	Yes 12/14/06	Closed
131	14-Dec	13-Dec	The Hokuriku Bank	50385	NXR	10072628	193000	193X1000 Amex T/C	S.K. Trading	No	Yes 12/14/06	Closed
132	15-Dec	14-Dec	The Hokuriku Bank	50385	NXR	10072632	43000	Total Deposit	S.K. Trading	No	Yes 12/18/06	Closed
133	18-Dec	15-Dec	The Hokuriku Bank	50385	NXR	10072636	50000	Total Deposit	Taniguchi Koueki Taniguchi Mikiya	No	Yes 12/18/06	Closed
134	18-Dec	15-Dec	The Hokuriku Bank	50385	NXR	10072638	24000	Total Deposit	Sando Corporation	No	Yes 12/18/06	Closed
135	18-Dec	15-Dec	The Hokuriku Bank	50385	NXR	10072639	22000	Total Deposit	Gondal Corporation	No	Yes 12/18/06	Closed
136												
137												
138												
139	19-Dec	18-Dec	The Hokuriku Bank	50385	NXR	10072641	50385	85X1000 Amex T/C	S.K. Trading	No	Yes 12/19/06	Closed
140												
141												
142												
143	20-Dec	19-Dec	The Hokuriku Bank	50385	NXR	10072644	30000	Total Deposit	R.S. Corporation	No	Yes 12/20/06	Closed
144												

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	A	B	C	D	E	F	G	H	I	J	K	L
145												
146	21-Dec	26-Dec	The Hokuriku Bank	50385	NXR	10072648	42000	42X1000 Amex T/C	Sando Corporation	No	Yes 12/20/06	Closed
147	21-Dec	20-Dec	The Hokuriku Bank	50385	NXR	10072647	104000	Total Deposit	S.K. Trading	No	Yes 12/20/06	Closed
148	21-Dec	20-Dec	The Hokuriku Bank	50385	NXR	10072648	28000	Total Deposit	I.K. Auto Ltd	No	Yes 12/20/06	Closed
149	21-Dec	20-Dec	The Hokuriku Bank	50385	NXR	10072651	43000	43X1000 Amex T/C	Auto Stage Ltd	No	Yes 12/20/06	Closed
150												
151												
152												
153	26-Dec	22-Dec	The Hokuriku Bank	50385	NXR	10072654	20500	41X500 Amex T/C	Gondal Corporation	No	Yes 12/26/06	Closed
154	26-Dec	22-Dec	The Hokuriku Bank	50385	NXR	10072655	40000	40X1000 Amex T/C	SK Trading Co.	No	Yes 12/26/06	Closed
155	26-Dec	22-Dec	The Hokuriku Bank	50385	NXR	10072656	43000	43X1000 Amex T/C	R.S. Corporation	No	Yes 12/26/06	Closed
156	26-Dec	22-Dec	The Hokuriku Bank	50385	NXR	10072657	20000	20X1000 Amex T/C	Sando Corporation	No	Yes 12/26/06	Closed
157												
158												
159	27-Dec	28-Dec	The Hokuriku Bank	50385	NXR	10072661	110000	Total Deposit	R.S. Corporation	No	Yes 12/27/06	Closed
160												
161	28-Dec	27-Dec	The Hokuriku Bank	50385	NXR	10072663	36000	Total Deposit	Gondal Corporation	No	Yes 12/28/06	Closed
162	28-Dec	27-Dec	The Hokuriku Bank	50385	NXR	10072664	51000	Total Deposit	S.K. Trading	No	Yes 12/28/06	Closed
163	28-Dec	27-Dec	The Hokuriku Bank	50385	NXR	10072665	123000	Total Deposit	I.K. Auto Ltd	No	Yes 12/28/06	Closed
164	28-Dec	27-Dec	The Hokuriku Bank	50352	NXR	10072666	25000	Total Deposit	Shin Kyowa	No	Yes 12/28/06	Closed
165	28-Dec	27-Dec	The Hokuriku Bank	50385	NXR	10072667	175500	Total Deposit	Mario Trading	No	Yes 12/28/06	Closed
166	28-Dec	27-Dec	The Hokuriku Bank	50385	NXR	10072669	53000	Total Deposit	R.S. Corporation	No	Yes 12/28/06	Closed
167	28-Dec	27-Dec	The Hokuriku Bank	50385	NXR	10072670	30000	Total Deposit	Gondal Corporation	No	Yes 12/28/06	Closed
168	28-Dec	27-Dec	The Hokuriku Bank	50385	NXR	10072671	44000	Total Deposit	Sumimoto Zidsha	No	Yes 12/28/06	Closed
169	28-Dec	28-Dec	The Hokuriku Bank	50385	NXR	10072676	36000	Total Deposit	Auto Stage Ltd	No	Yes 12/28/06	Closed
170	28-Dec	28-Dec	The Hokuriku Bank	50385	NXR	10072675	52000	Total Deposit	Gondal Corporation	No	Yes 12/28/06	Closed
171	2-Jan	29-Dec	The Hokuriku Bank	50385	NXR	10072679	40000	40X1000 Amex T/C	Yasuhiko Natamoto	No	Yes 01/02/07	Closed

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1423

From: "BOSS, JOSEPH" <JOSEPH.BOSS@OCC.TREAS.GOV>  
Sent: 7/26/2007 7:24:48 AM  
To: ALAN T.KETLEY@US.HSBC.COM  
CC: "BOSS, JOSEPH" <JOSEPH.BOSS@OCC.TREAS.GOV>  
Subject: Saudi's

Alan, for your information and review. Please let me know if there is anything. This appeared on the front page of today's Wall Street Journal.

Thanks, Joe

TERROR FINANCE  
U.S. Tracks Saudi Bank  
Favored by Extremists  
Officials Debated What  
To Do About Al Rajhi,  
Intelligence Files Show  
By GLENN R. SIMPSON  
July 26, 2007; Page A1

JIDDA, Saudi Arabia -- In the 1940s, two Bedouin farm boys from the desert began changing money for the trickle of traders and religious pilgrims in this then-remote and barren kingdom. It was a business built on faith and trust, Sulaiman Al Rajhi once told an interviewer, and for many years he would hand gold bars to strangers boarding flights in Jidda and ask them to give the gold to his brother on their arrival in Riyadh.

EXTREMISTS' ACCOUNTS

The News: U.S. intelligence reports say Islamic extremists often use Saudi Arabia's Al Rajhi Bank to move money. The bank has denounced terrorism and denies any role in financing extremists.

The Issue: A confrontation with Al Rajhi would be politically difficult for Saudi monarchy, and U.S. isn't satisfied with its efforts to curb the financial infrastructure essential to terrorism.

Result: U.S. has periodically debated taking action on its own against the bank, but chosen instead to lobby the Saudis quietly about its concerns.

Today, Mr. Al Rajhi is a reclusive octogenarian whose fortune is estimated at \$12 billion. And Al Rajhi Bank grew into the kingdom's largest Islamic bank, with 500 branches in Saudi Arabia and more spread across the Muslim world. Following the Sept. 11, 2001, attacks, the bank also set off an intense debate within the U.S. government over whether to take strong action against its alleged role in extremist finance. Confidential reports by the Central Intelligence Agency and other U.S. agencies, reviewed by The Wall Street Journal, detail for the first time how much the U.S. learned about the use of Al Rajhi Bank by alleged extremists, and how U.S. officials agonized over what to do about it.

After 9/11, the Saudi monarchy pledged its full support in the fight against global terrorism. And following violent attacks inside the kingdom in the next two years, the Saudis did launch major strikes against militants operating on their soil. But the Saudi government has been far less willing to tackle the financial infrastructure essential to terrorism. U.S. intelligence reports state that Islamic banks, while mostly doing ordinary commerce, also are institutions that extremism relies upon in its global spread.

As a result, the Bush administration repeatedly debated proposals for taking strong action itself against Al Rajhi Bank, in particular, according to former U.S. officials and previously undisclosed government documents. Ultimately, the U.S. always chose instead to lobby Saudi officialdom quietly about its concerns. The U.S. intelligence reports, heretofore secret, describe how Al Rajhi Bank has maintained accounts and accepted donations for Saudi charities that the U.S. and other nations have formally designated as fronts for al Qaeda or other terrorist groups.

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In addition, Mr. Al Rajhi and family members have been major donors to Islamic charities that are suspected by Western intelligence agencies of funding terrorism, according to CIA reports and federal-court filings by the Justice Department.

A 2003 CIA report claims that a year after Sept. 11, with a spotlight on Islamic charities, Mr. Al Rajhi ordered Al Rajhi Bank's board "to explore financial instruments that would allow the bank's charitable contributions to avoid official Saudi scrutiny."

A few weeks earlier, the report says, Mr. Al Rajhi "transferred \$1.1 billion to offshore accounts -- using commodity swaps and two Lebanese banks -- citing a concern that U.S. and Saudi authorities might freeze his assets." The report was titled "Al Rajhi Bank: Conduit for Extremist Finance."

Al Rajhi Bank and the Al Rajhi family deny any role in financing extremists.

They have denounced terrorist acts as un-Islamic. The bank declined to address specific allegations made in American intelligence and law-enforcement records, citing client confidentiality.

#### RELATED DOCUMENTS

<<Picture (Metafile)>>

Al-Rajhi bank became a target for U.S. terrorism sanctions less than two months after Sept. 11, 2001.

No action was taken, but in mid-2003, the Central Intelligence Agency concluded that the Al-Rajhi family and their bank were financing terrorists, probably knowingly. This is the summary page

<<http://online.wsj.com/public/resources/documents/info-enlargePic07.html>> 1 from the agency's report.

The bank sued The Wall Street Journal Europe for libel in 2002 over a report that it was under scrutiny in connection with terrorism funding, but dropped the case in 2004 and The Wall Street Journal published the bank's statement

<<http://online.wsj.com/article/SB109813521879148492.html>> 2.

The CIA's report and other U.S. intelligence on Al-Rajhi remained secret, and in 2005 a federal judge threw out a lawsuit against the bank by victims of Al Qaeda, saying there was no evidence Al-Rajhi provided anything but routine banking services to terrorists. Read the order.

<<http://wsj.com/public/resources/documents/4caseyorderjan182005.pdf>> 3

The Al-Rajhi family and the ruling Al-Saud family of Saudi Arabia have been at odds for decades, in part because of the accidental death of an infant Al-Rajhi family member in a botched police rescue attempt during a kidnapping. Saudi dissidents in London issued a communiqué recounting the incident

<<http://wsj.com/public/resources/documents/5Communique1994No23.pdf>> 4 that was highly critical of Saudi authorities. The document was made available by the Investigative Project on Terrorism, a Washington-based nonprofit group.

This 1992 State Department cable

<<http://wsj.com/public/resources/documents/CablestatedocC167.pdf>> 5 from the U.S. ambassador in Riyadh discusses the Saudi press coverage of the Al Rajhi bank's purported role in the BCCI scandal.

One of the Al Rajhi bank's major longtime clients is the International Islamic Relief Organization of Jeddah, Saudi Arabia, a powerful charity backed by some of the country's wealthiest businessmen. This fundraising solicitation

<<http://wsj.com/public/resources/documents/iirodonationform2007.pdf>> 6 is from the IIRO's March 2007 newsletter. The group strongly denounces terrorism on its Web site <<http://www.iirosa.org/en/>> 7.

U.S. intelligence has alleged connections between al Qaeda and the IIRO since 1996, and the Treasury Department now alleges

<<http://wsj.com/public/resources/documents/6IIRODesignation2006.pdf>> 8 the IIRO has been deeply penetrated by al Qaeda. The group denies supporting terrorism in this statement

<<http://wsj.com/public/resources/documents/7iirodefensemarch2007color.pdf>> 9 from its most recent newsletter. The group also claims it no longer sends money

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overseas, and that its accounts are frozen by Saudi banks. Yet its most recent fundraising letter  
 <<http://wsj.com/public/resources/documents/8Pagesfromiirrosamarch2007color2.pdf>>  
 10 solicits donations to Al Rajhi bank and touts a variety of ongoing projects in overseas conflict zones.

In 2004, IIRQ funded a medical facility in Fallujah while that central Iraqi town was under the control of Iraqi insurgents. The U.S. Marine Corps blew up the clinic, and says all three of the city's hospitals were being used by insurgents as fighting positions. See the PowerPoint slides  
 <<http://wsj.com/public/resources/documents/9OperationAlFahr2004.ppt>> 11.

In 2002, the bank sued The Wall Street Journal Europe after an article said Saudi authorities were monitoring some Al Rajhi Bank accounts at U.S. request, in a bid to prevent them from being used, wittingly or unwittingly, for funneling money to terrorist groups. The bank dropped the suit in 2005 and the Journal published a statement saying its article hadn't reported any allegation that the bank supported or financed terrorism.

Also in 2005, a U.S. judge dismissed Al Rajhi Bank from a lawsuit filed by relatives of Sept. 11 victims. The ruling said banks couldn't be held liable for providing routine services to people who turned out to be terrorists. In a statement in response to questions about suspected terrorists among its clients, the bank noted that "Al Rajhi Bank has a very large branch network, and a very large retail customer base."

U.S. law-enforcement and intelligence agencies acknowledge it is possible that extremists use the bank's far-flung branches and money-transfer services without bank officials' knowledge. The U.S. has never obtained proof that the bank or its owners knowingly facilitate terrorism, according to documents and former officials, despite what they describe as extensive circumstantial evidence that some executives are aware the bank is used by extremists. The 2003 CIA report concluded: "Senior Al Rajhi family members have long supported Islamic extremists and probably know that terrorists use their bank."

Most major banks around the world are bound by a patchwork of treaties and agreements that, in effect, require them to know their customers and report any suspicious activities to regulators. The rules are designed to fight terrorism, money laundering and narcotics trafficking. It's generally acknowledged that Saudi banks are bound by these rules, although experts differ on when compliance became mandatory.

The top counterterrorism official at the U.S. Treasury Department, while declining to comment on Al Rajhi Bank specifically, says Saudi officials haven't met a promise to create a commission to oversee Saudi charities, many of which bank with Al Rajhi. "They are also not holding people responsible for sending money abroad for jihad," says the Treasury official, Stuart Levey. "It just doesn't happen."

The Saudi government maintains it has been working diligently with the U.S. and others to counter terrorism. It cites its arrests of several alleged terrorist fund-raisers in recent years. The Saudis didn't respond to specific questions about their efforts to counter terrorist finance or oversee banks.

A White House statement said that "the Saudis continue to be a strong partner in the War on Terror... We have made significant progress on numerous fronts -- including the freezing of assets and the shutdown of known conduits of [terrorist] funding." A CIA spokesman said "publishing details of how our government seeks to track extremist financing" could undermine those efforts.

For the ruling Saud family, any confrontation with the Al Rajhis could be politically treacherous. To stay in power, the Saudis rely on the tolerance of clerical and business elites, many of whom view the royal family as corrupt. The wealthy Al Rajhis are a clan long at odds with the royal family. And U.S. intelligence files show the Al Rajhis also have close ties to another group critical of the royals: Saudi Arabia's conservative clerics.

The Al Rajhi empire includes hotels, housing developments, commodities trading, shipping, aviation leasing and poultry. Its core is the bank, with more than

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500 branches in Saudi Arabia and other offices abroad, from Pakistan to Malaysia. For 2006, the publicly held institution reported \$1.9 billion in profit and \$28 billion in assets.

Sulaiman Al Rajhi grew up in the Nejd desert, the birthplace of a severe form of Islam, called Wahhabism, that forbids birthday parties, musical instruments and photographing people. In the 1940s, he and a brother, Saleh, went to the Saudi capital city. "From literally nothing -- making change on what were then the dirt streets of Riyadh -- Sulaiman and Saleh al Rajhi built the Al Rajhi Bank," Sulaiman's lawyers told a U.S. court in New York in 2005.

Sulaiman described the business in a rare interview with *Euromoney* magazine in 1983. With two other brothers, he and Saleh began changing money for pilgrims taking camel caravans across the desert to the holy cities of Mecca and Medina. When throngs of migrant workers came to Saudi Arabia during the 1970s oil boom, the Al Rajhis helped them send their earnings home to places like Indonesia and Pakistan.

In 1983, the brothers won permission to open Saudi Arabia's first Islamic bank, one that would observe religious tenets such as a ban on interest.

But relations with the ruling family frayed. The government-controlled press in 1992 publicized Al Rajhi Bank's tangential role in an international scandal of that era, that of the bank called BCCI, U.S. diplomats reported. Then in 1994, an infant relative of the Al Rajhis died in a kidnapping. Official press accounts said the kidnappers slit the child's throat, but Saudi dissidents claimed police shot the child. Mr. Al Rajhi blamed the royal family, the CIA report says.

Although Al Rajhi Bank continued to make a show of support for the Saudis -- annual reports had flowery tributes to the royal family -- the bank began refusing to make loans to the Saudis or to finance their projects, U.S. diplomats said at the time.

With its Islamic procedures, the bank was a magnet for the clerical establishment, which grew rich from alms amid the oil boom. As the clerics' charities spread, they became entwined with Al Rajhi Bank and the conservative Al Rajhi family's own extensive financial support for Islamic causes.

There is no reliable estimate of how much the Al Rajhis have given to promote Islam over the years, but an endowment holding much of Saleh Al Rajhi's wealth gives an indication of the scale. Its Web site details nearly \$50 million in direct donations within the kingdom to Islamic causes and at least \$12 million in donations abroad. The overseas money went to aid embattled Muslims in Kosovo, Chechnya and the Palestinian territories and to finance Islamic instruction.

There are indications not all the giving was for such purposes. The Al Rajhi name appeared on a list of regular financial contributors to al Qaeda that was discovered in Sarajevo, Bosnia, in 2002. The list was authenticated for the Federal Bureau of Investigation that year by America's top judicial witness against al Qaeda, a onetime al Qaeda business manager named Jamal Al Fadi, who is in the federal witness-protection program. He called the contributor list the "golden chain."

A 2003 German police report said Sulaiman Al Rajhi and other family members had contributed more than \$200,000 in 1993 to a charity that financed weapons for Islamic militants in Bosnia, in addition to providing humanitarian aid.

The 2003 CIA report tells of efforts by two Al Rajhi brothers to keep some giving secret. It says that Sulaiman and Saleh transferred \$4 million to parties in Germany and Pakistan in December 1998 using "a unique computer code to send funds at regular intervals to unspecified recipients, suggesting they were trying to conceal the transactions and that the money may have been intended for illegitimate ends."

The report says extremists "ordered operatives in Afghanistan, Indonesia, Pakistan, Saudi Arabia, Turkey, and Yemen" to use Al Rajhi Bank. Mamduh Mahmud Salim, convicted mastermind of the 1998 embassy bombings in Kenya and Tanzania, was carrying records of an Al Rajhi account (number 001424/4) when arrested in

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Germany in 1998, German police found. In 2000, the CIA report says, Al Rajhi Bank couriers "delivered money to the Indonesian insurgent group Kompak to fund weapons purchases and bomb-making activities."

A U.S. intelligence memo dated Nov. 16, 2001, says a money courier for Osama bin Laden's second-in-command, Ayman al-Zawahri, traveled on a visa that the bank had obtained for him. The memo adds, however: "Reporting does not indicate whether bank management was witting" of the courier's terrorist connections. Al Rajhi Bank maintained at least 24 accounts and handled unusual transactions for Al-Haramain foundation -- a charity that Treasury officials say has acted as a front for al Qaeda in 13 countries -- until the Saudi government ordered the charity shut down in late 2004, according to intelligence and law-enforcement reports. The United Nations has designated top officials of Al-Haramain foundation as terrorists, and most of its offices now are closed. According to a federal indictment in Oregon, a top Al-Haramain official in 2000 carried \$130,000 in \$1,000 traveler's checks from Portland to Riyadh and deposited them with Al Rajhi -- funds the indictment says were for the ultimate benefit of al Qaeda fighters in Chechnya. The indicted official, Soliman Al-Buthe, now works for the city of Riyadh. In an interview, he confirmed carrying the checks and depositing them with Al Rajhi Bank but said that they weren't for al Qaeda and that he did nothing wrong.

<<Picture (Metafile)>>

A Jidda-based charity called the International Islamic Relief Organization, or IIRO, arranges for donors to send their donations directly to the Al Rajhi Bank. The IIRO's chairman, Adnan Khalil Basha, says the charity is "absolutely apolitical" and has elaborate spending controls to prevent illicit diversions. The charity says it works with Al Rajhi Bank simply because its fees are low and its service is best.

However, the U.N. has labeled two of the IIRO's branches and some of its officials as al Qaeda supporters. In 2004, the IIRO solicited donations through Al Rajhi Bank for the Iraqi city of Fallujah, then largely under the control of insurgents and the base of the late Abu Musab al Zarqawi, who led al Qaeda in Mesopotamia. The IIRO's workers oversaw construction of a trauma clinic in an insurgent-controlled area of Fallujah. The U.S. saw the clinic as a haven for insurgent fighters, and Marines destroyed it in November 2004. That was "a big tragedy for us," says the IIRO's chairman, Mr. Basha.

He denies the charity had any involvement with the Iraqi insurgency. Charity officials complain that the U.S. has produced no evidence of their alleged ties to terrorism.

Two years earlier, federal agents raided the Virginia offices of a network of charities funded by Sulaiman Al Rajhi that worked closely with the IIRO and that -- according to Justice Department court filings -- provided funds to Palestinian terrorists. No charges have been filed.

A year after the 9/11 attacks, U.S. authorities began to lament the lack of Saudi action in taking down terrorists' financial infrastructure. A November 2002 CIA report said the Saudi government "has made little independent effort to uncover terrorist financiers, investigate individual donors, and tighten the regulation of Islamic charities," largely because of "domestic political considerations."

The report advised against a noisy confrontation: "A key factor for continued successful counterterrorism initiatives with the Saudis, whose society is by tradition private, closed, and conservative, will be to ensure that their cooperation with the United States is handled discreetly and kept as much as possible out of the public eye."

The U.S. began to rethink that approach after an al Qaeda attack in Riyadh in May 2003 that killed 26 people, including nine Americans. Deputies from the National Security Council, CIA, Treasury and State departments debated a proposal for legal and political action against Al Rajhi Bank, including the

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possibility of covert operations such as interfering with the bank's internal operations, according to Bush administration documents and former U.S. officials.

One idea kicked around was "listing or threatening to list" Al Rajhi Bank as a supporter of terrorism. Such a listing can be done if recommended by a committee representing the Treasury, State and Defense departments and the CIA and NSC, and signed by the president. The designation bars U.S. companies from doing business with the named entity. A U.S. designation also normally is forwarded to the U.N., and if that body puts the name on its own terrorist-supporter list, all member states are obliged to freeze the entity's assets.

Other ideas U.S. officials discussed included enlisting friendly countries to step up scrutiny and regulatory action against the Al Rajhis. The CIA report said that "a successful effort against the Al Rajhis would encourage efforts against other donors, or at a minimum, would discourage private funding of Al Qaeda."

Ultimately, the Bush administration again chose merely to continue privately exerting pressure on the Saudis to stiffen their oversight.

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Attachment: C.htm

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1429

From: GLORIA STRAZZA/HBUS/HSBC  
Sent: 7/26/2007 12:11:28 PM  
To: ALAN T KETLEY/HBUS/HSBC/HSBC  
CC: "ALAN WILLIAMSON" <ALAN.P.WILLIAMSON@US.HSBC.COM>; "ANNE LIDDY"  
<ANNE.LIDDY@US.HSBC.COM>; MONIQUE CODJOE/HBUS/HSBC/HSBC  
Subject: Re: Fw: Saudi's

Alan --

If this is the article that you mentioned to me this morning -- then we have seen it and are already working on it.

We will provide updates to all.

Gloria Strazza  
FVP -- Sr. Manager - ICRO  
452 Fifth Avenue, Tower 7  
New York, NY 10018  
Mail Code: 31  
Tele: 212-525-8634  
Fax: 212-525-5769

Alan T Ketley/HBUS/HSBC  
07/26/2007 08:31 AM

To  
"Gloria Strazza" <gloria.strazza@us.hsbc.com>  
cc  
"Anne Liddy" <anne.liddy@us.hsbc.com>, "Alan Williamson"  
<alan.p.williamson@us.hsbc.com>  
Subject  
Fw: Saudi's

Gloria

Can you run the names in this article against our databases so we can give Joe Boss an answer.

Thanks

Alan T Ketley  
SVP AML Compliance  
452 Fifth Avenue, New York, NY10018

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1430

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----- Forwarded by Alan T Ketley/HBUS/HSBC on 07/26/2007 08:30 AM -----  
"Boss, Joseph" <Joseph.Boss@occ.treas.gov>  
07/26/2007 08:24 AM

To  
alan.t.ketley@us.hsbc.com  
cc  
"Boss, Joseph" <Joseph.Boss@occ.treas.gov>  
Subject  
Saudi's

Alan, for your information and review. Please let me know if there is anything. This appeared on the front page of today's Wall Street Journal.

Thanks, Joe  
TERROR FINANCE  
U.S. Tracks Saudi Bank  
Favored by Extremists  
Officials Debated What  
To Do About Al Rajhi,  
Intelligence Files Show  
By GLENN R. SIMPSON  
July 26, 2007; Page A1

JIDDA, Saudi Arabia -- In the 1940s, two Bedouin farm boys from the desert began changing money for the trickle of traders and religious pilgrims in this then-remote and barren kingdom. It was a business built on faith and trust, Sulaiman Al Rajhi once told an interviewer, and for many years he would hand gold bars to strangers boarding flights in Jidda and ask them to give the gold to his brother on their arrival in Riyadh.

#### EXTREMISTS' ACCOUNTS

The News: U.S. intelligence reports say Islamic extremists often use Saudi Arabia's Al Rajhi Bank to move money. The bank has denounced terrorism and denies any role in financing extremists.

The Issue: A confrontation with Al Rajhi would be politically difficult for Saudi monarchy, and U.S. isn't satisfied with its efforts to curb the financial infrastructure essential to terrorism.

Result: U.S. has periodically debated taking action on its own against the bank, but chosen instead to lobby the Saudis quietly about its concerns. Today, Mr. Al Rajhi is a reclusive octogenarian whose fortune is estimated at \$12 billion. And Al Rajhi Bank grew into the kingdom's largest Islamic bank, with 500 branches in Saudi Arabia and more spread across the Muslim world. Following the Sept. 11, 2001, attacks, the bank also set off an intense debate within the U.S. government over whether to take strong action against its alleged role in extremist finance. Confidential reports by the Central Intelligence Agency and other U.S. agencies, reviewed by The Wall Street Journal, detail for the first time how much the U.S. learned about the use of

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Al Rajhi Bank by alleged extremists, and how U.S. officials agonized over what to do about it.

After 9/11, the Saudi monarchy pledged its full support in the fight against global terrorism. And following violent attacks inside the kingdom in the next two years, the Saudis did launch major strikes against militants operating on their soil. But the Saudi government has been far less willing to tackle the financial infrastructure essential to terrorism. U.S. intelligence reports state that Islamic banks, while mostly doing ordinary commerce, also are institutions that extremism relies upon in its global spread.

As a result, the Bush administration repeatedly debated proposals for taking strong action itself against Al Rajhi Bank, in particular, according to former U.S. officials and previously undisclosed government documents. Ultimately, the U.S. always chose instead to lobby Saudi officialdom quietly about its concerns.

The U.S. intelligence reports, heretofore secret, describe how Al Rajhi Bank has maintained accounts and accepted donations for Saudi charities that the U.S. and other nations have formally designated as fronts for al Qaeda or other terrorist groups.

In addition, Mr. Al Rajhi and family members have been major donors to Islamic charities that are suspected by Western intelligence agencies of funding terrorism, according to CIA reports and federal-court filings by the Justice Department.

A 2003 CIA report claims that a year after Sept. 11, with a spotlight on Islamic charities, Mr. Al Rajhi ordered Al Rajhi Bank's board "to explore financial instruments that would allow the bank's charitable contributions to avoid official Saudi scrutiny."

A few weeks earlier, the report says, Mr. Al Rajhi "transferred \$1.1 billion to offshore accounts -- using commodity swaps and two Lebanese banks -- citing a concern that U.S. and Saudi authorities might freeze his assets." The report was titled "Al Rajhi Bank: Conduit for Extremist Finance."

Al Rajhi Bank and the Al Rajhi family deny any role in financing extremists. They have denounced terrorist acts as un-Islamic. The bank declined to address specific allegations made in American intelligence and law-enforcement records, citing client confidentiality.

#### RELATED DOCUMENTS

Al-Rajhi bank became a target for U.S. terrorism sanctions less than two months after Sept. 11, 2001.

No action was taken, but in mid-2003, the Central Intelligence Agency concluded that the Al-Rajhi family and their bank were financing terrorists, probably knowingly. This is the summary page 1 from the agency's report.

The bank sued The Wall Street Journal Europe for libel in 2002 over a report that it was under scrutiny in connection with terrorism funding, but dropped the case in 2004 and The Wall Street Journal published the bank's statement<sup>2</sup>.

The CIA's report and other U.S. intelligence on Al-Rajhi remained secret, and in 2005 a federal judge threw out a lawsuit against the bank by victims of Al Qaeda, saying there was no evidence Al-Rajhi provided anything but routine banking services to terrorists. Read the order.<sup>3</sup>

The Al-Rajhi family and the ruling Al-Saud family of Saudi Arabia have been at odds for decades, in part because of the accidental death of an infant Al-Rajhi family member in a botched police rescue attempt during a kidnapping. Saudi dissidents in London issued a communiqué recounting the incident<sup>4</sup> that was highly critical of Saudi authorities. The document was made available by the Investigative Project on Terrorism, a Washington-based nonprofit group. This 1992 State Department cable<sup>5</sup> from the U.S. ambassador in Riyadh discusses the Saudi press coverage of the Al Rajhi bank's purported role in the BCCI scandal.

One of the Al Rajhi bank's major longtime clients is the International Islamic Relief Organization of Jeddah, Saudi Arabia, a powerful charity backed by some

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of the country's wealthiest businessmen. This fundraising solicitation<sup>6</sup> is from the IIRO's March 2007 newsletter. The group strongly denounces terrorism on its Web site<sup>7</sup>.

U.S. intelligence has alleged connections between al Qaeda and the IIRO since 1996, and the Treasury Department now alleges<sup>8</sup> the IIRO has been deeply penetrated by al Qaeda. The group denies supporting terrorism in this statement<sup>9</sup> from its most recent newsletter. The group also claims it no longer sends money overseas, and that its accounts are frozen by Saudi banks. Yet its most recent fundraising letter<sup>10</sup> solicits donations to Al Rajhi bank and touts a variety of ongoing projects in overseas conflict zones.

In 2004, IIRO funded a medical facility in Fallujah while that central Iraqi town was under the control of Iraqi insurgents. The U.S. Marine Corps blew up the clinic, and says all three of the city's hospitals were being used by insurgents as fighting positions. See the PowerPoint slides<sup>11</sup>.

In 2002, the bank sued The Wall Street Journal Europe after an article said Saudi authorities were monitoring some Al Rajhi Bank accounts at U.S. request, in a bid to prevent them from being used, wittingly or unwittingly, for funneling money to terrorist groups. The bank dropped the suit in 2005 and the Journal published a statement saying its article hadn't reported any allegation that the bank supported or financed terrorism.

Also in 2005, a U.S. judge dismissed Al Rajhi Bank from a lawsuit filed by relatives of Sept. 11 victims. The ruling said banks couldn't be held liable for providing routine services to people who turned out to be terrorists. In a statement in response to questions about suspected terrorists among its clients, the bank noted that "Al Rajhi Bank has a very large branch network, and a very large retail customer base."

U.S. law-enforcement and intelligence agencies acknowledge it is possible that extremists use the bank's far-flung branches and money-transfer services without bank officials' knowledge. The U.S. has never obtained proof that the bank or its owners knowingly facilitate terrorism, according to documents and former officials, despite what they describe as extensive circumstantial evidence that some executives are aware the bank is used by extremists. The 2003 CIA report concluded: "Senior Al Rajhi family members have long supported Islamic extremists and probably know that terrorists use their bank."

Most major banks around the world are bound by a patchwork of treaties and agreements that, in effect, require them to know their customers and report any suspicious activities to regulators. The rules are designed to fight terrorism, money laundering and narcotics trafficking. It's generally acknowledged that Saudi banks are bound by these rules, although experts differ on when compliance became mandatory.

The top counterterrorism official at the U.S. Treasury Department, while declining to comment on Al Rajhi Bank specifically, says Saudi officials haven't met a promise to create a commission to oversee Saudi charities, many of which bank with Al Rajhi. "They are also not holding people responsible for sending money abroad for jihad," says the Treasury official, Stuart Levey. "It just doesn't happen."

The Saudi government maintains it has been working diligently with the U.S. and others to counter terrorism. It cites its arrests of several alleged terrorist fund-raisers in recent years. The Saudis didn't respond to specific questions about their efforts to counter terrorist finance or oversee banks.

A White House statement said that "the Saudis continue to be a strong partner in the War on Terror... We have made significant progress on numerous fronts -- including the freezing of assets and the shutdown of known conduits of [terrorist] funding." A CIA spokesman said "publishing details of how our government seeks to track extremist financing" could undermine those efforts. For the ruling Saud family, any confrontation with the Al Rajhis could be politically treacherous. To stay in power, the Saudis rely on the tolerance of clerical and business elites, many of whom view the royal family as corrupt. The wealthy Al Rajhis are a clan long at odds with the royal family. And U.S.

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intelligence files show the Al Rajhis also have close ties to another group critical of the royals: Saudi Arabia's conservative clerics. The Al Rajhi empire includes hotels, housing developments, commodities trading, shipping, aviation leasing and poultry. Its core is the bank, with more than 500 branches in Saudi Arabia and other offices abroad, from Pakistan to Malaysia. For 2006, the publicly held institution reported \$1.9 billion in profit and \$28 billion in assets.

Sulaiman Al Rajhi grew up in the Nejd desert, the birthplace of a severe form of Islam, called Wahhabism, that forbids birthday parties, musical instruments and photographing people. In the 1940s, he and a brother, Saleh, went to the Saudi capital city. "From literally nothing -- making change on what were then the dirt streets of Riyadh -- Sulaiman and Saleh al Rajhi built the Al Rajhi Bank," Sulaiman's lawyers told a U.S. court in New York in 2005.

Sulaiman described the business in a rare interview with Euromoney magazine in 1983. With two other brothers, he and Saleh began changing money for pilgrims taking camel caravans across the desert to the holy cities of Mecca and Medina. When throngs of migrant workers came to Saudi Arabia during the 1970s oil boom, the Al Rajhis helped them send their earnings home to places like Indonesia and Pakistan.

In 1983, the brothers won permission to open Saudi Arabia's first Islamic bank, one that would observe religious tenets such as a ban on interest.

But relations with the ruling family frayed. The government-controlled press in 1992 publicized Al Rajhi Bank's tangential role in an international scandal of that era, that of the bank called BCCI. U.S. diplomats reported. Then in 1994, an infant relative of the Al Rajhis died in a kidnapping. Official press accounts said the kidnappers slit the child's throat, but Saudi dissidents claimed police shot the child. Mr. Al Rajhi blamed the royal family, the CIA report says.

Although Al Rajhi Bank continued to make a show of support for the Saudis -- annual reports had flowery tributes to the royal family -- the bank began refusing to make loans to the Saudis or to finance their projects, U.S. diplomats said at the time.

With its Islamic procedures, the bank was a magnet for the clerical establishment, which grew rich from aims amid the oil boom. As the clerics' charities spread, they became entwined with Al Rajhi Bank and the conservative Al Rajhi family's own extensive financial support for Islamic causes.

There is no reliable estimate of how much the Al Rajhis have given to promote Islam over the years, but an endowment holding much of Saleh Al Rajhi's wealth gives an indication of the scale. Its Web site details nearly \$50 million in direct donations within the kingdom to Islamic causes and at least \$12 million in donations abroad. The overseas money went to aid embattled Muslims in Kosovo, Chechnya and the Palestinian territories and to finance Islamic instruction.

There are indications not all the giving was for such purposes. The Al Rajhi name appeared on a list of regular financial contributors to al Qaeda that was discovered in Sarajevo, Bosnia, in 2002. The list was authenticated for the Federal Bureau of Investigation that year by America's top judicial witness against al Qaeda, a onetime al Qaeda business manager named Jamal Al Fadi, who is in the federal witness-protection program. He called the contributor list the "golden chain."

A 2003 German police report said Sulaiman Al Rajhi and other family members had contributed more than \$200,000 in 1993 to a charity that financed weapons for Islamic militants in Bosnia, in addition to providing humanitarian aid.

The 2003 CIA report tells of efforts by two Al Rajhi brothers to keep some giving secret. It says that Sulaiman and Saleh transferred \$4 million to parties in Germany and Pakistan in December 1998 using "a unique computer code to send funds at regular intervals to unspecified recipients, suggesting they were trying to conceal the transactions and that the money may have been intended for illegitimate ends."

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The report says extremists "ordered operatives in Afghanistan, Indonesia, Pakistan, Saudi Arabia, Turkey, and Yemen" to use Al Rajhi Bank. Mamduh Mahmud Salim, convicted mastermind of the 1998 embassy bombings in Kenya and Tanzania, was carrying records of an Al Rajhi account (number 001424/4) when arrested in Germany in 1998, German police found.

In 2000, the CIA report says, Al Rajhi Bank couriers "delivered money to the Indonesian insurgent group Kompak to fund weapons purchases and bomb-making activities."

A U.S. intelligence memo dated Nov. 16, 2001, says a money courier for Osama bin Laden's second-in-command, Ayman al-Zawahri, traveled on a visa that the bank had obtained for him. The memo adds, however: "Reporting does not indicate whether bank management was witting" of the courier's terrorist connections. Al Rajhi Bank maintained at least 24 accounts and handled unusual transactions for Al-Haramain foundation -- a charity that Treasury officials say has acted as a front for al Qaeda in 13 countries -- until the Saudi government ordered the charity shut down in late 2004, according to intelligence and law-enforcement reports. The United Nations has designated top officials of Al-Haramain foundation as terrorists, and most of its offices now are closed. According to a federal indictment in Oregon, a top Al-Haramain official in 2000 carried \$130,000 in \$1,000 traveler's checks from Portland to Riyadh and deposited them with Al Rajhi -- funds the indictment says were for the ultimate benefit of al Qaeda fighters in Chechnya. The indicted official, Soliman Al-Buthe, now works for the city of Riyadh. In an interview, he confirmed carrying the checks and depositing them with Al Rajhi Bank but said that they weren't for al Qaeda and that he did nothing wrong.

A Jidda-based charity called the International Islamic Relief Organization, or IIRO, arranges for donors to send their donations directly to the Al Rajhi Bank. The IIRO's chairman, Adnan Khalil Basha, says the charity is "absolutely apolitical" and has elaborate spending controls to prevent illicit diversions. The charity says it works with Al Rajhi Bank simply because its fees are low and its service is best.

However, the U.N. has labeled two of the IIRO's branches and some of its officials as al Qaeda supporters. In 2004, the IIRO solicited donations through Al Rajhi Bank for the Iraqi city of Fallujah, then largely under the control of insurgents and the base of the late Abu Musab al Zarqawi, who led al Qaeda in Mesopotamia. The IIRO's workers oversaw construction of a trauma clinic in an insurgent-controlled area of Fallujah. The U.S. saw the clinic as a haven for insurgent fighters, and Marines destroyed it in November 2004. That was "a big tragedy for us," says the IIRO's chairman, Mr. Basha.

He denies the charity had any involvement with the Iraqi insurgency. Charity officials complain that the U.S. has produced no evidence of their alleged ties to terrorism.

Two years earlier, federal agents raided the Virginia offices of a network of charities funded by Sulaiman Al Rajhi that worked closely with the IIRO and that -- according to Justice Department court filings -- provided funds to Palestinian terrorists. No charges have been filed.

A year after the 9/11 attacks, U.S. authorities began to lament the lack of Saudi action in taking down terrorists' financial infrastructure. A November 2002 CIA report said the Saudi government "has made little independent effort to uncover terrorist financiers, investigate individual donors, and tighten the regulation of Islamic charities," largely because of "domestic political considerations."

The report advised against a noisy confrontation: "A key factor for continued successful counterterrorism initiatives with the Saudis, whose society is by tradition private, closed, and conservative, will be to ensure that their cooperation with the United States is handled discreetly and kept as much as possible out of the public eye."

The U.S. began to rethink that approach after an al Qaeda attack in Riyadh in

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May 2003 that killed 26 people, including nine Americans. Deputies from the National Security Council, CIA, Treasury and State departments debated a proposal for legal and political action against Al Rajhi Bank, including the possibility of covert operations such as interfering with the bank's internal operations, according to Bush administration documents and former U.S. officials.

One idea kicked around was "listing or threatening to list" Al Rajhi Bank as a supporter of terrorism. Such a listing can be done if recommended by a committee representing the Treasury, State and Defense departments and the CIA and NSC, and signed by the president. The designation bars U.S. companies from doing business with the named entity. A U.S. designation also normally is forwarded to the U.N., and if that body puts the name on its own terrorist-supporter list, all member states are obliged to freeze the entity's assets.

Other ideas U.S. officials discussed included enlisting friendly countries to step up scrutiny and regulatory action against the Al Rajhis. The CIA report said that "a successful effort against the Al Rajhis would encourage efforts against other donors, or at a minimum, would discourage private funding of Al Qaeda."

Ultimately, the Bush administration again chose merely to continue privately exerting pressure on the Saudis to stiffen their oversight.

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From: DEBRA L BONOSCONI/HBUS/HSBC  
Sent: 10/23/2009 3:29:51 AM  
To: ANTHONY R GIBBS/HBUS/HSBC@HSBC02  
CC:  
Subject: comments

Anthony, I want to clarify and explain a couple of the issues David and I discussed to better prepare you for the discussion with him.

There are two issues that the OCC raised during the discussion with Curt and Lesley and I believe that these two issues were somehow interpreted as one.

1. Reporting line of the FIU Director to the AML Director.  
There is no standard model for this and regulatory agencies do not have the authority to dictate how an AML program should be structured. The only way the OCC would be able to dictate how it should be structured is if there are the following circumstances:
  - a. significant gaps in the reporting lines that cause risk (e.g decentralized process, too many layers to senior management).
  - b. FIU director is not sufficiently knowledgeable or experienced. I don't think this is case but certainly worth checking into.

Its my understanding that the OCC wants the AML Director to have better access to the Board, which is ok but that should not impact the reporting line of the FIU Director. These are two distinct issues. Wym is in agreement that he should report to the Board as well. He and I discussed all of this last week and we are in full agreement on this issue. There should be no problem with my having a dotted line to him as long as there are sufficient policy dictates (or governance) around FIU functions. Again, there is no standard structure for this but the key is having sufficient policy dictates. We could suggest that TRAC validate that the FIU Director is acting in accordance with AML Director policy requirements (which it would do anyway) as an added control.

2. Audit/TRAC structure. Most (very likely all) larger banks have a compliance testing program very similar to TRAC. Banks should have a side by side compliance review function that tests and validates the AML Program functions. The USA PATRIOT Act requires that we have an independent testing function and we comply with that with Group Audit.

The TRAC function is to test and validate the AML program in a "first alert" function. This is designed to address issues that, without that first review, could be identified and recorded as an audit finding. The TRAC process of testing should be (and is) leveraged by the independent audit function as long as it is found to be sound (constant validation of results from TRAC reviews) which is the case per Group Audit. Actually, the OCC views TRAC as far more effective and qualified than Group Audit which is very likey driving this push to change the reporting line. However, if that is the case, the OCC should address this as a audit issue, not a restructuring event. David and I are both very adamant about this. The only reason why they could require the restructuring is under the following conditions:

- b. a conflict of interest (audit reports to the AML Director, or Risk Management)
- c. a violation of law (USA PATRIOT Act requires that the AML program have complete independence from the AML program function).

So, the big question is:

why change the reporting line of the FIU Director as this has nothing to do with the independent testing function. Again, two separate issues. If there is a concern about the viability of the Group Audit function, then it should be addressed as such.

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Recommendations: I think they would be appeased if we did the following:

**Reporting Lines**

1. Create robust communication requirements for the FIU Director and the AML Director. Maintain the dotted line but add some strong language to the process to ensure that each understands the role of the other.
2. Create strong policy guidelines for the FIU Director to comply with all AML Director policies.
3. Require that this process be tested to ensure that the FIU Director is in compliance with those policies.
4. Have the AML Director report to either the Board or the Audit Committee. This is actually quite typical and I know Wyn wants this. The regulators would be very pleased with this approach.

TRAC/Audit Irene was asked to put together a document outlining the recommendation for TRAC reporting lines. This is her document. I fully support this recommendation but it is my understanding that Janet does not.

On September 15, 2009, Brian Cahoon and Irene Stern met with OCC Examiners Joseph Boss and Elsa De La Garza, and FRB Examiner Michael Jarrell to discuss the issue of TRAC independence. The issue at hand was TRAC independence in light of the upcoming CTP restructuring that would result in both TRAC and the FIU reporting to the COO Compliance. The regulators are adamant that the independence issue can not be resolved through the implementation of controls, and that the matter is one of reporting lines. Having said that, we discussed various options, which included the following:

- " TRAC report directly to the SEVP Compliance;
- " FIU report to someone other than the COO Compliance;
- " TRAC report directly to the Audit Committee;
- " Make TRAC a branch of Audit; and
- " TRAC report to Risk.

It is recommended that TRAC report directly to the Audit Committee of the HNAH Board of Directors in a manner similar to HNAH's other independent testing function, Internal Audit. This would include hiring/firing decisions, approval of the performance assessment and compensation decisions and approval of the TRAC annual risk assessment and plan. The head of TRAC would have an administrative line reporting relationship to the COO Compliance. This reporting would include practical matters such as scheduling days off, approval of training requests and other administrative reporting that would require daily oversight and involvement. This reporting arrangement would preserve TRAC's independence while also providing on the scene guidance and direction where necessary.

This seems the best option for the following reasons:

" The TRAC unit was initially established in response to regulatory pressure to move compliance testing to a dedicated team of experts. Additionally, TRAC personnel benefit by being immersed in the compliance culture afforded by the Compliance organization, and thus, it makes sense to keep TRAC in Compliance rather than move it to Audit or Risk.

" In order to preserve the model for testing and monitoring being advanced across the Grouping implemented by Group, and to maintain independence from the advice and guidance role of Compliance, TRAC should remain in the non-advisory reporting structure of Compliance (i.e., in the Shared Services Unit that focuses on operational functions and expertise.

" FFIEC guidelines mandate that the persons conducting the BSA/AML testing should report directly to the Board of Directors or to a designated

Page 2

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board committee.

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" Based on recent FRB and OCC examinations, it has already been agreed that the Head of TRAC will report to the Audit Committee the Compliance Risk Mitigation Program (CRMP) annual risk assessment and annual plan in addition to quarterly updates on the status, results and trends of the annual plan execution. This reporting line addition would add minimal additional impact to the Audit Committee since TRAC would already be on the quarterly agenda.

" Internal Audit is in agreement and supportive with this reporting relationship.

Lastly, I put together a spreadsheet that lists the areas where we have either had increased risk since Lesley took over as AML Director or where she has not addressed the risks identified to her by qualified staff. Brian Schwan will be forwarding that to you later this morning as I'll be flying home.

In a nutshell, repeated requests have been made to her primarily with regard to staffing gaps in critical areas and because those gaps were not addressed, or were not adequately addressed, we are now experiencing significant risk.

Norkom: when this project initially rolled out, I requested multiple times to include a qualified, experienced Project Manager to assist compliance in ensuring that the project was implemented appropriately. I made these requests for 3 reasons:

1. I had previous experience in managing a transaction monitoring system implementation while at GE Money and it was critical that we have a strong PM.
2. We have significant regulatory risk for Norkom as we are currently working under an MRBA due to many gaps in the process will likely escalate into a MRBA (Matter Requiring Board Attention) or worse.
3. The Norkom project was approved by Group as a dispensation and it is critical that we get it right. The cost is reaching into the \$12 million dollar range and much is at stake.

I made numerous requests to Cam (which he then escalated to Lesley) and she did not address this until April. She selected an HBIO person [redacted] who has very limited project management experience (previous position was Fair Lending). Although [redacted] has made every effort to function in this role, it is clear to everyone that [redacted] has neither the knowledge or expertise to manage a project of this size and risk. As a result, we recently learned that HTS is at least 6 weeks behind schedule. We all believe that while this is not directly the fault of [redacted] the causes of the delays could have been made more transparent by a more experienced PM. It also sends a poor message to the regulators that we did not assign this critical position to someone with experience in this area. We had a very contentious discussion with the OCC two weeks ago and they are not comfortable with our reasons for the delays.

Failure to implement this project in accordance with our deadline will very likely result in increased regulatory criticism.

**OFAC:**

I was not aware of our OFAC issues (we have already received a pre-penalty letter) until I began inquiring about the OFAC Program Review Project that Lesley commissioned in June '09. We have had numerous misses that have been reported by other banks (not a good thing). David came to DC in September to meet with OFAC officials on this issue. Just FYI: OFAC has seriously upgraded its enforcement process and the fine levels have been increased. We are at serious risk of being fined by OFAC now.

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In addition, OFAC (SWIFT) has required that all banks upgrade the filtering functions of their OFAC screening tools to include the MT202 COV by Nov 20th '09. This is a critical issue and there are likely to be significant concerns from the regulators if we fail to meet the deadline.

Lesley asked [REDACTED] to lead the project. [REDACTED] has experience (as you know) for screening the HBIO functions but no experience in banking products and services. They are far more complex and risky. This project has been underway since June and the findings that have surfaced are no different than those already identified previously. So, we have a project that has taken far longer than it should have and findings that do not vary significantly from previous reviews.

The bottom line is, our OFAC process is in disarray and in great risk of being noncompliant. We have multiple systems, inconsistent practices, limited communication between the various functions, and no oversight function. [REDACTED] made a recommendation to hire additional staff to handle the massive volume of outputs from the screening process (requested many times previously by Anne Liddy and denied each time) which Lesley has approved. While this will help with the volume, it does not address the root cause of the problem. I am far more concerned about the comments that [REDACTED] made to me last week however. [REDACTED] advised me that Lesley only wanted to perform a "narrow scope" review to "address the bleeding". Supposedly this is "Phase I" but she did not know anything about Phase II. This is not the way to manage a major risk area. I mentioned this to David and he is equally concerned.

Recommendation: We need to hire an experienced systems manager to be solely dedicated to OFAC systems (we currently have 3 operating now). John Zirbes is currently our only systems person and he is also responsible for Atchley and Norikom. Stretched way too thin. Also, should John leave, we would not have anyone to manage this critical area. I've already made this recommendation to Lesley, Alisha and Wyn and the only one that agrees is Wyn. Lesley has received approval from Janet to hire three lower level staff.

[REDACTED] (currently the systems person at [REDACTED] has approached me numerous times for a job. [REDACTED] would be ideal for this and it would allow us to have a "turn key" systems person that would better allow for us to comply with the MT202 COV deadline. The regulators would see this as a positive effort to comply should any additional misses occur.

Gotta run to catch my plane. There are many other similar issues where Lesley has provided no leadership, a lack of understanding of the risks (or mitigating elements), and a blatant reluctance to listen to recommendations by experienced AML staff.

This should help but sending the spreadsheet which also includes the ICRO issue. Please feel free to contact Brian Schwan if you need clarification on the spreadsheet. He's a great guy and will be happy to help you. I'm landing at BET so feel free to call me on my cell at 202 841 6089. Thanks.\

Debra L Bonosconi  
HSBC North America | Sr, VP - Director, Financial Intelligence Unit  
1130 Connecticut Ave NW, 12th Floor  
Washington, DC 20036

Phone. 202-496-8766  
Mobile. [REDACTED]  
Email. debra.l.bonosconi@us.hsbc.com

1440

HSBC-BNI\_E 0782429.txt

From: BOB MARTIN/HBUS/HSBC  
Sent: 10/3/2008 3:53:53 PM  
To: "MARK MARTINELLI" <MARK.MARTINELLI@US.HSBC.COM>  
Subject: Fw: OFAC "Cautionary Letter" received today

Fyi

----- Original Message -----

From: Matthew J W KING  
Sent: 10/03/2008 06:25 PM GDT  
To: Bob MARTIN

Subject: Fw: OFAC "Cautionary Letter" received today

Fyi

\*\*\*\*\*

HSBC Holdings plc  
Registered Office: 8 Canada Square, London E14 5HQ, United Kingdom  
Registered in England number 617987

\*\*\*\*\*

----- Original Message -----

From: David W J BAGLEY  
Sent: 03/10/2008 18:17 GDT  
To: Richard E T BENNETT  
Cc: Matthew J W KING  
Subject: Fw: OFAC "Cautionary Letter" received today

Richard,

This is all I have and I have asked Lesley to get the further details promised to me as soon as possible, but in the middle of an exam they don't need loads of interference from me.

Will advise further and recognise the need to report in RMM and GAC,

Regards

----- Forwarded by David W J BAGLEY/GMO/HSBC on 03/10/2008 18:13 -----

Lesley Midzain/HBUS/HSBC@HSBC02  
Oct 03 2008 17:06

Mail size: 56806

To  
Janet L Burak, david w j bagley  
cc  
anne liddy  
Subject

Page 1

Redacted Material

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSB0CC 3406951

1441

HSBC-BNI\_E 0782429.txt  
Fw: OFAC "Cautionary Letter" received today

Entity

Janet, David,

Please see the attached regarding a cautionary letter from OFAC for 12 failures to stop payments between Sep 2003 and Feb 2008.

I am giving you an immediate heads up because:

1. We have experienced additional failures since Feb 2008 and were in fact just yesterday internally discussing our concerns in this regard.
2. The OCC is conducting a 'full scope' review of OFAC when it visits PCM in November.
3. This is an area of continued sensitivity.

We will be filing a RED and providing more information at our earliest opportunity, including details about failures since Feb08, root causes and action that's been taken and will be undertaken. This matter will receive high priority.

Regards,  
Lesley

Lesley Midzain  
Executive Vice President & Chief Compliance Officer | HSBC BANK USA, N.A.  
452 5th Ave. 7th Fl.  
New York, NY 10018

Phone 212-525-6410  
Fax 212-525-5769  
Mobile 917-892-4967  
Email Lesley.Midzain@us.hsbc.com

----- Forwarded by Lesley Midzain/HBUS/HSBC on 10/03/2008 11:56 AM -----

Elizabeth Protomastro/HBUS/HSBC  
10/03/2008 11:59 AM

To  
Lesley Midzain/HBUS/HSBC@HSBC02, Thomas Kaiser/HBUS/HSBC@HSBC02, Emilio Ruiz/HBUS/HSBC@HSBC02, Anne Liddy/HBUS/HSBC@HSBC02, Nancy Hedges/HBUS/HSBC@HSBC02, Mary A Caskin/HBUS/HSBC@HSBC02  
cc

Subject  
OFAC "Cautionary Letter" received today

Attached please find a cautionary letter received from OFAC addressing 12 wire payment transactions that HBUS processed in potential violation of sanctions. OFAC has decided not to serve fines on these transactions but has expressed concern that HBUS did not stop these transactions.

Page 2

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1442

HSBC-BNI\_E 0782429.txt

Attachment: OFAC Letter 9-29-2008.tif.zip

Page 3

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To: Janet Burak, Regional Compliance Officer  
David Bagley, Head of Group Compliance  
Paul J. Lawrence, Chief Executive Officer, HUSI

Cc: Mark Martinelli, EVP & Chief Auditor, HUSI

From: Lesley Midzain, EVP & Chief Compliance Officer, HUSI

Date: 24MAR09

Report: Compliance Report for 1Q09 – HUSI Businesses

**Summary**

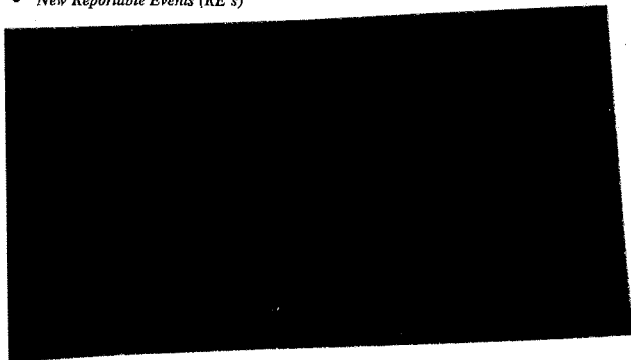
The overall AML & General Compliance risk in Global Transaction Banking (GTB) is high and the risk is stable. Systems, controls and monitoring process are satisfactory. Enhancements have been recommended by the OCC that are being addressed with the NORKOM initiative. Current Staff is capable and knowledgeable and we are reassessing FTE requirements as recommended by the OCC.

The remaining businesses overall compliance risk continues to remain moderate and the direction of risk is stable. HSBC continues to monitor the risks and continues to enhance our controls where deemed necessary to adequately maintain a proactive environment and address risk accordingly. Additionally, we will continue to monitor the increase in regulatory changes, assess impact to our businesses and implement solutions effectively and efficiently.

**1. Issues Arising**

**(a) NEW ISSUES**

- *New Reportable Events (RE's)*



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- **HBUS Banknotes – OFAC with HSBC Bank Plc (“HBEU”) & Iranian Embassy in UK (IRIS 6458):** On 02FEB09, the HBUS Banknote Vault Manager in London was informed by Travelex in the UK (a customer) that as requested by HBEU, Travelex shipped cash from the HBUS inventory at the Travelex vault facility to the HBEU Kensington branch to sell to the embassies of various countries, including Iran. HBUS Compliance worked with HBEU Compliance and HBUS Banknotes in London to obtain information on accounts and transactions between HBEU and the Iranian Embassy in UK. On 12FEB09, the Manager of the HBEU branch in Kensington Commercial Centre in London spoke to the Embassy of Iran and informed them that HSBC would not be able to buy or sell any USD cash for any of their accounts. The same day HBUS Compliance called OFAC to inform them the HBEU branch in London had been purchasing USD and other currencies from HBUS London and selling to the Iranian Embassy. During MAR09 HBUS Compliance submitted a letter to OFAC to formally disclose the incident in London with customer and transaction details.



1445

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by  
Permanent Subcommittee  
on Investigations**

HSBC OCC 3406983 – HSBC OCC 3406996

Meeting Minutes  
Compliance Risk Management Committee Meeting  
November 13, 2006

Members: Martin Glynn (Chair)  
Janet Burak  
Robert Butcher  
Thomas Kaiser (S.Kos represented)  
David Dew  
Michael Gallagher  
Mark Hershey (L. Gloo represented)  
James Kauffman (absent)  
Margaret Moog  
Tony Murphy  
Teresa Pesce  
Linda Recupero  
Carolyn Wind  
Denise Reilly (Sec'y)

Guests: Sandy Derickson  
Camillus Hughes  
Larry Zell  
Stuart Tait  
John Hudson

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Minutes of Prior Meeting

Status of Action Items:

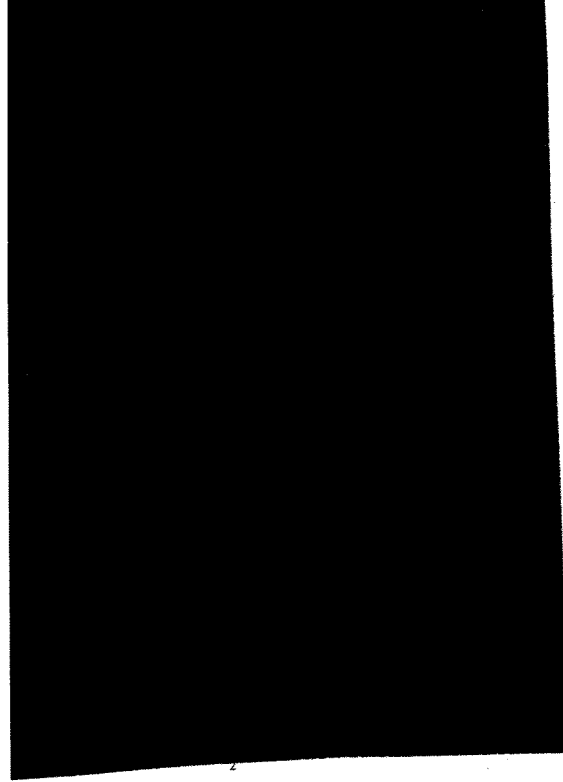
- Wealth Management (A.Ireland) to provide an update on initiatives by year-end.  
Status: Update on Wealth Management initiatives will be provided to the Risk Management Committee.
- Operations (T.Kaiser) to provide an update on email retention initiatives within six months, by March 2007.  
Status: Pending

Status:

- o C.Wind advised that a meeting was held with J.Ebersole, SEVP Human Resources and it was agreed that all incentive plans which are commission/revenue based will require senior compliance review and sign-off.
- o J.Ebersole will revert back to C.Wind with recommendations on identifying unusual levels of compensation under such incentive plans.

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**AML Status**

- T. Pesce provided a status of regulatory Examinations
  - The OCC examination of GIB is complete and three Matters Requiring Attention (MRA's) have been identified. The MRA themes are the need for additional resources to document findings and the need for increased automation.
  - The second part of the OCC Retail Bank examination is scheduled to start 13NOV2006.
  - The FRB first day letter for the examination of Miami has been received.
- T. Pesce advised the Committee of issues related to messages processed in the US on behalf of offshore entities that are not scanned against the OFAC filter. Plans are underway to implement OFAC scanning for messages sent by the Americas through the global messaging gateway in the US in 2007. Issues related to messages processed for HSBC UK Cards through US systems remain outstanding.

**2007 Compliance Objectives**

- C. Wind presented the draft 2007 Compliance Objectives for Committee review. It was noted that the Objectives are similar to 2006, with the exception that the CIBM item had been removed.



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1449

From: DENISE A REILLY/HBUS/HSBC  
Sent: 07/2005 8:46:58 AM  
To: GRACE C SANTIAGO-DARVISH/HBUS/HSBC@HSBC  
Cc: ANNE LIDDY/HBUS/HSBC@HSBC; TERESA PESCE  
<TERESA.PESCE@US.HSBC.COM>; ELIZABETH PROTOMASTRO  
<ELIZABETH.PROTOMASTRO@US.HSBC.COM>  
Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

Pat should also include the HBEU Operations area on his correspondence - I think Malcolm Eastwood is the manager, but Nancy Hedges can confirm.

Grace C Santiago-Darvish on 07 Jun 2005 09:15  
Note  
07 Jun 2005 09:15

From: Grace C Santiago-Darvish Tel: 212-525-5455  
Title: First Vice President Location:  
WorkGroup: COMPLIANT-MONEY LAUNDERING Mail Size: 32058

To: Denise A Reilly/HBUS/HSBC@HSBC  
cc: Anne Liddy/HBUS/HSBC@HSBC  
"Teresa Pesce" <teresa.pesce@us.hsbc.com>  
"Elizabeth Protomastro" <elizabeth.protomastro@us.hsbc.com>  
Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

Denise,

Elizabeth will be liaising with Pat Burn in Delaware so that he can send a message to all HSBC locations reminding the offices of the underlying information we require related to U-turns. We, in Compliance have noticed that other locations could be more forthcoming about disclosing orig., and bene. information.

For instance, we have been told today by PLC that, the ultimate beneficiary "is a Nostro Dept within Credit Suisse Zürich which deals with Cr/Dr entries under the ref: UTCV1"  
How does this indicate to us who the underlying originator and ultimate beneficiary is?

We certainly are open to any suggestions - thank you.

From: Denise A Reilly on 06 Jun 2005 19:15

To: Anne Liddy/HBUS/HSBC@HSBC  
cc: "Teresa Pesce" <teresa.pesce@us.hsbc.com>  
"Grace C Santiago-Darvish" <grace.c.santiago-darvish@us.hsbc.com>  
"Elizabeth Protomastro" <elizabeth.protomastro@us.hsbc.com>  
Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

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1450

Is the payments area gathering sufficient info before coming to Grace/Elizabeth or is there an opportunity for further training? Just a thought to try and lessen the Compliance time.

From: Anne Liddy  
Sent: 05/06/2005 05:28 PM  
To: Teresa Pesce  
Cc: Elizabeth Protomastro; Grace C Santiago-Darvish; Denise Reilly  
Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

Terry - I am just forwarding you the attached correspondence as an FYI and to let you know that last month that of the 50 odd payments stopped in our filter and forwarded to Elizabeth/Grace for further review approx 44 involved reference to Iran - quite a lot. Elizabeth and Grace have spent quite a lot of time back and forth on gathering payment info in order to ascertain that payments are/were in fact U turns and therefore ok to process.

From: Elizabeth Protomastro  
Sent: 05/06/2005 02:33 PM  
To: Stephen COOPER; Jeremy R WALKER  
Cc: John ALLISON; Susan A WRIGHT; Grace C Santiago-Darvish; Anthony T MARSDEN; Barbara Sherman; Patrick Byrne; Anne Liddy; Rod MOXLEY  
Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

Rod advised that I direct further questions to you in his absence.

We do need PLC to go back to its remitter, either directly or through the GRM, for information as to the name and address of the originator and the ultimate beneficiary of the wire payment. We also need to confirm the purpose of the underlying payment. Note that this request is in line with the agreement reached in the past between HBUS and PLC (copy attached) stating the u-turn payments would be fully disclosed as to the originator and beneficiary.

This practice is especially relevant bearing in mind the recent article appearing on Bloomberg.com and the focus on business involving Iran. We need full disclosure on these payments to ensure that the underlying transaction is not prohibited. For example, if the payment were to involve a U.S. person as the originator or beneficiary, or were to involve an SCN, it would be prohibited.

Thank you for your cooperation in obtaining the required information.

Rod MOXLEY on 06 Jun 2005 12:43  
Note:  
06 Jun 2005 12:43

From: Rod MOXLEY Tel: 799 13664  
44 20 7891 3654

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1451

Title: Location:  
WorkGroup: Mail Size: 20124

Susan A WRIGHT/HGHQ/HSBC@HSBC  
Grace C Santiago-Darvish/HBUS/HSBC@HSBC  
Anthony T MARSDEN/HBEU/HSBC@HSBC  
Barbara Sherman/HBUS/HSBC@HSBC  
Patrick K Byrne/HBUS/HSBC@HSBC  
Aimee Liddy/HBUS/HSBC@HSBC  
Stephen COOPER/HBEU/HSBC@HSBC  
Jeremy R WALKER/HBEU/HSBC@HSBC  
Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 150,000 (ran)

Elizabeth,

Our knowledge of these transactions is predominantly that which has already been quoted in your emails. However, due to their being authenticated MT202 messages with references indicating FX transaction numbers, we believe that they are foreign exchange transactions between the banks named and also satisfying U-turn requirements.

If you remain uncomfortable with the information supplied, please advise and we will revert promptly to the remitter or the Group Relationship Manager for further guidance. For your information, I am away from the office on business for the next couple of days and would be grateful if you could direct any further queries to Jeremy Walker or Steve Cooper, who will deal with in my absence.

Regards

Rod

Elizabeth Protomastro/HBUS/HSBC on 06 Jun 2005 16:31

Note  
06 Jun 2005 16:31

From: Elizabeth Protomastro/HBUS/HSBC Tel: 212-525-6692  
Mail Size: 15589

To: Rod MOXLEY/HBEU/HSBC@HSBC  
cc: John ALLISON/HGHQ/HSBC@HSBC  
Susan A WRIGHT/HGHQ/HSBC@HSBC  
Grace C Santiago-Darvish/HBUS/HSBC@HSBC  
Anthony T MARSDEN/HBEU/HSBC@HSBC  
Barbara Sherman/HBUS/HSBC@HSBC  
Patrick K Byrne/HBUS/HSBC@HSBC

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1452

Anne Liddy/HBUS/HSBC@HSBC  
Stephen COOPER/HBEU/HSBC@HSBC  
Jeremy R WALKER/HBEU/HSBC@HSBC  
bcc:

Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and  
USD 160,000 (Iran)

The wire payments are being conducted on behalf of the banks named, i.e., there  
is no other underlying originator and beneficiary. They are foreign exchange  
payments between the banks named. Is this correct?

Rod MOXLEY on 06 Jun 2005 11:15  
Note  
06 Jun 2005 11:15

From: Rod MOXLEY Tel: 799 13664  
44 20 7991 3654  
Title: Location:  
WorkGroup: Mail Size: 10418

Susan A WRIGHT/HGHQ/HSBC@HSBC  
Grace C Sarilago-Darviah/HBUS/HSBC@HSBC  
Anthony T MARSDEN/HBEU/HSBC@HSBC  
Barbara Sherman/HBUS/HSBC@HSBC  
Patrick K Byrne/HBUS/HSBC@HSBC  
Anne Liddy/HBUS/HSBC@HSBC  
Stephen COOPER/HBEU/HSBC@HSBC  
Jeremy R WALKER/HBEU/HSBC@HSBC  
Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and  
USD 160,000 (Iran)

Elizabeth,

Thanks for your email.

Information that you require is as follows:

i) Originator of first payment is Bank Tejarat, 130 Taleghani 15994  
Nejatollahie, Teheran, Iran, beneficiary Persia International Bank, 6  
Lobbury, London.  
Second payment originator is Malli Bank, 1 London Wall, London and beneficiary  
Credit Suisse Zurich, Switzerland.

As both payments did not finalise in USA and were regarded as bona fide U-turn  
transactions, they were released through our Wolf filter.

We have set up case references MPAY0809-06Jun05 and MPAY0358-06Jun05  
respectively for these payments and will be grateful if you could quote in  
future correspondence.

ii) We understand that both payments were related to foreign exchange  
transactions.

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Trust that this answers your queries.

Regards

Rod

Elizabeth Protomastro/HBUS/HSBC on 03 Jun 2005 16:43

Note  
03 Jun 2005 16:43

From: Elizabeth Protomastro/HBUS/HSBC Tel: 212-525-6692  
Mail Size: 3437

To: John ALLISON/HGH/HSBC@HSBC  
cc: Susana A WRIGHT/HGH/HSBC@HSBC  
Rod MOXLEY/HBEU/HSBC@HSBC  
Grace C Santiago-Darvish/HBUS/HSBC@HSBC  
Rod MOXLEY/HBEU/HSBC@HSBC  
Anthony T MARSDEN/HBEU/HSBC@HSBC  
Barbara Sherman/HBUS/HSBC@HSBC  
Patrick K Byrne/HBUS/HSBC@HSBC  
Anne Liddy/HBUS/HSBC@HSBC  
bcc:

Subject: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

The following payments have been suspended while we request from PLC (1) the name and address of the originator and the beneficiary and (2) the purpose of the payment. Our Funds Transfer group is sending a message via SWIFT. We are providing this notice for your information as the payment is being delayed. You may also be able to expedite this process on your end.

As you are aware from prior discussions, payments need to be fully disclosed as to originator and beneficiary parties in order to avoid these delays in processing.

Thank you.

3-Jun-2005  
IRN [REDACTED]  
Debit: [REDACTED] HSBC Bank PLC  
Credit: Bank of New York  
3rd party: Credit Suisse Zurich  
4th party: Persia International Bank, London  
ORIG: Bank Tejarat, Tehran, Iran  
USD 1,900,000

3-Jun-2005  
IRN [REDACTED]  
Debit: [REDACTED] HSBC Bank PLC  
Credit: Bank of New York

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

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1454

3rd party: Credit Suisse Zurich  
ORG: Metli Bank PLC, London  
USD 180,000

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1455

HSBC-OCC\_E 0570016.txt  
From: ANNE LIDDY/HBUS/HSBC  
Sent: 6/7/2005 4:07:38 PM  
To: TERESA PESCE  
Subject: Fw: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

Fyi

From: Anthony T MARSDEN  
Sent: 06/07/2005 10:37 AM  
To: Rod NOXLEY  
Cc: Jeremy S WALKER; John ALLISON; Susan A WRIGHT; Barbara Sherman; Patrick Byrne; Anne Liddy; Elizabeth Protomastro; Grace C Santiago-Darvish; Stephen COOPER  
Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

All,

As you will see from the correspondence below I have now obtained the information required to release the payment for USD160,000.00

This was achieved by speaking with both Bank Melli and HSBC New York.

An authenticated SWIFT message has been created and is being sent to HSBC New York attn Elizabeth Protomastro with the details quoted below.

For information purposes only we have also received a SWIFT message from Bank Melli London requesting cancellation of above message and requesting funds to be returned to London. HSBC New York are aware of this and will return funds to ourselves in London.

I am in the process of contacting Bank Tejerat regarding the USD 1,900,000.00 payment and will update everyone when I received further information.

----- Forwarded by Anthony T MARSDEN/HBEU/HSBC on 07 Jun 2005 15:24 -----  
Elizabeth Protomastro/HBUS/HSBC on 07 Jun 2005 14:54

Note  
07 Jun 2005 14:54  
From: Elizabeth Protomastro/HBUS/HSBC Tel: 212-525-6692  
Mail Size: 68262

To: Anthony T MARSDEN/HBEU/HSBC@HSBC  
cc: Grace C Santiago-darvish/HBUS/HSBC@HSBC  
bcc:

Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

This explanation is fine, but for purposes of our audit trail, HBEU needs to send a SWIFT containing this information to our Funds Transfer area. I will advise Funds Transfer to expect the SWIFT message. Upon receipt, we will process the two wire transfers.

Thank you.

Anthony T MARSDEN on 07 Jun 2005 09:49  
Note  
07 Jun 2005 09:49

From: Anthony T MARSDEN Tel: 799 10187  
44 20 799 10187  
Title: Location:  
WorkGroup: Mail Size: 60902

Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

Grace,

I have contacted Bank Melli London again who are both the remitter and beneficiary of the payment

Page 1

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1456

HSBC-OCC\_E 0570016.txt

Funds were surplus on the Nostro account Bank Mellli hold with HSBC London, however the Nostro account Bank Mellli holds with Credit Suisse was in debit and to avoid costs Bank Mellli London are transferring funds from London nostro account to Switzerland to cover other Nostro account.

As advised by Bank Mellli no other bank/beneficiary is involved in this transfer

Regards

Tony

Grace C Santiago-darvish/HBUS/HSBC on 07 Jun 2005 13:51

Note

07 Jun 2005 13:51  
From: Grace C Santiago-darvish/HBUS/HSBC Tel: 212-525-5455  
Mail Size: 60262

To: Anthony T MARSDEN/HBEU/HSBC@HSBC  
cc: Elizabeth Protomastro/HBUS/HSBC@HSBC  
Stephen COOPER/HBEU/HSBC@HSBC  
Jeremy R WALKER/HBEU/HSBC@HSBC  
John ALLISON/HGHI/HSBC@HSBC  
Susan A WRIGHT/HGHI/HSBC@HSBC  
Barbara Sherman/HBUS/HSBC@HSBC  
Patrick K Byrne/HBUS/HSBC@HSBC  
Anne Liddy/HBUS/HSBC@HSBC  
Rod MOXLEY/HBEU/HSBC@HSBC  
bcc:

Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

What is the purpose of this Credit Suisse Nostro Dept. under ref: UTCV1? Is this used as a clearing account? This explanation does not provide the answers HBUS requires, please see text highlighted in blue below.

Anthony T MARSDEN on 07 Jun 2005 08:40

Note  
07 Jun 2005 08:40

From: Anthony T MARSDEN Tel: 799 10187  
44 20 799 10187  
Title: Location:  
workgroup: Mail Size: 52407

Jeremy R WALKER/HBEU/HSBC@HSBC  
John ALLISON/HGHI/HSBC@HSBC  
Susan A WRIGHT/HGHI/HSBC@HSBC  
Grace C Santiago-Darvish/HBUS/HSBC@HSBC  
Barbara Sherman/HBUS/HSBC@HSBC  
Patrick K Byrne/HBUS/HSBC@HSBC  
Anne Liddy/HBUS/HSBC@HSBC  
Rod MOXLEY/HBEU/HSBC@HSBC  
Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

Elizabeth,

We have been advised by Bank Mellli London that on the payment for USD160,000.00 the ultimate beneficiary is a Nostro Dept within Credit Suisse Zurich which deals with cr/dr entries under the ref: UTCV1

Hope this now enable the payment to be released

Regards

Tony Marsden

Elizabeth Protomastro/HBUS/HSBC on 06 Jun 2005 19:33

Note

Page 2

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1457

HSBC-OCC\_E 0570016.txt  
06 Jun 2005 19:33  
From: Elizabeth Protomastro/HBUS/HSBC Tel: 212-525-6692  
Mail Size: 50213

To: Stephen COOPER/HBEU/HSBC@HSBC  
Jeremy R WALKER/HBEU/HSBC@HSBC  
cc: John ALLISON/HGHQ/HSBC@HSBC  
Susan A WRIGHT/HGHQ/HSBC@HSBC  
Grace C Santiago-Darvish/HBUS/HSBC@HSBC  
Anthony T MARSDEN/HBEU/HSBC@HSBC  
Barbara Sherman/HBUS/HSBC@HSBC  
Patrick K Byrne/HBUS/HSBC@HSBC  
Anne Liddy/HBUS/HSBC@HSBC  
Rod MOXLEY/HBEU/HSBC@HSBC  
bcc:

Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

Rod advised that I direct further questions to you in his absence.

We do need PLC to go back to its remitter, either directly or through the GRM, for information as to the name and address of the originator and the ultimate beneficiary of the wire payment. We also need to confirm the purpose of the underlying payment. Note that this request is in line with the agreement reached in the past between HBUS and PLC (copy attached) stating the u-turn payments would be fully disclosed as to the originator and beneficiary.

This practice is especially relevant bearing in mind the recent article appearing on bloomberg.com and the focus on business involving Iran. We need full disclosure on these payments to ensure that the underlying transaction is not prohibited. For example, if the payment were to involve a U.S. person as the originator or beneficiary, or were to involve an SDN, it would be prohibited.

Thank you for your co-operation in obtaining the required information.

Rod MOXLEY on 06 Jun 2005 12:43

Note  
06 Jun 2005 12:43  
From: Rod MOXLEY Tel: 799 13664  
44 20 7991 3664  
Title: Location:  
WorkGroup: Mail Size: 20124

Susan A WRIGHT/HGHQ/HSBC@HSBC  
Grace C Santiago-Darvish/HBUS/HSBC@HSBC  
Anthony T MARSDEN/HBEU/HSBC@HSBC  
Barbara Sherman/HBUS/HSBC@HSBC  
Patrick K Byrne/HBUS/HSBC@HSBC  
Anne Liddy/HBUS/HSBC@HSBC  
Stephen COOPER/HBEU/HSBC@HSBC  
Jeremy R WALKER/HBEU/HSBC@HSBC  
Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

Elizabeth,

Our knowledge of these transactions is predominantly that which has already been quoted in your emails. However, due to their being authenticated MT202 messages with references indicating FX transaction numbers, we believe that they are foreign exchange transactions between the banks named and also satisfying u-turn requirements.

If you remain uncomfortable with the information supplied, please advise and we will revert promptly to the remitter or the Group Relationship Manager for further guidance. For your information, I am away from the office on business for the next couple of days and would be grateful if you could direct any further queries to Jeremy Walker or Steve Cooper, who will deal with in my absence.

Regards

Rod

Page 3

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Elizabeth Protomastro/HBUS/HSBC on 06 Jun 2005 16:31

Note  
06 Jun 2005 16:31  
From: Elizabeth Protomastro/HBUS/HSBC Tel: 212-525-6692  
Mail Size: 15880

To: Rod MOXLEY/HBEU/HSBC@HSBC  
cc: John ALLISON/HQHQ/HSBC@HSBC  
Susan A WRIGHT/HQHQ/HSBC@HSBC  
Grace C Santiago-Darvish/HBUS/HSBC@HSBC  
Anthony T MARSDEN/HBEU/HSBC@HSBC  
Barbara Sherman/HBUS/HSBC@HSBC  
Patrick K Byrne/HBUS/HSBC@HSBC  
Anne Liddy/HBUS/HSBC@HSBC  
Stephen COOPER/HBEU/HSBC@HSBC  
Jeremy R WALKER/HBEU/HSBC@HSBC  
bcc:

Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

The wire payments are being conducted on behalf of the banks named, i.e., there is no other underlying originator and beneficiary. They are foreign exchange payments between the Banks named. Is this correct?

Rod MOXLEY on 06 Jun 2005 11:15

Note  
06 Jun 2005 11:15  
From: Rod MOXLEY Tel: 799 13664  
44 20 7991 3664  
Title: Location:  
WorkGroup: Mail Size: 10418

Susan A WRIGHT/HQHQ/HSBC@HSBC  
Grace C Santiago-Darvish/HBUS/HSBC@HSBC  
Anthony T MARSDEN/HBEU/HSBC@HSBC  
Barbara Sherman/HBUS/HSBC@HSBC  
Patrick K Byrne/HBUS/HSBC@HSBC  
Anne Liddy/HBUS/HSBC@HSBC  
Stephen COOPER/HBEU/HSBC@HSBC  
Jeremy R WALKER/HBEU/HSBC@HSBC  
Subject: Re: wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

Elizabeth,

Thanks for your email.

Information that you require is as follows;

i) originator of first payment is Bank Tejarat, 130 Taleghani 15994 Nejatollahie, Teheran, Iran, beneficiary Persia International Bank, 6 Lothbury, London.  
Second payment originator is Mellat Bank, 1 London Wall, London and beneficiary Credit Suisse Zurich, Switzerland.

As both payments did not finalise in USA and were regarded as bona fide U-turn transactions, they were released through our wolf filter.

We have set up case references MPAY0809-06Jun05 and MPAY0958-06Jun05 respectively for these payments and will be grateful if you could quote in future correspondence.

ii) We understand that both payments were related to foreign exchange transactions.

Trust that this answers your queries.

Regards

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1459

HSBC-OCC\_E 0570016.txt

Rod

Elizabeth Protomastro/HBUS/HSBC on 03 Jun 2005 16:43

Note

03 Jun 2005 16:43

From: Elizabeth Protomastro/HBUS/HSBC Tel: 212-525-6692  
Mail Size: 3437

To: John ALLISON/HQ/HQ/HSBC@HSBC  
Cc: Susan A WRIGHT/HQ/HQ/HSBC@HSBC  
Rod MOXLEY/HBEU/HSBC@HSBC  
Grace C Santiago-Darvish/HBUS/HSBC@HSBC  
Rod MOXLEY/HBEU/HSBC@HSBC  
Anthony T MARSDEN/HBEU/HSBC@HSBC  
Barbara Sherman/HBUS/HSBC@HSBC  
Patrick K Byrne/HBUS/HSBC@HSBC  
Anne Liddy/HBUS/HSBC@HSBC  
bcc:

Subject: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

The following payments have been suspended while we request from PLC (1) the name and address of the originator and the beneficiary and (2) the purpose of the payment. Our Funds Transfer group is sending a message via SWIFT, we are providing this notice for your information as the payment is being delayed. You may also be able to expedite this process on your end.

As you are aware from prior discussions, payments need to be fully disclosed as to originator and beneficiary parties in order to avoid these delays in processing.

Thank you.

3-Jun-2005

IRN: [REDACTED]  
Debit: [REDACTED] HSBC Bank PLC  
Credit: Bank of New York  
3rd party: Credit Suisse Zurich  
4th party: Persia International Bank, London  
ORG: Bank Tejarat, Tehran, Iran  
USD 1,900,000

3-Jun-2005

IRN: [REDACTED]  
Debit: [REDACTED] HSBC Bank PLC  
Credit: Bank of New York  
3rd party: Credit Suisse Zurich  
ORG: Mellon Bank PLC, London  
USD 160,000

Redacted by the Permanent Subcommittee on Investigations

Attachment: U-Turn Conditions.doc.zip

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1460

From: ANNE LIDDY/HBUS/HSBC  
Sent: 7/26/2005 12:12:26 PM  
To: GRACE C SANTIAGO-DARVISH/HBUS/HSBC@HSBC  
CC: TERESA PESCE/HBUS/HSBC@HSBC; DENISE A REILLY/HBUS/HSBC@HSBC  
Subject: Re: Fw: OFAC GCL

Grace, I am having my monthly meeting tomorrow with John Allison and Susan Wright and intend to discuss the GCL with them. I will raise the points you make in your email. Also I want to get a better understanding from them re the new procedure for HBEU (and effective 9/1/05 for HBME) to review all Iranian transactions for OFAC compliance (ie: are they U turns or not). I will also talk with them tonight - we need to make sure that the people at HBEU and HBME clearly understand OFAC and any repercussions, as well as how to identify a true U turn. I will let you, Terry and Denise know what info I get from them tomorrow.

Grace C Santiago-Darvish on 26 Jul 2005 13:06  
Note  
26 Jul 2005 13:06

From: Grace C Santiago-Darvish      Tel: 212-525-5455  
Title: First Vice President      Location:  
WorkGroup: COMPLIANT-MONEY LAUNDERING      Mail Size: 272900

To: Teresa Pesce/HBUS/HSBC@HSBC  
cc: Denise A Reilly/HBUS/HSBC@HSBC  
Anne Liddy/HBUS/HSBC@HSBC  
Subject: Re: Fw: OFAC GCL

Terry,

I quickly read the attachments. I believe that the Burma/Myanmar attachment below may need to be clarified for the first bullet. OFAC currently only blocks a few Burmese entities, the ones listed on the attached brochure, under Annex. Treasury and the Dept of State reserve the right to designate senior officials and other gov. entities (as per sect. 1 of the attached brochure/Executive Order), yet to date, these agencies have not added any other SDNs besides the ones listed July 2003.

I also noted that not all sanctioned programs were summarized. Liberia, North Korea, Syria and Zimbabwe were not covered under a summary, nor are Iran and Libya to a lesser extent. Is this the intent?

Current Sanctioned Burmese entities:  
MYANMA ECONOMIC BANK (a.k.a. MYANMAR ECONOMIC BANK),  
MYANMA FOREIGN TRADE BANK (a.k.a. MYANMAR FOREIGN TRADE BANK) SWIFT/BIC:  
FOTM33MMH  
MYANMA INVESTMENT AND COMMERCIAL BANK (a.k.a. MICB; a.k.a. MYANMAR INVESTMENT  
AND COMMERCIAL BANK),  
SWIFT/BIC: MYANMMH (BURMA)  
STATE PEACE AND DEVELOPMENT COUNCIL OF BURMA

Teresa Pesce on 26 Jul 2005 11:53  
Note

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1461

26 Jul 2005 11:53

From: Teresa Pesce Tel: 212-525-6099  
Title: Executive Vice President Location: 452 5th Ave, Floor 07  
WorkGroup: COMP/ANTI-MONEY LALNDERING Mail Size: 198663

To: Denise A Reilly/HBUS/HSBC@HSBC  
Anne Liddy/HBUS/HSBC@HSBC  
Grace C Santiago-Darwish/HBUS/HSBC@HSBC

Subject: Fw: OFAC GCL

FYI

----- Forwarded by Teresa Pesce/HBUS/HSBC on 07/26/2005 11:49

AM -----  
From: James B Kauffman/HFN on 26 Jul 2005 11:44

To: "Anthony Gibbs" <argibbs@household.com>  
"Curt Cunningham" <ccunningham@household.com>  
lesley midzain@hsbc.ca  
"Teresa Pesce" <teresa.pesce@us.hsbc.com>

Subject: Fw: OFAC GCL

FYI - Terry, would you please forward to Denise? Thanks.

From: Marion O ROACH  
Sent: 07/26/2005 09:54 AM  
To: Mansour A ALBOSAILY/SABH/HSBC@HSBC; Fernando BUSNELL/O/HBRR/HSBC@HSBC;  
Pui Mun P M CHAN/CMP APH/HBAP/HSBC@HSBC; Chris COULDREY/HBEU/HSBC@HSBC; Ramon  
GARCIA/HBMX/HSBC@HSBC; James Kauffman; Warren G LEAMING/RLA LGA  
MEM/HBME/HSBC@HSBC; Carolyn M Wind/HBUS/HSBC@HSBC; Alan RAMSAY/HBEU/HSBC@HSBC;  
Brian ATTWOOD/KULHND/HSBC@HSBC; Ifor Hughes/EBM/HSBC@HSBC  
Cc: John F ROOT/HGHQ/HSBC@HSBC  
Subject: OFAC GCL

A GCL will be issued shortly on our revised policy towards sanctions, in particular US sanctions administered by the US Office of Foreign Assets Control (OFAC) of the US Department of the Treasury. A copy of the current draft is attached.

I recognise that there has not been any significant consultation with Areas but the policy was determined in consultation with Group CEO and is viewed as necessary and urgent to protect the Group's reputation.

One key change in the policy is the following:

With immediate effect all Group Offices (including those Offices incorporated or operating outside the US) must refuse to participate in any transactions, activities or make any payments denominated in USD which if carried out by a US person would be prohibited by any OFAC sanctions (save for the specific "U-turn exemption" relating to Iranian sanctions [...])

Please re-familiarise yourselves with COH 28 on Sanctions. GHQ CMP have summarised the US OFAC sanctions as they apply to four particularly sensitive jurisdictions: Cuba, Iran, Sudan, and Burma (Myanmar). The country summaries

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are annexed hereto. Also annexed hereto is a sample transaction which would not be permitted under the revised Group policy.

All Iranian payments denominated in USD, including those made under the "U-Iran exemption" provided for in the OFAC Iranian sanctions, must from 1 September 2005 be referred to HBME DUB – HSBC Middle East Management Office; Dubai Internet City, P.O. Box 69, Dubai, UAE, Tel. No. +1971 (4) 390 4722, who will establish a dedicated team to pre-screen proposed Iranian payments for compliance with the Iranian sanctions. Once the team and related procedures are established, HBME DUB will issue more details to Group Offices as to how payments should be processed. Until this date, Group Offices are required to refer all Iranian Payments as defined in the GCL to HBELU for screening for OFAC compliance.

The GCL confirms the use of WOLF (the payment's filter) to identify payments potentially caught by the OFAC sanctions. WOLF is already available in major payment gateways and pursuant to the requirements of GCL 045021, but where local clearing systems exist or local payment gateways are involved it may be necessary to implement WOLF to screen payments passing through such local payment systems. The GCL requires confirmation that local payments are being screened pursuant to the GCL. A relevant list of names will be added centrally to WOLF by Group Messaging. It should be noted that in so far as it governs OFAC the requirements of the GCL only apply to transactions in USD. Further, offices will have no right to freeze payments outside the US, and Group Offices are instead required to reject payments.

Where compliance with the GCL would result in a breach of local law, regulation or local contractual arrangements (e.g. "blocking directives" such as the EUB) then the position will need to be considered in association with local Legal and Compliance functions. Any required approach other than full compliance with the GCL will require GHQ CMP concurrence. Examples of contractual arrangements which will need to be reviewed might include committed loan facilities and documentary credits where compliant documents are received. In cases of doubt legal advice should be taken. It is important, first, to determine to how and to what extent your area of responsibility is affected by the revised Group policy, and then for you to establish procedures for compliance with the policy. The US OFAC sanctions are complex and differ from one country to the next. Please refer any questions to me or John Root in GHQ CMP.

Regards

David Bagley

Attachment: 111burma.pdf  
 Attachment: OFAC GCL 25JUL05 - DRAFT.doc  
 Attachment: OFAC – SUDAN.doc  
 Attachment: OFAC – CUBA.doc  
 Attachment: OFAC – IRAN.doc  
 Attachment: OFAC – BURMA.doc  
 Attachment: Example of a Prohibited USD Payment into Sudan.doc

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**DRAFT GCL – COMPLIANCE WITH SANCTIONS***Prepared by David Bagley – 21 July 2005-07-25***INTRODUCTION**

GSM 5.6 requires that all Group Offices comply with all anti-terrorism and crime legislation and with all economic and trade sanctions to the extent applicable pursuant to local laws and regulation.

In addition, however, Group Compliance (GHQ CMP) is required by the above section of GSM to issue a circular advising all relevant Group Offices when any legislation or sanctions have extra-territorial effect.

**OFAC SANCTIONS**

The Office of Foreign Assets Control (OFAC) is a department of the US Department of the Treasury, and is responsible for the administration and enforcement of economic and trade sanctions based on US foreign policy. These sanctions target foreign countries, suspected terrorists, drugs traffickers and those engaged in the proliferation of weapons of mass destruction.

The OFAC sanctions consist of both country level sanctions (which include sanctions against Cuba, Iran, Zimbabwe, North Korea, Myanmar and Sudan) as well as sanctions against individuals (Specially Designated Nationals (SDNs)). There are variations in each of the statutes establishing the country level sanctions such that there is no uniform approach (e.g. the Iran sanctions contain an exemption which is not applicable to other country-level sanctions).

**REVISED POLICY**

With immediate effect all Group Offices (including those Offices incorporated or operating outside the US) must refuse to participate in any transactions, activities or make any payments denominated in USD which if carried out by a US person would be prohibited by any OFAC sanctions (save for the specific "U-turn exemption" relating to Iranian sanctions discussed below). When considering transactions for compliance with these sanctions the transaction as a whole should be considered. This requires that where any transactions involve the use of cover payments (MT202's) then any linked message (e.g. an MT103) should be considered together with the cover payment.

GHQ CMP already maintains a database which includes details of all sanctions affecting Group Offices, including the OFAC sanctions. A link to the principal provisions of the current OFAC country sanctions is attached as follows:-

[http://compliance.gba.hsbc/proc/compliance.nsf/0viewAllByDocId/646254EC6CD7D99380256FB909470901?Fto=Sanctions%20Country%20\(U.S.\)&jsf](http://compliance.gba.hsbc/proc/compliance.nsf/0viewAllByDocId/646254EC6CD7D99380256FB909470901?Fto=Sanctions%20Country%20(U.S.)&jsf)

In addition, further advice, instructions and guidance with regard to the principal provisions of the OFAC sanctions will be issued by GHQ CMP to local Compliance functions to coincide with this OCL, with a view to enabling those local Compliance functions to provide advice with regard to the practical application of this GCL.

Group Offices should however ensure that they continue to update relevant procedures in response to details of any future amendments or additions to applicable sanctions, including

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OFAC sanctions, issued by GHQ CMP in accordance with GSM 5.6. The guidance in this GCL should also be read in conjunction with GCL440074 US OFAC Sanctions, which discusses, among other things, how OFAC sanctions may apply to US citizens or permanent resident aliens, even when outside the US.

**It is acknowledged that compliance with sanctions with extra-territorial reach including OFAC sanctions, may be unlawful under local laws. Where compliance with this GCL would result in a breach of local law or regulation or existing binding contractual arrangements the position should be considered in liaison with local Compliance and Legal functions and GHQ CMP. Any dispensation from the terms of this GCL require GHQ CMP concurrence.**

#### IRANIAN SANCTIONS

The OFAC sanctions applicable to Iran are unique in including the specific exemption for payments which qualify as a "U-turn" payment as defined. U-turn payments can be summarised as being "cover payments involving Iran that are by order of a third country bank for payment to another third country bank – provided that they do not directly credit or debit an Iranian Account". Iranian Accounts are defined as "accounts of persons located in Iran or the Government of Iran contained on the books of a United States depository institution". In this context a third country bank must be non-US and non-Iranian and an Iranian Account generally includes an account for a non-Iranian subsidiary in which an Iranian company has a 30% or greater interest. A more complete definition is contained in the guidance to be issued by GHQ CMP.

For the purposes of this GCL, 'Iranian Payments' mean payments made to or from an account maintained by any Iranian person (which includes any Iranian national, any individual resident in, or entity doing business in, Iran, or any entity incorporated or formed in Iran and subsidiaries of any Iranian entity), or an Iranian government body (including governmental-owned entities) whether directly or indirectly.

In view, however, of the complexity of the relevant provisions governing the Iranian sanctions and the U-turn exemption all Iranian Payments denominated in USD must with effect from 1<sup>st</sup> September 2005, or any earlier date notified by HBME DUB, be routed through HBME DUB – HSBC Middle East Management Office, Dubai Internet City, P O Box 66, Dubai, UAE, Tel. No. + [971] (4) 390 4722, who will establish a dedicated team to pre-screen proposed Iranian Payments for Compliance with the Iranian sanctions and process compliant payments via dedicated correspondent accounts. This will require Group Offices who wish to continue to make Iranian Payments to open USD accounts with HBME DUB. All requests to open accounts should be sent to the attention of Alan Kerr or Ahsan Raza, CIEM HBME. HBME DUB will issue more details to Group Offices as to how payments should be processed. With immediate effect, and prior to 1<sup>st</sup> September, all Iranian payments must be referred to Rod Moxley, Tel. No. + [44] (0) 207 991 3664 (email Rod.MOXLEY@HBEU/HSBC), and may only be processed once confirmation has been given that the payment is compliant under the U-turn (or other) exemption.

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**OTHER SANCTIONS WITH EXTRA-TERRITORIAL EFFECT**

GHQ CMP maintain a full and current list of sanctions which affect Group Offices. This list is accessible through the Group Compliance Intranet via the following link or via local Compliance functions.

<http://compliance.hsbc.com/portal.nsf/frame?readform>

Although certain sanctions only apply locally, UN sanctions should be viewed as having Group-wide application. Sanctions issued by the European Union bind EU persons (individuals who are nationals of member states and companies incorporated or domiciled in member states) globally as well as those persons located or operating in member states. Group Offices should use WOLF or any alternative approved systems to load any additional names covered by local or other extra-territorial sanctions applicable to those offices.

**IMPLEMENTATION**

It is recognized that the use of automated payment screening systems is necessary for the effective identification of payments potentially subject to relevant sanctions, including OFAC sanctions. GCL 040021 "Payment Screening" required all Group Offices whose payments are not processed through one of the Group's 3 regional TP sites to install the Group's solution WOLF by 31 March 2005. The names loaded centrally by Group Messaging Systems will be supplemented by 8 August 2005 to include a full list of OFAC country and SDN names, thus ensuring that all cross-border USD payments Group-wide will be pre-screened for OFAC compliance. Group Offices should satisfy themselves that they are fully compliant with the requirements of GCL 040021 and notify GHQ CMP immediately of any deviation.

Where there are local USD clearing systems (e.g. Hong Kong and UAE), relevant offices must ensure that WOLF is capable of screening all local payments consistent with the requirements of this GCL in order to ensure that non-compliant payments are rejected. Those Group Offices with local USD clearing systems must confirm to GHQ CMP by 1 November 2005 that they are screening all local USD payments.

In addition, Group Offices should take at least the following steps where relevant:-

- Ensure that they have adequate procedures to identify proposed transactions and activities other than payments which may be prohibited by OFAC sanctions before the proposed transactions are entered into. This would include in-country book transfers over USD accounts. This may require the issuance of staff circulars, amendments to desk instruction books and local procedures manuals.
- Once the SDN and country names are loaded into WOLF it is likely that the number of payments identified as potential matches to the OFAC sanctions will increase. Group Offices need to ensure that they are sufficiently resourced to consider any potential matches for clearance or rejection as appropriate.
- Where proposed transactions or payments are identified that would breach the OFAC sanctions, non-US Group Offices should decline the transaction and refuse to make any payments returning the funds to the remitter. US Offices are normally required to block or freeze payments.

3

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- Consider, in conjunction with local Legal or Compliance functions, whether any amendments or additions should be made to product or service terms and conditions or any advance notification should be given to customers to clarify the bank's right and intention to reject to accept relevant instructions or requests.
- Where Group Offices are in doubt as to whether a transaction or payment is affected by any sanction, but particularly OFAC sanctions, they should consult their local Compliance function who may in turn refer to GHQ CMP.
- It should be noted that the policy contained in this GCL where it relates to OFAC sanctions only applies to transactions or payments denominated in USD, save for those US Offices which are required to apply OFAC sanctions to all transactions regardless of the currency of denomination.
- Note the specific arrangements required in relation to payments which may be subject to the OFAC sanctions applicable to Iran.

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1467

HSBC-BNI\_E 0074397.txt  
From: ALAN T KETLEY/HBUS/HSBC  
Sent: 8/25/2005 12:14:17 PM  
To: DENISE A REILLY/HBUS/HSBC@HSBC  
CC:  
Subject: Fw: GCL050047 - Compliance with OFAC sanctions

fyi

----- Forwarded by Alan T Ketley/HBUS/HSBC on 08/25/2005 01:15

PM  
-----  
Mark SMITH on 25 Aug 2005 11:56  
Managerial Letter  
25 Aug 2005 11:56

From: Mark SMITH Tel: 7992 1140  
44 20 7992 1140  
Title: Location:  
WorkGroup: Mail Size: 14526  
Sent by: Linda MORRIS

To: Aimee T Sentmat/HBUS/HSBC@HSBC  
Alan KERR/HBME/HSBC@HSBC  
Arun HARI/SABR/HSBC@HSBC  
Beig Soo B S PARK/SVP CIB SEL/HBAP/HSBC@HSBC  
Bruce M CANNON/HBBR/HSBC@HSBC  
Bruno LALANNE/MGR CBA MAR/HBAP/HSBC@HSBC  
Charles J FARRUGIA/HBMT/HSBC@HSBC  
Chris IGAROWICZ/HBEU/HSBC@HSBC  
Chris P DAVIES/HBUS/HSBC@HSBC  
Chris R BENTLEY/HBEU/HSBC@HSBC  
Christian Kolb/0292296/Trinkaus/DE@Trinkaus  
Christopher H C AU/CMB MMO/HBAP/HSBC@HSBC  
CK KONG/HD CIB TAI/HBAP/HSBC@HSBC  
Dimitris POLITIS/HMLG/HSBC@HSBC  
Djaja H TAMBUNAN/CIB IWO/HBAP/HSBC@HSBC  
Ehud ARNON/HBEU/HSBC@HSBC  
Huseyin Ozkaya/HBTR/HSBC@HSBC  
Jim Mahaffy/HBCA/HSBC@HSBC02  
Johan NYVENE/MGR CIB VNM/HBAP/HSBC@HSBC  
Jorge CRISTOFFANINI/HBCL/HSBC@HSBC  
Jose Manuel Dominguez/HBXX/HSBC@HSBC  
Junie R VELOSO/MNL/HBAP/HSBC@HSBC  
Luke MCFARLANE/HBEU/HSBC@HSBC  
Mahbub Ur RAHMAN/CMB DAK/HBAP/HSBC@HSBC  
Marcelo L DEGROSSI/HBAR/HSBC@HSBC  
Mark COUVREUR/BUS/HBFR/HSBC@HSBC  
Mark KENNEDY/HDO/HBFR/HSBC@HSBC  
Martin TRICAUD/HBME/HSBC@HSBC  
Mervyn FONG/IMO/HBAP/HSBC@HSBC  
Michael BARRO/AUH/HBAU/HSBC@HSBC  
Panadda MANOLEEHAKUL/CIB BKH/HBAP/HSBC@HSBC  
Patrick NOLAN/HBEU/HSBC@HSBC  
Per Olov SYNNEMAR/HBEU/HSBC@HSBC  
Phillip T WOOD/NZM/HBAP/HSBC@HSBC  
Phillip DAWE/CEO MAR/HBAP/HSBC@HSBC  
Pierre FRANCON/HBME/HSBC@HSBC  
Ravinder SINGH/CIB INM/HBAP/HSBC@HSBC  
Rob MCCALL/HIBM/HSBC@HIBM  
Robert MONTANARI/TKY/HBAP/HSBC@HSBC  
Rosdi Amin R YAAKUB/CIB BSB/HBAP/HSBC@HSBC  
Rose W M LEE/HD CIB AMH/HBAP/HSBC@HSBC  
Salaam MIR/CIB KRI/HBAP/HSBC@HSBC  
Seitjan ERMEKBAEV/AMA/HBKZ/HSBC@HSBC  
Simon N COOPER/SGH/HBAP/HSBC@HSBC

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1468

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Stuart P MILNE/CIB ASP/HBAP/HSBC@HSBC  
Susan S M YUEN/SM CIB MYH/HBMY/HSBC@HSBC  
Trevine S A FERNANDOPULLE/SCM CBA CBH/HBAP/HSBC@HSBC  
Vadim UDALOV/HBEU/HSBC@HSBC  
Vjaceslav STOVICEK/HBEU/HSBC@HSBC  
Wai Leng LEONG/HD CIB AOC/HBAP/HSBC@HSBC  
William Welton/HBEM/HSBC@HSBC  
Yuen Tin Ng/DGM CIB/CIB/HASE@HSBC

cc: John ALLISON/HGHQ/HSBC@HSBC  
John F ROOT/HGHQ/HSBC@HSBC  
Paul PROCTOR/HBEU/HSBC@HSBC  
Geoff ARMSTRONG/HBEU/HSBC@HSBC  
Amy M C CHAN/IBH CIB/HBAP/HSBC@HSBC  
Lily L Y HO/CMP APH/HBAP/HSBC@HSBC  
Alan KERR/HBME/HSBC@HSBC  
Alan T Kettle/HBUS/HSBC@HSBC  
Johnny L F CHONG/IBH CIB/HBAP/HSBC@HSBC  
Michele CROS/HBEU/HSBC@HSBC  
Nigel J WEIR/HBEU/HSBC@HSBC  
David BURNETT/HBWD/HSBC@HSBC@HSBC  
Caroline A TOSE/HBEU/HSBC@HSBC  
David W J BAGLEY/HGHQ/HSBC@HSBC  
Charlie LAUGHTON-SCOTT/HGHQ/HSBC@HSBC  
Tim REID/HGHQ/HSBC@HSBC  
John R ROSS/MDBK/HSBC@HSBC  
Richard J MOSELEY/MDBK/HSBC@HSBC  
John S GUBERT/HGHQ/HSBC@HSBC  
James J Y MADSEN/HBEU/HSBC@HSBC

Our Ref: ML050103      Your Ref:  
Subject: GCL050047 - Compliance with OFAC sanctions

You will be aware of the above GCL which implements a revised policy with regards to OFAC sanctions. The GCL is provided as a link here for ease of reference -

<http://group.ghq.hsbc/int/group/home.nsf/BvRef/UKCM6EQEM8114506Am28072005?Open>

We are keen to ensure that we are communicating with our clients in a consistent and clear manner. Some clarification on aspects of the GCL have been sought by Group offices. Group compliance support this ML and we have also agreed its content with GTB (a number of you may have seen separate guidance notes from HTV and PCM on this subject). Please ensure this mail is widely distributed amongst your teams.

GCL

The revised policy is specific to OFAC sanctions only. Compliance with all other existing local or global sanctions continues as at present. A link to GHQ CMP sanctions is provided here to provide you with further detail on OFAC sanctions which are particular to individual countries -

<http://compliance.ghq.hsbc/grpcomp/portal.nsf/frame?readform&Ref=UKAP-6E3CT27856ABDEH>

The revised policy applies to all transactions denominated in USD (for avoidance of doubt, not just payments), including any transaction that, during its existence or at its conclusion, could result in a USD settlement. Please note that certain limited exemptions exist within the OFAC sanctions. The GCL applies to all Group offices. Where compliance with the GCL might result in a breach of local law or regulation or an existing binding contractual arrangement the situation should

Page 2

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be referred to local Compliance and Legal for guidance. Similarly, where customer discussions on affected transactions are at an advanced stage of negotiation, revised policy compliance should be discussed with the same local departments.

It is possible clients may have obtained some form of OFAC exemption, in which case we may be able to undertake related transactions. Please refer to local Compliance and Legal units for guidance. Where transactions or payments that would breach the OFAC sanctions are identified, non-US Group offices should decline the transaction and refuse to make any payments, returning the funds to the remitter. This is different from US offices who are normally required to block or freeze payments. With regards to Iran, transactions in USD are permitted where any resultant payment would be capable of taking advantage of the U-turn exemption. The U-turn exemption is unique to OFAC sanctions applicable to Iran (see the GCL link above) and you should again refer any queries to local Compliance and Legal units.

#### Country Sanctions

All impacted USD transactions, including filtered payments, will need to be assessed on a case by case basis at the outset i.e. before any action is taken, and in the context of the detailed OFAC sanctions applicable to each country including Specially Designated Nationals (SDNs). The sanctions are complex and local Compliance guidance should be sought as necessary.

An overriding observation is that the revised policy will most significantly impact the Cuban and Sudan correspondent bank relationships of the Group.

#### North Korea

The Group has 3 account relationships with North Korean entities. These are all inhibited. We have been seeking to close the accounts, and will continue to do so, for some time but have not been able to elicit a response from the banks concerned. The GCL applies in full.

#### Zimbabwe

There is no OFAC country sanction in place (only against Specially Designated Nationals - SDNs) and the existing policy applies i.e. USD transactions may continue to be undertaken except for SDNs. Transactions are, of course, subject to local regulatory requirements and offices should continue to ensure the Group could not be criticised, due to its involvement in any transaction, even where no regulation has technically been breached.

#### Myanmar

The Group has 2 account relationships with Myanmar entities. The GCL applies in full. Amy Chan, Sector Head, Financials based in HK is liaising with the Head Offices of the 2 banks to advise them of the revised Group policy and will deal with consequential issues. Amy may be approached to provide an update on these relationships.

#### Iran

We have a representative office in Tehran and extensive relationships with a number of Iranian institutions. Group Compliance has re-affirmed that OFAC sanctions as currently exist, including the U-turn exemption, continue to apply to all transactions. These sanctions are particularly complex, hence the GCL introduction of a centralised payment processing team based in Dubai (wef 1sept05) and prior to that all Iranian payments must be referred to a HBEU contact point. Details of both arrangements are provided in the GCL (see the GCL link above).

1470

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Sudan

The Group has a number of SWIFT key and account relationships. The GCL applies in full. Geoff Armstrong, Global Head of Financials, is liaising with the Head Offices of the affected banks to advise them of the revised Group policy and deal with consequential issues. Geoff will provide an update to Group offices who maintain relationships with Sudanese banks and he may be approached as required.

Cuba

The Group has a number of SWIFT key and account relationships. The GCL applies in full. Geoff Armstrong, Global Head of Financials, is liaising with the Head Offices of the affected banks to advise them of the revised Group policy and deal with consequential issues. Geoff will provide an update to Group offices who maintain relationships with Cuban banks and he may be approached as required.

#### Relationship Approach

The revised policy does not represent an automatic exit strategy with regards to affected clients. Non-USD business (and for Iran, U-turn exempt transactions) may continue to be undertaken. However, for a number of reasons eg. operational simplicity, where the remaining non-USD business is uneconomic or where the client concludes they will have to conduct their business with an alternative provider, the ultimate outcome may be the closure of certain relationships. Verbal discussions with affected clients would be preferable. Any written correspondence seeking to clarify the Group's revised policy should be cleared with local compliance.

For Sudan and Cuba, most of our business is conducted in USD and the discussions already initiated with the affected banks will dictate the extent of our ongoing relationship. Geoff Armstrong's update will provide further guidance on these 2 countries.

A number of corporate and institutional clients will be impacted by the revised policy, in particular those for whom we act as the conduit for USD payments into/out of the above countries. We are already aware of certain affected clients and dealing with the circumstances as diplomatically as possible. Local Compliance should initially be approached for guidance where relationship managers become aware of similar situations with the recommended form of communication being as outlined above. GIB colleagues have been alerted to the impact of the revised policy and, wherever possible, will liaise with RM's so as consistent a message as possible is being delivered to our client base. Please note that any dispensation from the terms of the GCL requires Group Compliance concurrence.

Please note that it is incumbent upon all executives to have a sufficient understanding of local and extra-territorial anti-terrorism and crime legislation and economic and trade sanctions to ensure that the Group's reputation is protected. 'Front line' relationship managers must be especially alert to the full scope of transactions that may, ultimately, lead to a potential breach of OFAC sanctions and be aware of latest changes to such laws and regulations. For the latter, it is acknowledged that local Compliance has an important role to play.

As the GCL states, Group offices should contact local Compliance and Legal functions in the first instance if you have any questions with regard to the practical application of the GCL. That said, if you have issues that you think have global applicability for CIB please contact John Ross, Senior Manager, Global CIB.

Page 4

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Mark Smith  
Chief Operating Officer  
Global CRB

Page 5

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**HSBC USA INC., HSBC BANK USA, NA, HSBC NATIONAL BANK USA, and  
HSBC TRUST COMPANY (DELAWARE) NA  
MINUTES OF THE AUDIT COMMITTEE MEETING  
October 24, 2007**

The Audit Committee of the Board of Directors met on October 24, 2007 at 7:30 a.m. in New York City. The following persons were present.

**Audit Committee**

Sal H. Alfiero, Chairman  
James H. Cleave  
Richard A. Jalkut  
Peter Kimmelman

**HSBC USA Inc., HSBC Bank USA, NA, HSBC National Bank USA and HSBC Trust Company (Delaware) NA**

Paul Lawrence, President & Chief Executive Officer and Head of CIBM North America  
Janet Burak, Senior Executive Vice President, General Counsel & Secretary  
David Dew, Senior Executive Vice President & Chief Operating Officer  
Michael Forde, Associate General Counsel  
Mark Martinelli, Audit Committee Secretary & Executive Vice President, Group Audit USA  
Gerard Mattia, Senior Executive Vice President & Chief Financial Officer  
Patrick Schwartz, Corporate Secretary, HNAH, HBIO & HBUS  
Joseph Simpson, Executive Vice President, Finance  
George Wendler, Senior Executive Vice President, Chief Credit/Risk Officer, HBUS

**KPMG**

Michael Ohlweiler  
John Regan

**Attended for a portion of the meeting**

Marilyn Brush, Chief Operating Officer, CIBM  
John DeLuca, Executive Vice President and Deputy Chief Risk Officer, HUSI  
Mark Hershey, Senior Executive Vice President & Chief Credit Officer, CMB & PFS  
Margo Hickman, Vice President Corporate Insurance & Risk Management  
Donald Howard, Executive Vice President, Credit Risk Review  
Philip Tremble, Chief Credit Officer, CIBM & Private Banking  
Carolyn Wind, Executive Vice President & Managing Director Compliance/AML

Mr. Alfiero called the meeting to order at 7:30 a.m. and Mr. Martinelli recorded the minutes.

**APPROVAL OF MINUTES**

The minutes of the August 6, 2007 Audit Committee meeting and the September 11, 2007 Audit Committee teleconference meeting were approved along with the teleconference minutes from the Joint Executive & Audit Committee meeting held on September 17, 2007.



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on Investigations**

HSBC OCC 3516807  
HSBC OCC 3516808

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by  
Permanent Subcommittee  
on Investigations**

**COMPLIANCE/AML**

Ms. Wind presented the Quarterly Compliance Report. She noted that with respect to the two AML MRAs noted in the OCC's Annual Assessment Report of Examination, Project Teams have been formed and good progress is being made against plans and committed target dates. Additionally, Compliance has implemented formal tracking and management reporting of all AML related MRAs cited by the OCC during 2006/2007.

Ms. Wind concluded by noting that Compliance continues to experience challenges in recruiting and retaining staff citing recent turnover in the GIB (Embassy Banking) AML team. Responding to Committee questions, Ms. Wind responded that temporary resourcing has been placed in GIB.

1475

OPERATIONAL/TECHNOLOGY RISK

Mr. Dew reported on issues related to the recent GPS implementation. He noted that reconciliation issues arising from the GPS implementation are being addressed by additional resourcing. Mr. Dew also stated that there have been new duplicate payments in September that appear to be driven by system issues. System fixes will be implemented shortly. Mr. Dew noted that the likelihood of a loss from these items is unlikely. Mr. Dew responded to various Committee questions about the GPS issues and the timing of the corrective actions.

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HSBC OCC 3516811

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by  
Permanent Subcommittee  
on Investigations**

**ALL OTHER BUSINESS**

There being no further business, Mr. Alfiero called the Committee into Executive Session, which was partly attended by KPMG. The Executive Session also covered GIB/Embassy Banking.

Mr. Alfiero adjourned the meeting at 11:05 a.m.

APPROVED:

\_\_\_\_\_  
Sal H. Alfiero  
Chairman

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1478

From: LESLEY MIDZAIN/HBUS/HSBC  
Sent: 1/19/2009 6:36:12 PM  
To: DENISE A REILLY/HBUS/HSBC@HSBC02  
CC: CAMILLUS P HUGHES/HBUS/HSBC@HSBC02; DENIS E O'BRIEN/HBUS/HSBC@HSBC02; RICHARD ANNICHARICO/HBUS/HSBC@HSBC02  
Subject: Re: Fw: HBMX Banknotes business - HSBC Mexico Press Release and Q&A

Thanks Denise!  
We'll want to make sure that we have the right contact points at HSBC dealing with regulators/agents. Sounds like we do.

Look forward to hearing more tomorrow.  
Lesley

Lesley Midzain  
Executive Vice President & Chief Compliance Officer | HSBC BANK USA, N.A.  
452 5th Ave., 7th Fl.  
New York, NY 10018

Phone 212-525-6410  
Fax 212-525-5769  
Mobile 917-892-4967  
Email Lesley.Midzain@us.hsbc.com

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Subcommittee on Investigations

Denise A Reilly/HBUS/HSBC  
01/19/2009 06:05 PM

To  
Lesley Midzain/HBUS/HSBC@HSBC02  
cc  
Camillus P Hughes/HBUS/HSBC@HSBC02, Denis E O'Brien/HBUS/HSBC@HSBC02, Richard Annicharico/HBUS/HSBC@HSBC02  
Subject  
Re: Fw: HBMX Banknotes business - HSBC Mexico Press Release and Q&A

Lesley,

A meeting was held last week with Gyanen Kumar, Denis O'Brien, Richie Annicharico, Dan Jack and an agent from ICE (US Immigration & Customs Enforcement) which falls under the Dept of Homeland Security. I believe this is the same meeting referred to by Gyanen in the correspondence below. A follow-up meeting was agreed to post-Gyanen's trip to Mexico and it is set for this Wednesday. Denis, Richie and I also had a follow-up conversation on Thursday with Rita Gonzalez who is the FI relationship manager. Cam has been verbally updated on the conversations and all individuals have a copy of the press release.

We will review the details of the conversations with you tomorrow morning.

Denise

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1479

Denise A Reilly  
SVP Compliance  
7th Floor  
452 5th Ave, NY 10018

---

Phone. 212-525-2606  
Mobile. [REDACTED]  
Email. denise.a.reilly@us.hsbc.com

---

Lesley Midzain/HBUS/HSBC  
01/19/2009 04:44 PM

To  
Camillus P Hughes/HBUS/HSBC@HSBC02, Denis E O'brien/HBUS/HSBC@HSBC02  
cc  
denise a reilly  
Subject  
Fw: HBMX Banknotes business - HSBC Mexico Press Release and Q&A

Cam or Denis,

Any other context that you've heard on this? We need to assess what regulators' concerns/views might be and provide guidance to those who might receive such inquiries.

Also the bottom of the chain suggests that we exited two BN relationships in relation to this (although maintained them on PCM side).

I also have an email with the HBMX press release and related information, so will send that also.

We can discuss Tuesday.

Lesley Midzain  
Executive Vice President & Chief Compliance Officer | HSBC BANK USA, N.A.  
452 5th Ave, 7th Fl.  
New York, NY 10018

---

Phone 212-525-6410  
Fax 212-525-5769  
Mobile [REDACTED]  
Email Lesley.Midzain@us.hsbc.com

[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations

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----- Forwarded by Lesley Midzain/HBUS/HSBC on 01/19/2009 04:40 PM -----

Janet L Burak/HBUS/HSBC  
01/16/2009 05:46 PM

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1480

To  
Chris P DAVIES/HBUS/HSBC@HSBC02  
cc  
Juanita Gutierrez/HBUS/HSBC@HSBC02, J Denis OToole/HBUS/HSBC@HSBC02, Lesley  
Midzain/HBUS/HSBC@HSBC02  
Subject  
Re: HBMX Banknotes business - HSBC Mexico Press Release and Q&A

Chris,

Thank you for this information. I have copied Lesley Midzain on this email, as Compliance would deal with FinCen, and we need to make sure nothing is done which may jeopardize US relationships there.

Have a great weekend!

Best regards,

Janet

----- Original Message -----

From: Chris P DAVIES  
Sent: 01/16/2009 09:57 AM CST  
To: Janet Burak  
Cc: Juanita Gutierrez; J Denis OToole  
Subject: Fw: HBMX Banknotes business - HSBC Mexico Press Release and Q&A  
Janet:

As disc'd at Exco, please note re HBMX cash decision - attached is the HBMX press release.

This is for internal info only, and any agency interest we get should be routed to Juanita, who can direct onwards to HBMX for comment.

Rgds

Christopher P. Davies  
SEVP  
Head of Commercial Banking North America  
HSBC Bank USA, NA  
452 5th Avenue, T-4  
New York, NY 10018  
212-525-3900  
----- Forwarded by Chris P DAVIES/HBUS/HSBC on 01/16/2009 10:54 AM -----

Juanita Gutierrez/HBUS/HSBC  
01/13/2009 05:38 PM

To  
Chris P DAVIES/HBUS/HSBC@HSBC02  
cc  
Christopher Lok/HBUS/HSBC@HSBC02, Gyanen Kumar/HBUS/HSBC@HSBC02, Michael B  
Gallagher/HBUS/HSBC@HSBC02, Paul J LAWRENCE/HBUS/HSBC@HSBC02, Diane Soucy

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1481

Bergan/HBUS/HSBC@HSBC02, J Denis OToole/HBUS/HSBC@HSBC02  
Subject  
HBMX Banknotes business - HSBC Mexico Press Release and Q&A

Chris -

Attached please find: (1) the English language (unofficial translation / for internal use only), (2) Spanish Language press release and (3) English language Q&A. These documents have been shared with us by Roy Caple, head of HSBC public relations for Latin American and the Caribbean. This will assist in guiding any conversations with FINCEN.

I would suggest that the appropriate person in our banknotes business reach out to Denis O'Toole's office to ensure government affairs provides proper guidance in responding to inquiries related to this topic from U.S. governmental / regulatory bodies based on the attached information. I have copied Denis on this e-mail traffic for his information.

I hope this information is helpful. Additionally, I have included the contact information for Roy Caple in case government affairs and/or our banknotes executives would like to have an additional conversation directly with Roy related to this matter. rgds,

[attachment "MexDollarUnofficialReleaseEnglish.doc.zip" deleted by Janet L Burak/HBUS/HSBC]  
[attachment "MexicoDollarRelease.doc.zip" deleted by Janet L Burak/HBUS/HSBC]  
[attachment "MexQ&AEnglish.doc.zip" deleted by Janet L Burak/HBUS/HSBC]

Roy Caple  
Director Ejecutivo de Asuntos Públicos  
Head of Public Affairs  
HSBC Mexico, Latin America and the Caribbean  
Paseo de la Reforma 347 Of 21  
Col. Cuauhtemoc  
México, D.F. 06600  
Tel (52-55) 5721-6060

Regards,

Juanita Gutierrez  
Dir, Public Relations | HSBC Bank USA, N.A.  
452 Fifth Avenue, 13th Floor  
New York, New York 10018

Phone. 212-525-6282  
Fax. 212-525-6875  
Mobile. [REDACTED]  
Email. juanita.gutierrez@us.hsbc.com

[REDACTED] = Redacted by the Permanent  
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1482

Chris P DAVIES/HBUS/HSBC  
01/12/2009 07:14 PM

To  
Gyanen Kumar/HBUS/HSBC@HSBC02@HSBC  
cc  
Christopher Lok/HBUS/HSBC@HSBC02, Michael B Gallagher/HBUS/HSBC@HSBC02, Paul J  
LAWRENCE/HBUS/HSBC@HSBC02, "Samantha Roman" <samantha.roman@us.hsbc.com>,  
"Juanita Gutierrez" <juanita.gutierrez@us.hsbc.com>  
Subject  
Re: HBMX Banknotes business

Thanks gyanen. Who is fincen?

The decision on retail activity was one taken by hbmX alone and we will need to  
liaise with them on phrasing a reactive statement in that regard.

HbmX's decision should not be linked with our (global banknotes) stance on  
wsale business with any particular counterparties who happen to be in mx.

Juanita - pse see me early tomorrow so we can work on this with the banknotes  
team and hbmX.

Gyanen/ chris I - please do not discuss externally until we have spoken.

Rgds

----- Original Message -----

From: Gyanen Kumar  
Sent: 01/12/2009 05:46 PM EST  
To: Chris P DAVIES  
Cc: Christopher Lok; Michael Gallagher; Paul J LAWRENCE  
Subject: Re: HBMX Banknotes business  
Chris,

This is FYI.

I received a call from FINCEN seeking clarification on HBMX's change in USD  
banknote acceptance policy and how it affects our banknote business. FINCEN  
mentioned that Federal Reserve Bank of New York (FRBNY) was also curious about  
this announcement.

I know that FRBNY is quite sensitive to USD banknote activity in various  
markets. I would not be surprised if the FRBNY puts a call into someone at HBUS  
seeking clarification about HBMX's policy change towards USD banknotes in  
Mexico. In light of North American Free Trade Agreement, we should be prepared  
with an explanation if we get a call from FRBNY. HBMX cites cost as the main  
reason for this policy change.

Regards,

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1483

Gyanen Kumar  
212 525 2833

Christopher Lok/HBUS/HSBC@HSBC02  
01/07/2009 11:49 AM

To  
Chris P DAVIES/HBUS/HSBC@HSBC  
cc  
Michael B Gallagher/HBUS/HSBC@HSBC02, Paul J LAWRENCE/HBUS/HSBC@HSBC02, Gyanen  
Kumar/HBUS/HSBC@HSBCAMERICAS  
Subject  
Re: HBMX Banknotes business

Chris

Noted. Gyanen Kumar is visiting Mexico next week & will be speaking to HBMX.  
Afterwards Gyanen will be speaking to the two counterparts.

Chris

Chris P DAVIES/HBUS/HSBC  
01/07/2009 11:44 AM

To  
Christopher Lok/HBUS/HSBC@HSBC02  
cc  
Michael B Gallagher/HBUS/HSBC@HSBC02, Paul J LAWRENCE/HBUS/HSBC@HSBC02  
Subject  
HBMX Banknotes business

Chris:

We discussed the above last week. I have now spoken with HBMX and GBM Americas  
FIG and it is appropriate that we discontinue our Banknotes activities with the  
2 names concerned. Please proceed to disengage in an orderly manner and brief  
HBMX (Mario Langañica) on next steps.

We are to continue our PCM activities and I have discussed separately with  
Michael.

Regards,

Christopher P. Davies

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1484

SEVP  
Head of Commercial Banking North America  
HSBC Bank USA, NA  
452 5th Avenue, T-4  
New York, NY 10018  
212-525-3900

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**Compliance**

# HNAH AML Program

Board Audit Committee Presentation  
February 17, 2010

**HSBC**  
The world's local bank

Wyn Clark, AML Director

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- ▶ HNAH AML Program Review
  - ▶ Current HNAH AML Environment
    - AML Risk Profile
    - HNAH Regulatory AML Environment
    - External Regulatory AML Environment
  - ▶ AML Director's Initial Observations
  - ▶ 2010 Plans

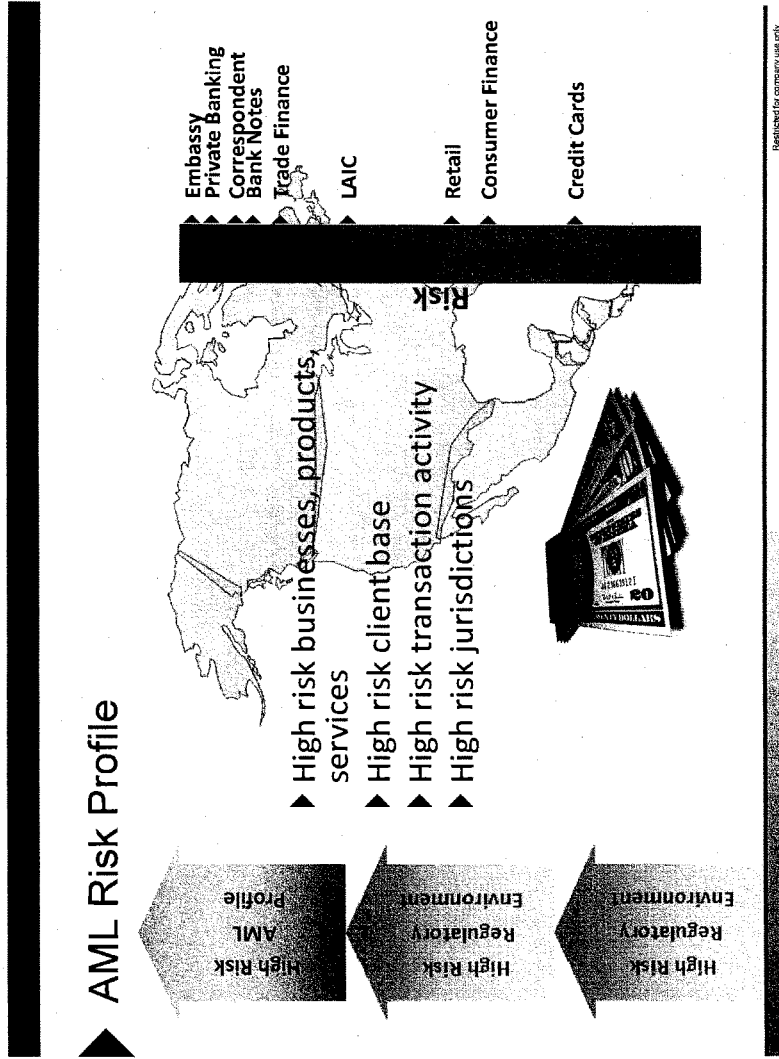
*NOTE: SAR Metrics provided in "HNAH Risk Dashboard – Supplementary Metric and Reporting Package"*



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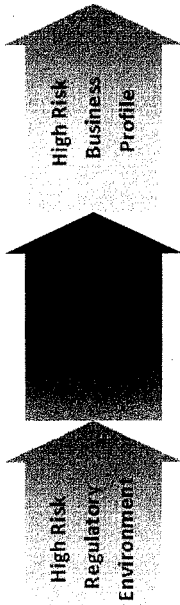




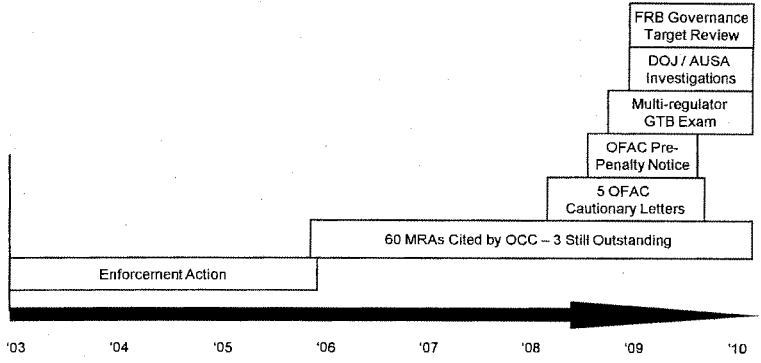
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## ▶ HNAH Regulatory AML Environment



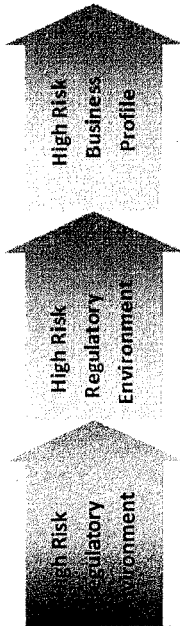
- ▶ Previous BSA/AML Enforcement Action (APR03 - FEB06)
- ▶ OFAC Cautionary Letters (OCT08, JUN09, DEC09)
- ▶ OFAC Pre-Penalty Notice (MAY09)
- ▶ 60+ MRAs issued since '06, 3 still outstanding
- ▶ GTB combined Exam/Investigation by OCC, FRB, DOJ, AUSA
- ▶ Increased focus on affiliate risks and transactions



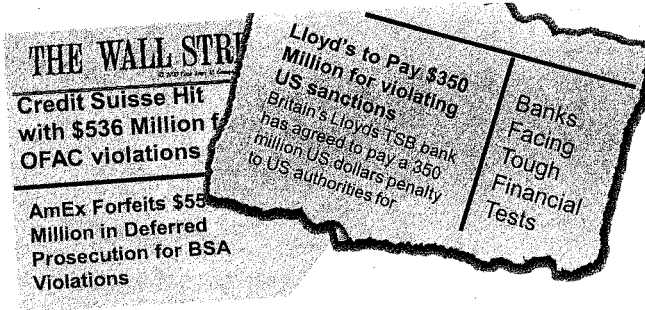
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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3800294

## External Regulatory AML Environment



- ▶ Recent BSA/AML/OFAC civil money penalties from **\$10 to \$536 million**
- ▶ BSA/AML programs increasingly subject to **criminal penalties** – Approximately 8 DOJ Deferred Prosecution Agreements (DPAs) issued since 2001
- ▶ **BSA/AML enforcement actions** increasing



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## ▶ AML Director's Initial Observations

### General Concerns

- ▶ **HNAH – High AML Risk profile**
- ▶ **Risks for the Bank:**
  - Reputational
  - Financial
  - Compliance
  - Legal
- ▶ **Risk Assessment Process** not driving risk-based AML program
  - Systems and Controls
  - Training
  - Audit
- ▶ **“Event” and regulatory-driven** approach to issues management


### Key Concerns

- ▶ **Systems and Controls**
  - Inconsistent with AML risk profile
- ▶ **Resources**
  - **Insufficient** vs current risks and volumes
  - **Temps** performing permanent roles
  - **Key-man** risk
- ▶ **Backlogs** in SAS, Retail, PCM & GTB
- ▶ Increasing **regulatory scrutiny and actions**

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## ▶ 2010 Plan

- ▶ Refine and enhance AML Risk Assessment – Drives AML program
  - ▶ Enhance systems and controls to match risk profile – Be more proactive and risk-based
  - ▶ Expand risk-based AML training and communication
  - ▶ Norkom implementation (GIB, PFS, Correspondent)
  - ▶ Further integrate and centralize AML program across all HNAH
    - Build AML Office
    - Build Financial Intelligence Unit
  - ▶ Continuously assess resource needs based on:
    - Business growth
    - AML risks
    - Process and system improvements
- 

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HSBC OCC 3800296

1492

From: SUSAN HOGGARTH/HBUS/HSBC  
Sent: 2/9/2006 4:30:08 PM  
To: PHILIP MUSACCHIO/HBUS/HSBC@HSBC  
CC: JEFF CLOUS/HBUS/HSBC@HSBC; TERESA PESCE/HBUS/HSBC@HSBC; TERRY WESTREN/HBUS/HSBC@HSBC  
Subject: Re: Bearer Shares - More Info

Phil

During the exam, the OCC was very specific on their requirements (and that they were making this a requirement across the board). I don't see them accepting this approach, in particular when they specifically advised us that the beneficial ownership letters were not adequate.

I will have a conversation with the examiner, but please don't have any expectations that the position will change.

Susan Hoggarth, SVP  
Chief AML Officer, Private Bank Americas  
HSBC USA Inc.  
452 Fifth Avenue, New York, NY  
Telephone: 212-525-6447 Fax: 212-642-1809

Philip Musacchio/HBUS/HSBC  
02/09/06 04:07 PM

To  
Susan Hoggarth/HBUS/HSBC@HSBC  
cc  
Jeff Clous/HBUS/HSBC@HSBC, Teresa Pesce/HBUS/HSBC@HSBC, Terry Westren/HBUS/HSBC@HSBC  
Subject  
Re: Bearer Shares - More Info

Yes but I was assuming you would speak to the OCC and share the information that Jeff has revealed and agree the same approach with them.

Regards,

Phil M.

---

Philip J Musacchio  
Private Bank Americas  
Phone: 212-525-3289  
Fax: 212-525-6997  
e-mail: philip.musacchio@hsbcpb.com

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 4816460

1493

Susan Hoggarth/HBUS/HSBC  
02/09/06 04:04 PM

To  
Philip Musacchio/HBUS/HSBC@HSBC  
cc  
Jeff Clous/HBUS/HSBC@HSBC, Terry Westren/HBUS/HSBC@HSBC, Teresa  
Pesce/HBUS/HSBC@HSBC  
Subject  
Re: Bearer Shares - More Info

Phil

That may work for Miami, but it won't work for the OCC in NY and California.  
The OCC has specifically advised us that the Beneficial Ownership letters are  
not sufficient. We have been advised that the shares need to be held either by  
ourselves or an accepted third party.

Sue

Susan Hoggarth, SVP  
Chief AML Officer, Private Bank Americas  
HSBC USA Inc.  
452 Fifth Avenue, New York, NY  
Telephone: 212-525-6447 Fax: 212-642-1809

Philip Musacchio/HBUS/HSBC  
02/09/06 03:14 PM

To  
Jeff Clous/HBUS/HSBC@HSBC  
cc  
Susan Hoggarth/HBUS/HSBC@HSBC, Terry Westren/HBUS/HSBC  
Subject  
Re: Bearer Shares - More Info

This is a much better and reasonable approach which we prefer to adopt. Now it  
is just a matter of finding a home for the bearer shares.

Regards,  
Phil M.

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**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 4816461**

1494

---

Philip J Musacchio  
Private Bank Americas  
Phone: 212-525-3289  
Fax: 212-525-6997  
e-mail: philip.musacchio@hsbcpb.com

Jeff Clous/HBUS/HSBC  
02/09/06 01:51 PM

To  
Terry Westren, Philip Musacchio/HBUS/HSBC@HSBC, Susan Hoggarth/HBUS/HSBC@HSBC  
cc  
  
Subject  
Bearer Shares - More Info

A local law firm in Miami has researched the issue of "custody" of Bearer Shares with the Federal Reserve Bank of Atlanta and they expect management of a bank maintaining Bearer Share Accounts to conduct a risk assessment of the bank's Bearer Share Account client base and to assign risk classifications to each Bearer Share Account and to implement appropriate activity monitoring procedures based upon the results of the risk analysis. In addition, Federal Reserve Bank of Atlanta expects implementation of one of the following two procedures:  
placement of bearer shares in custody or safe keeping pursuant to an arrangement that will prevent transfer without notification of the bank maintaining the Bearer Share Account, or  
periodic certification by the beneficial owners of the Bearer Share Accounts that ownership has not changed, the frequency of which may be based upon the bank's risk assessments of the Bearer Share Accounts.

Regards,  
Jeff Clous, SVP  
IPB Operations  
1441 Brickell Avenue, 16th floor, Miami, Florida 33131  
(305) 539-4810 (Phone) (305) 374-6466 (Fax)

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 4816462



1495

From: TERESA PESCE/HBUS/HSBC  
Sent: 4/18/2006 10:27:50 AM  
To: SUSAN A WRIGHT/HGHQ/HSBC@HSBC  
CC:  
Subject: Re: AJ Rajhi

It still makes me nervous. Alan has gone out to Steve Allen for more KYC/EDD.

---

Teresa A. Pesce  
EVP/Managing Director  
Anti-Money Laundering Compliance  
HSBC North America Holdings  
452 Fifth Avenue  
New York, NY 10018  
ph - (212) 525-6099  
fax- (212) 525-5769

Susan A WRIGHT/HGHQ/HSBC  
Sent by: Ana T NUNN  
04/18/2006 10:32 AM

To  
Teresa Pesce/HBUS/HSBC@HSBCAMERICAS, Alan T Ketley/HBUS/HSBC@HSBC  
cc

Subject  
AJ Rajhi

I just wondered what the position is with regard to the possibility of a Bank  
Note relationship in London with the above. Alan you mentioned this when I was  
in New York.

Regards Susan Wright

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 4827027

1496

From: ANNE LIDDY/HBUS/HSBC  
Sent: 9/11/2006 4:02:57 PM  
To: TERESA PESCE/HBUS/HSBC@HSBC  
Subject: Fw: HBME Wire payment USD 586.00 (IRAN-Bank Saderat) - Reject & Report to OFAC

Fyi - we rcvd a payment this morning from Dubai involving Bank Saderat so Elizabeth and Grace reached out to OFAC for guidance.

From: Elizabeth Protomastro  
Sent: 09/11/2006 01:18 PM  
To: Lionel Payan  
Cc: Dubai Special Payment TEAM; Ian EDEN; Gary BOON; Harsha ARUKGODA; Kersi PATEL; Siamak AL-KHAJA; Jairaj VITTAL; Shahnaz Amin ABDULHAQ; Anne Liddy; Grace C Santiago-Darvish; Donald McPherson; Nancy Hedges; Andrew Drolet; Jose Matias  
Subject: HBME Wire payment USD 586.00 (IRAN-Bank Saderat) - Reject & Report to OFAC

We have been instructed by Dan, OFAC, that the following payment must be rejected under in compliance with sanctions against Iran due to the involvement of Bank Saderat. Per the new amendment to the Iran sanctions, even u-turn payments involving Bank Saderat must be rejected.

Thank you.

██████████  
11-Sep-2006  
Debit: HBME, ██████████  
Credit: HSBC Bank Istanbul, ██████████  
ORG: HSBC HK  
USD 586.00

██████████ = Redacted by the Permanent  
Subcommittee on Investigations

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 4844209

1497

From: MICHAEL ELLIS/HBUS/HSBC  
Sent: 3/19/2007 2:08:53 PM  
To: RICHARD ANNICHARICO/HBUS/HSBC@HSBC  
CC:  
Subject: Fw: Report of Findings - Al Rajhi Banking & Investment Corp. - FIG

Michael Ellis  
Manager, AVP - Financial Intelligence Group  
Investigative Control & Reporting Office  
452 5th Avenue, Tower 7  
New York, NY 10018  
Telephone: (212) 525-8931  
Fax: (212) 525-5769  
Mail Code: 31

----- Forwarded by Michael Ellis/HBUS/HSBC on 03/19/2007 03:04 PM -----  
FIG HBUS on 24 Oct 2006 16:52

Note  
24 Oct 2006 16:52

From: FIG HBUS Tel:  
Title: Location:  
WorkGroup: Mail Size: 1273825  
Sent by: Michael Ellis

To: Gordon BROWN/IBEU/HSBC@HSBC

cc: Susan SALAS/IBEU/HSBC@HSBC  
Daniel Jack/HBUS/HSBC@HSBC  
Alan T Ketley/HBUS/HSBC@HSBC  
Andrew Rizkalla/HBUS/HSBC@HSBC  
Gloria Strazza/HBUS/HSBC@HSBC  
Teresa Pesce/HBUS/HSBC@HSBC  
FIG HBUS@HSBC  
Subject: Report of Findings - Al Rajhi Banking & Investment Corp. - FIG

Gordon,

Please find below our updated Report of Findings on Al Rajhi Banking & Investment Corp., along with prior related Reports of Findings and correspondence. We note that as per the correspondence included below, in August 2005 Terry Pesce had cited regulatory scrutiny of account relationships involving Al-Rajhi entities. We have therefore copied her on this updated report and recommend that you discuss any potential reactivation of a banknotes relationship with Al Rajhi Banking & Investment Corp. with her and Alan Ketley, prior to any such reactivation.

Please let me know if you have any questions regarding this report.

Thank you,

Michael Ellis  
Manager, AVP - Financial Intelligence Group  
Investigative Control & Reporting Office  
452 5th Avenue, Tower 7  
New York, NY 10018

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**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7519403**

1498

Telephone: (212) 525-8931  
Fax: (212) 525-5769  
Mail Code: 31

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FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS (UPDATE)  
Research as of: 10/16/06

INVESTIGATOR: Michael Cohen

SUBJECT: Al Rajhi Banking and Investment Corp. (Al Rajhi Bank)

ENTITIES: Al Rajhi Banking and Investment Corp. (Al Rajhi Bank)

REQUESTOR: Gordon Brown

DEPARTMENT: Banknotes

An updated Report of Findings in support of Enhanced Due Diligence was conducted for the Al Rajhi Banking and Investment Corp. This is an update to previous reports prepared for this bank on 12/04 and 10/03, which are also provided below for your reference. Only items impacting adversely on money laundering, terrorist financing or other substantive criminal activity concerns will be detailed in this updated report.

We have also attached below reports on a summary investigation that we had previously conducted regarding 9/11 related litigation. Al-Rajhi Banking and Investment Corp. and several members of the Al-Rajhi family were named as defendants in this litigation, thus we are providing this summary for your reference. In addition, we have provided previous related Reports of Findings on Al Rajhi Commercial Foreign Exchange and Al Rajhi Trading Establishment from July and April 2005 respectively.

UPDATE:

Al Rajhi Banking and Investment Corp. (Al Rajhi Bank)

Most Current Ownership Breakdown Found:

Partners of the ARCCEC the predecessor (52%)  
Public (41%)  
New Founders of the Bank (5%)  
Employee's Fund (2%)  
(Bankers' Almanac, Date Accessed: 10/16/06)

No further information was found in our ordinary sources identifying the specific names of the individuals who make up the aforementioned shareholding entities.

Most Current List of Top Executives Found:

Sulaiman Bin Adulaziz Al Rajhi, Chairman and Managing Director  
Abdullah Sulaiman Al Rajhi, Chief Executive Officer  
Fahad Abdullah Al Rajhi, General Manager, Treasury and Financial Institutions  
Cassim Docrat, AGM Head, Financial Institutions  
Syed Maqbul Qader, General Manager, Corporate Group

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Rizwan Shakor, General Manager, Finance Group  
 Kishore Dash, General Manager, Investments & Private Banking  
 Anand Anchan, AGM Treasurer, Treasury Department  
 Ismail Odeah, Head of Compliance  
 Saeed Mohd Al Ghamdi, General Manager, Retail Banking  
 (Bankers' Almanac, Date Accessed: 10/16/06)

The following list of executives was found on a Dun & Bradstreet Business Information Report:

Suliman Bin Abdulaziz Al Rajhi, Chief Executive and Managing Director  
 Saleh Bin Abdulaziz Al Rajhi, Chairman  
 Ahmed Al Hosan, Director  
 Abdullah Al Suliman Bin Abdulaziz Al Rajhi, General Manager  
 Fahad Abdullah Al Rajhi, Manager  
 Salah Abdullah Abdulkhail, Deputy General Manager  
 Abdulrahman Bin Oghail, Deputy General Manager  
 Saleh Al Shaity, Branch Manager  
 Nassar Bin Mohammed Al Subaiy, Deputy General Manager  
 Ismail Hussein, Officer  
 (Dun & Bradstreet Business Information Report, Load Date: 8/24/06)

A website for the bank lists the following individuals amongst its board of directors. World-Check also confirms their positions as follows:

Saleh Abdul Aziz Al Rajhi, Director  
 Saeed Omer Qasim Alesayi, Director  
 Salah Ali Aba Al Khail, Director  
 Mohamed Abdullah Al Rajhi, Director  
 Naser Mohammed Al Subai'y, Director  
 Mohammed Osman Al Bishar, Director  
 Sulaiman Saleh Al Rajhi, Director  
 Mohammed Ibrahim Alissa, Director  
 Mohammed Abdul Aziz Al Rajhi, Director  
 Ali Mohamed Al Rajhi, Director  
 Abdullah Abdul Aziz Al Rajhi, Director  
 Abdullah Yahya Al Mouallimi, Director  
 Ali Ahmed Al Shudy, Director  
 (World-Check, Date Accessed: 10/16/06)

Notable Information Regarding the Financial Institution, its Ownership or its Top Executives, Subsequent to the Previous Report of Findings:

It was recently reported that Al Rajhi Banking and Investment Corporation changed their name to Al Rajhi Bank. The change took place in order to upgrade their brand identity while paving the way for regional and international expansion ("Middle East Company News Wire," Load Date: 10/16/06). Specifically, the bank has a license to operate in Malaysia and has announced plans to open dozens of branches there ("The Banker," 9/1/06).

It was reported that civil suits were brought in U.S. District Court on behalf of victims of the Sept. 11, 2001 attacks against many Saudi Arabian financial institutions for having involvement in terrorist financing. A U.S. District Court judge overseeing the lawsuits, dismissed Saudi Arabia and Al Rajhi Banking and Investment Corp., amongst others, as defendant's in six civil lawsuits accusing it of providing "massive" financial and logistical support to the Al-Qaeda network (www.aljazeera.com, on World-Check, Date Accessed: 1/19/05). Please see the below attached summaries of 9/11 related litigation for further details on Al Rajhi Banking and Investment Corp.'s involvement in such litigation.

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1500

Sulaiman Abulaziz Al Rajhi, the bank's Chairman and Managing Director, is listed under the "terrorism" category on World-Check. The report says that he, "financially supports terrorism and its main contributors" (World-Check, Date Accessed: 10/16/06). Details of Sulaiman Abulaziz Al Rajhi's alleged links to terrorist financing are included in the prior Report of Findings from 10/2003, which is attached below for your reference.

It was also reported by World-Check that Abdullah Abdul Aziz Al Rajhi (a member of Al Rajhi Bank's Board of Directors as per the bank's own website and World-Check) is a Politically Exposed Person (PEP) because of his political involvement as a member in the Northern Borders Provincial Council (World-Check, Date Accessed: 10/16/06). No further, specific information could be found in our ordinary sources that would confirm or detail Abdullah Abdul Aziz Al Rajhi's membership in a political party, therefore, you may wish to clarify this matter with the client.

No additional information impacting adversely on money laundering, terrorist financing or other criminal activity concerns was found subsequent to the previous Reports of Findings.

Information Found Regarding this Financial Institution, its Ownership or its Top Executives that Warrants SCC Consideration:

According to its KYC profile, Al Rajhi Banking and Investment Corp. is classified as a SCC type 2 – Connected Entity.

\*\*\* Should you find any discrepancies between the ownership and/or executives named in this report and those named in your current, up-to-date KYC information, please let us know so that we may check any differing names for items impacting adversely on money laundering, terrorist financing or other substantive criminal activity concerns.

This report is confidential and is intended solely for the use of the HSBC business to which it is addressed and those who need to know the information pursuant to that business' internal procedures. This report is not to be disseminated to any other person or entity. Our investigative findings are, in part, based upon information available to us through a variety of third-party providers at the time our search is performed. While every attempt is made to find all substantive information, we make no representation that the information provided to, or gathered by, us is complete. This is not a credit report and should not be used as a credit report. The information contained herein is intended as a supplement to the Know Your Customer information gathered by the HSBC business unit and may not be considered when determining the creditworthiness of the customer (see Regulation B, 12 CFR 202.7).

Please feel free to contact me with any questions.

Sincerely,

Michael Cohen  
Financial Intelligence Group (FIG)

Note  
10 Aug 2005 12:12

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1501

WorkGroup: COMP/ANTI-MONEY LAUNDERING Mail Size: 7164

To: Susan SALAS/BEU/HSBC@HSBC

cc: Michael Ellis/HBUS/HSBC@HSBC  
Gloria Strazza/HBUS/HSBC@HSBC  
Sally G LOMAS/HBMD/HSBCMERIDIAN@HSBC  
Daniel Jack/HBUS/HSBC@HSBC  
Subject: Report of Findings - Al-Rajhi Banking & Investment Corp. - FIG

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FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS

SUBJECT: Al-Rajhi Banking & Investment Corporation

ENTITIES: Al-Rajhi Banking & Investment Corporation

REQUESTOR: Sally Lomas

DEPARMENT: Banknotes

ACCOUNTS: Al-Rajhi Banking & Investment Corporation (Reference # [REDACTED])

An enhanced due diligence was conducted on Al-Rajhi Banking & Investment Corporation. A report of findings was sent on this company in May 2004. The objective of this report is to procure additional information subsequent to the filing date of the initial report.

Al-Rajhi Banking & Investment Corporation:

In 2004, Al-Rajhi Banking & Investment Corporation (ARAJ) filed a suit against the Wall Street Journal (WSJ). ARAJ alleges that the WSJ defamed the bank by accusing it of supporting of terrorism in article published on 2/6/02. After 30 months of active litigation, a settlement was reached, leading to the paper publishing a "clarification" and a letter from Al-Rajhi's chief executive. The clarification basically states that the article published by WSJ did not intend to imply an allegation that ARAJ supported terrorist activity, or had engaged in the financing of terrorism.

Under the terms of that settlement the WSJ paid no damages, nor was any order made prohibiting the paper from repeating the same allegations in the future.

In all, no charges stemming from the aforementioned article have been levied against ARAJ. Therefore, no substantially adverse information, subsequent to the previous report provided for this company, was found regarding ARAJ.

If you have any questions, feel free to contact the undersigned.

Sincerely,  
Steven Pichardo  
Financial Investigator (FIG)

Redacted by the Permanent  
Subcommittee on Investigations

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1502

HSBC-BNI\_E 0065725.txt  
From: DENISE A REILLY/HBUS/HSBC  
Sent: 8/29/2001 6:23:49 PM  
To: ALAN WILKINSON/HD HTV ASP/HBAP/HSBC@HSBC;QUENTIN R AYLWARD/MDBK/HSBC@HSBC  
CC: CAROLYN M WIND/HBUS/HSBC@HSBCAMERICAS;MATTHEW J W KING/HGHQ/HSBC@HSBC;ELIZABETH  
PROTOMASTRO/HBUS/HSBC@HSBCAMERICAS;  
JOHN L RICHARDS/HSBL/HSBCAPAC@HSBC  
Subject: Bank Melli

The attached document reflects the procedures that have been developed, with the advise and consent of legal counsel, to support Bank Melli payments through HBUS/HSBC. The procedure is designed to meet both regulatory and service quality requirements. Assuming that transactions sent to HBUS meet the u-turn qualifications, all transactions will be processed same day of receipt.

On Thursday of next week (6 September) we will be meeting with the Director of the Office of Foreign Assets Control and one of the agenda items is to determine their position regarding this business. In anticipation of that meeting, Carolyn Wind and I would appreciate your reviewing the document and if possible meeting with us tomorrow, 10 a.m. NY time/3 p.m. London time, via conference call to discuss. Please confirm your availability and a number where you can be contacted.

Attachment: Melli.doc.zip

Page 1

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**U-TURN PAYMENT PROCESSING FOR BANK MELLI VIA HBEU**

HBUS will process payments for Bank Melli as the originator of transactions via HBEU. As Bank Melli will appear as the originator, all transactions will be subject to OFAC review on the EP payment system.

**Assumptions:**

- A separate processing account will be established under the name of "HBEU Special Account" on HBUS books. Only Bank Melli originated transactions will pass through this account.
- Additionally, the account number of "HBEU Special Account" will be entered into the OFAC filter as a "token" so that every transaction for this account will be stopped in the OFAC queue for review and approval before processing.
- HBUS will be reimbursed for 3 FTE to be hired due to extra process burden of OFAC review for an estimated 400 transactions a day (methodology and pricing to be established).
- The "U-Turn" transactions will be formatted in accordance with SWIFT MT202 standards and will include Bank Melli as the originator as noted below:

**STEP 1:**

Bank Melli sends an MT202 to HBEU to debit their account and make a U.S. payment with full details:

<b>Originator's Bank:</b>	Bank Melli
<b>Debit Party:</b>	Bank Melli's account with HBEU
<b>Credit Party:</b>	HBEU's nostro account with HBUS
<b>Intermediary Bank:</b>	any U.S. bank via Fedwire / CHIPS
<b>Beneficiary Bank:</b>	any foreign bank which is not Iranian, not HBEU and not a foreign branch of a U.S. bank
<b>Beneficiary:</b>	party Bank Melli is remitting funds to
<b>Reference:</b>	(optional)

**STEP 2:**

HBEU sends an MT202 to HBUS to debit HBEU's account with HBUS:

<b>Originator's Bank:</b>	Bank Melli
<b>Debit Party:</b>	HBEU's nostro account with HBUS
<b>Credit Party:</b>	any U.S. bank via Fedwire / CHIPS
<b>Intermediary Bank:</b>	(not applicable)
<b>Beneficiary Bank:</b>	any foreign bank which is not Iranian, not HBEU and not a foreign branch of a U.S. bank
<b>Beneficiary:</b>	party Bank Melli is remitting funds to
<b>Reference:</b>	(optional)

1

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OFAC Filter Review Process:

1. Upon receipt of instructions from HBEU, payment will be executed as STP (straight through processing) or repair. If repair, any required corrections will be done in accordance with standard operating procedures.
2. Payment will be stopped in the EP OFAC Filter for manual review. There will be two reviews and two approvals required before the payment can be processed, as described in items (3) and (4).
3. The first reviewer will examine the payment for compliance with the "U-turn" exception under the Iranian Transactions Regulations, i.e., the wire transfer must be:
  - (1) By a foreign bank which is not an Iranian entity
  - (2) From its own account at a domestic bank
  - (3) To an account held by a domestic bank
  - (4) For a second foreign bank which is not an Iranian entity.
4. If the first reviewer confirms that payment is not prohibited by OFAC sanctions, i.e., it is permitted under the "U-turn" exception to the Iranian Transactions Regulations, the payment will be released to be verified by the second reviewer. If the reviewer determines that payment does not meet the U-turn requirement, it will be rejected back to HBEU in accordance with the Iranian Transactions Regulations and reported to OFAC as required.
5. If the second reviewer verifies and confirms that the payment meets the U-turn exception, he/she will release the payment for final processing via Book Transfer, CHIPS, or Fedwire. If the second reviewer determines that the payment does not meet with criteria for a U-turn exception, it will be rejected back to HBEU in accordance with the Iranian Transactions Regulations and reported to OFAC as required.

2

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7687348

1505

HSBC-OCC\_E 0196444.txt  
From: ALAN P WILLIAMSON/HBUS/HSBC  
Sent: 8/28/2007 5:28:08 PM  
To: CHARLES G DELBUSTO/HBUS/HSBC@HSBC;ALAN T KETLEY/HBUS/HSBC@HSBC;CHRIS P DAVIES/HBUS/HSBC@HSBC;  
CHRISTINE B JOOSTEN/HBUS/HSBC@HSBC;MICHAEL B GALLAGHER/HBUS/HSBC@HSBC  
CC:  
Subject: Re: Fw: Addressing negative information

Michael, Charlie

Thanks for including me in this dialogue. Can we also include the burden on compliance and business which comes out of the monitoring process? I believe if that could be made more focussed it would free resources required to get the cycle time down and reduce our regulatory exposure.

Alan Williamson

Charles G Delbusto/HBUS/HSBC  
08/28/2007 06:18 PM

To  
Michael B Gallagher/HBUS/HSBC@HSBC  
CC  
Alan T ketley/HBUS/HSBC@HSBC, "Alan Williamson"  
<alan.p.williamson@us.hsbc.com>, Chris P DAVIES/HBUS/HSBC@HSBC, Christine B Joosten/HBUS/HSBC@HSBC  
Subject  
Re: Fw: Addressing negative information

Comments on timing below

Charles del Busto  
Global Transaction Banking  
(T) 302 327 2100  
(F) 302 327 2128

Michael B Gallagher/HBUS/HSBC  
08/28/2007 04:43 PM

To  
Alan T ketley/HBUS/HSBC@HSBC, Charles G Delbusto/HBUS/HSBC  
CC  
"Alan Williamson" <alan.p.williamson@us.hsbc.com>, Chris P DAVIES/HBUS/HSBC@HSBC, Christine B Joosten/HBUS/HSBC@HSBC  
Subject  
Re: Fw: Addressing negative informationLink

Page 1

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1506

HSBC-OCC\_E 0196444.txt

Alan, please see below

Charlie, please confirm what have written below is correct

Michael B. Gallagher  
Executive Vice President  
Global Transaction Banking  
452 5th Avenue  
New York, NY 10018  
Tel: 212-525-5680

Alan T Ketley/HBUS/HSBC  
08/28/2007 04:38 PM

To  
Michael B Gallagher/HBUS/HSBC@HSBC  
cc  
"Alan Williamson" <alan.p.williamson@us.hsbc.com>, Charles G  
deBusto/HBUS/HSBC@HSBC, Chris P DAVIES/HBUS/HSBC@HSBC, Christine B  
Joosten/HBUS/HSBC@HSBC  
Subject  
Re: Fw: Addressing negative informationLink

I've reached out to some peers to find out the answers to these questions but  
am unlikely to get anything without sharing our own story.

Can you give me answers to 1, 2 and 4 so I can reciprocate - I only see HRCs so  
don't know how long it takes PCM to complete standard risk KYCs.

Thanks

Alan T Ketley  
SVP AML Compliance  
452 Fifth Avenue, New York, NY10018

Phone. 212-525-6147  
Fax. 212-382-7580  
Email. alan.t.ketley@us.hsbc.com

Michael B Gallagher/HBUS/HSBC  
08/28/2007 12:12 PM

To  
Alan T ketley/HBUS/HSBC@HSBC  
cc  
"Alan Williamson" <alan.p.williamson@us.hsbc.com>, Charles G  
Page 2

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1507

HSBC-OCC\_E 0196444.txt  
DeBusto/HBUS/HSBC@HSBC, Chris P DAVIES/HBUS/HSBC@HSBC, Christine  
Joosten/HBUS/HSBC  
Subject  
Re: Fw: Addressing negative informationLink

It is clear we would benefit from a meeting to either reaffirm or reset the stage. My sense is that burden is too high and we need to be clear on whether or not we operate in line with street and if not, at what cost/benefit. Our OFAC discoveries of late have been an eye-opener. I have also asked for a six sigma "lite" review of the flow, as clearly the process is taking far too long. Over the next few days we will meet with recent hires and get their take. It would be useful if your team did same with heir industry peer contacts. Questions would be:

1. how many correspondent accounts do you have I wouldn't give this answer, see
2. how many KYC staff to support our ratio is 1 exec per 120 accounts
3. approval process flow (steps)
4. time duration from start to complete. I am not sure we want to answer this, because I suspect ours take too long. Charlie, any thoughts on average, high and low? 3 months on average, high is over a year, low a couple of weeks

I'll ask Christine to coordinate something over the next 2 weeks.

MBG

Michael B. Gallagher  
Executive Vice President  
Global Transaction Banking  
452 5th Avenue  
New York, NY 10018  
Tel: 212-525-5680

Alan T Ketley/HBUS/HSBC  
08/27/2007 05:15 PM

To  
Michael B Gallagher/HBUS/HSBC@HSBC  
cc  
Charles G DeBusto/HBUS/HSBC@HSBC, Chris P DAVIES/HBUS/HSBC@HSBC, "Alan  
Williamson" <alan.p.williamson@us.hsbc.com>  
Subject  
Re: Fw: Addressing negative informationLink

Michael

I discussed your note with Alan Williamson (to whom I now report) and we will  
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1508

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be pleased to sit down and discuss this with you. The OCC examiner's expectation was very clearly articulated about addressing the negative information - if it's in the file then it needs to be addressed in the profile (it is possible that the examiner might not have picked on the 20 year old event if we'd addressed the 5 year old item.)

Feedback you can get from recent hires will be very helpful and we'd like to hear about it. While there's always the risk of comparing apples and oranges, I understand that [REDACTED] files approx 250 SARs a month in its correspondent banking area while [REDACTED] files about 40 - we run about 3-4.

Alan T Ketley  
SVP AML Compliance  
452 Fifth Avenue, New York, NY10018

Phone. 212-525-6147  
Fax. 212-382-7580  
Email. alan.t.ketley@us.hsbc.com

[REDACTED]  
Subcom [REDACTED]

Michael B Gallagher/HBUS/HSBC  
08/27/2007 03:58 PM

To  
Alan T Ketley/HBUS/HSBC@HSBC  
cc  
Charles G delBusto/HBUS/HSBC, Chris P DAVIES/HBUS/HSBC@HSBC, Denise A  
Reilly/HBUS/HSBC  
Subject  
Fw: Addressing negative information

Alan,

My sense is that we need to have a formal sit-down and re-agree what does and does not need to be included/addressed in our files. For example, in the cases that you cite below, was it the activity that was the issue (meaning they really expect comment on 20 year and 5 year old news) or was it just that we had included it but not followed up? If the second, then the issue would be to make clear what is included.

On a broader note I have met today with Gillian and Charlie and am concerned that the overall process we follow is not nearly as efficient as it needs to be. My sense - and just a sense at this point - is that we may have another "OFAC" like issue in that we multiples more sensitive than the street. Being slightly ahead of the pack is a good thing, being too far ahead introduces process burden which risks excellent on a sub-set and failure on the others we never got to while being excellent on the first batch. I have therefore asked Charlie to debrief recent hires from [REDACTED] and [REDACTED] on their processes to see what we can do.

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1509

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Michael B. Gallagher  
Executive Vice President  
Global Transaction Banking  
452 5th Avenue  
New York, NY 10018  
Tel: 212-525-5680

----- Forwarded by Michael B Gallagher/HBUS/HSBC on 08/27/2007 03:49 PM -----  
Charles G DelBusto/HBUS/HSBC  
08/27/2007 03:38 PM

To  
Michael B Gallagher/HBUS/HSBC@HSBC  
cc  
  
Subject  
Fw: Addressing negative information

Charles del Busto  
Global Transaction Banking  
(T) 302 327 2100  
(F) 302 327 2128  
----- Forwarded by Charles G DelBusto/HBUS/HSBC on 08/27/2007 03:37 PM -----  
Alan T Kettley/HBUS/HSBC  
08/27/2007 02:31 PM

To  
PSRR@HSBC  
cc  
"George Tsugranes" <george.tsugranes@us.hsbc.com>, Gillian E  
Bachstein/HBUS/HSBC, Charles G DelBusto/HBUS/HSBC@HSBC, "Judy stoldt"  
<judy.p.stoldt@us.hsbc.com>  
Subject  
Addressing negative information

All.

On Friday we met with the OCC where we heard their initial findings from their return visit to CB about their files.

Most of the sample files reviewed by the OCC were deemed satisfactory but two specific files were cited as being inadequate - both for the same reason. While neither of these files is a PCM file, I think the examiner's observation is valuable nonetheless.

In one case a current EDD RoF contained a comment about seven of the bank's staff being arrested and charged with fraud in 1986. The RoF went on to explain  
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1510

HSBC-OCC\_E 0196444.txt

that nothing further was found about this event. The business unit involved had signed off on the EDD RoF but did not specifically address this adverse news. While the OCC was not hugely concerned given that the event was over 20 years ago, they stated their expectation that the business unit sign off should mention the adverse news and include verbiage as to why it did not impact the customer's risk rating.

The other case is more serious and involves a major global bank that had some significant fraud problems at the head office level in the 2000-2002 time frame. Our customer was a standard risk subsidiary. The ALE report that was in the file was clean on our customer but contained a Report of Findings that referenced the issues with the head office - there was no evidence in the file or the profile that these issues had been considered or addressed. While we were able to show the OCC some materials from another file that showed the issues were well known and understood by HBUS, we are reminded by the OCC that all negative information uncovered during the course of our due diligence must be addressed.

As a consequence of these observations, the OCC has required that we perform further sampling of the remediation.

Please take these cases to heart and incorporate the type of analysis expected by the examiners as part of your normal process.

Alan T Ketley  
SVP AML Compliance  
452 Fifth Avenue, New York, NY10018

Phone. 212-525-6147  
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Email. alan.t.ketley@us.hsbc.com

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1511

HSBC-BNI\_E 0389617.txt  
From: MICHAEL B GALLAGHER/HBUS/HSBC  
Sent: 9/25/2006 8:37:35 PM  
To: TERESA PESCE/HBUS/HSBC  
Subject: Fw: Additional monitoring resources

Terry,

Did we leave this that you were to discuss with martin? sorry, if I am not recalling exactly where we left it.

Mbg

From: Alan T Ketley  
Sent: 09/01/2006 03:19 PM  
To: Michael Gallagher  
Subject: Fw: Additional monitoring resources

Michael

I understand that was discussed when you met with Anne and Terry, I also reviewed it with Charlie.

What's the next step?

Alan T. Ketley  
Senior Vice President, Anti Money Laundering  
Tel: 212 525 6147 / Fax: 212 382 7580  
----- Forwarded by Alan T Ketley/HBUS/HSBC on 09/01/2006 03:15 PM -----

Alan T Ketley/HBUS/HSBC  
07/28/2006 08:41 AM

To  
Michael B Gallagher/HBUS/HSBC  
Cc  
Charles G DelBusto/HBUS/HSBC@HSBC, Sandra Peterson/HBUS/HSBC@HSBC, Teresa Pesce/HBUS/HSBC@HSBC, Denise A Reilly/HBUS/HSBC@HSBC  
Subject  
RE: Fw: Additional monitoring resources

Michael

Compliance resources are allocated back to business units in a fashion that is still evolving.

Our budget process requires that we remain flat in terms of expenses from year to year but the GCL has resulted in a significant and growing increase in alert volume. When we met the other week you indicated your willingness to fund some adds to staff in compliance and there are a couple of ways that we could achieve it - either a charge back from compliance or a portion of your budget that is allocated to these Compliance heads. With your agreement in principle we can have our respective budget people work out the details.

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1512

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The additional serial payments will be ongoing so I see this as an ongoing need.

Many thanks

Alan T. Ketley  
First Vice President, Anti Money Laundering  
Tel: 212 525 6147  
Fax: 212 382 7580

Michael B Gallagher/HBUS/HSBC  
07/26/2006 11:36 AM

To  
Alan T Ketley/HBUS/HSBC  
cc  
Teresa Pesce/HBUS/HSBC@HSBC, Charles G DeBusto/HBUS/HSBC, Sandra  
Peterson/HBUS/HSBC@HSBC  
Subject  
Re: FW: Additional monitoring resources

Just so I am clear, can you clarify how, if at all, PCM "pays" for resources today, and how this would be different. Secondly, if different, is the request to allow for a variance in 06' but it would revert to standard for 07'?

Michael B. Gallagher  
EVP, Head GTB Corporates, NAFTA  
452 5th Avenue  
New York, NY 10018  
Tel: 212-525-5680

Alan T Ketley/HBUS/HSBC  
Tel: 212-525-6147  
07/24/2006 08:47 AM

To  
Michael B Gallagher/HBUS/HSBC@HSBC  
cc  
Subject  
FW: Additional monitoring resources

Michael

Have you had a chance to look at this?

Alan T. Ketley

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1513

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First Vice President, Anti Money Laundering  
Tel: 212 525 6147  
Fax: 212 382 7580  
----- Forwarded by Alan T Ketley/HBUS/HSBC on 07/24/2006 08:41 AM -----  
Alan T Ketley/HBUS/HSBC  
07/10/2006 04:01 PM

To  
Michael B Gallagher/HBUS/HSBC  
cc  
Subject  
Additional monitoring resources

Michael

When we met a couple of weeks ago you indicated a preparedness to fund a couple of compliance headcount to monitor the additional volumes of MT103s. We're working on how best to staff up to deal with the additional volumes and whether to have heads in Delaware or India. We're also awaiting some information from GHQ about the various dispensations that have been issued to group members so we will know when the additional MT103 volumes will hit - I'll share this list with you when I receive it.

On the funding issue - can we charge you back for 2 Delaware resources (on the basis that it may be more but cheaper resources that are based in India)?

Thanks

Alan T. Ketley  
First Vice President, Anti Money Laundering  
Tel: 212 525 6147  
Fax: 212 382 7580

Page 3

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1514

HSBC-BNI\_E 0396753

From: ROB MUTH/HGHQ/HSBC  
Sent: 7/19/2007 1:01:37 AM  
To: MICHAEL B GALLAGHER/HBUS/HSBC@HSBC  
CC:  
Subject: Re: HBUS GPS Day 2 and 3 Update

Michael

Good response.... I'm glad you're keeping your wits about you and keeping it in perspective..... I knew we'd turn a "sales guy" into a first class executive those many years ago when you were hired!!!

Regards,

Rob

Michael B Gallagher/HBUS/HSBC  
19/07/2007 04:55  
Mail size: 9452

To  
David Dew/HBUS/HSBC@HSBC, Carolyn M Wind/HBUS/HSBC@HSBC  
cc  
Bandula Wijesinghe/HBUS/HSBC@HSBC, Mike Ebbs/HBUS/HSBC@HSBC, James P Burke/HBUS/HSBC@HSBC, Sandra Peterson/HBUS/HSBC@HSBC, Rob Muth/HGHQ/HSBC@HSBC, Andrew P LONG/IBEU/HSBC@HSBC, Douglas MACLEAN/IBEU/HSBC@HSBC, Deborah E Talamo/HBEU/HSBC@HSBC, John P ARMSTRONG/HGHQ/HSBC@HSBC, Alan Swan/HBUS/HSBC@HSBC, Anne Liddy/HBUS/HSBC@HSBC, Janet L Burak/HBUS/HSBC@HSBC, William M Wong/HBUS/HSBC@HSBC, David W J BAGLEY/HGHQ/HSBC@HSBC, Denise A Reilly/HBUS/HSBC@HSBC, John HUDSON/HBUS/HSBC@HSBC, Paul J LAWRENCE/HBUS/HSBC@HSBC, Stephen A Tedeschi/HBUS/HSBC, Charles G deBusto/HBUS/HSBC, "Charlene Miller" <charlene.miller@us.hsbc.com>, Nancy Hedges/HBUS/HSBC  
Subject  
Re: HBUS GPS Day 2 and 3 Update  
Entity  
HSBC Holdings plc - HGHQ

David,

We are not yet out of the woods, but at the same time we had some encouraging positives today. We did close chips and fed without extension in both firsts for the week. We also seem to be on our way to a successful close far earlier than in either of the two prior days. This should put us in a position to deal with a good portion of cumulative carry over tomorrow, while teething pains continue, as we would expect in any beta site, largest contributor to inability to complete all items today (inclusive of carry over) was significant delay in system opening in each of the two prior days. Assuming we get availability between 12 and 1 tonight we will be materially advantaged.

We are learning as we go, and with a new system to the group we have to expect the unexpected. We are learning for ourselves and on behalf of group colleagues that will follow. I am more encouraged now than I have been since the beginning of the conversion. Timing of availability today will be the key. Night staff in Delaware and India are ready to go as soon as we see system availability.

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1515

Michael

HSBC-BNI\_E 0396753

From: David Dew  
Sent: 07/18/2007 11:16 PM EDT  
To: Carolyn Wind  
Cc: Bandula Wijesinghe; Mike Ebbs; James Burke; Michael Gallagher; Sandra Peterson; Rob Muth; Andrew P LONG; Douglas MACLEAN; Deborah E Talamo; John P ARMSTRONG; Alan Swan; Anne Liddy; Janet Burak; William M Wong; David W J BAGLEY; Denise Reilly; John HUDSON; Paul J LAWRENCE  
Subject: Re: HBUS GPS Day 2 and 3 Update

I appreciate that everyone is working incredibly hard but having not participated in any of the GPS meetings since midday today, I have to say that an initial read of this email gives cause for significant concern. It raises as many questions as it answers and I am sure similar concerns must be arising in the minds of the regulators. In particular, it is not clear that we are making progress in resolving o/s issues. I think we will need a clear list of issues and action taken. Let's discuss tomorrow.

From: Carolyn M Wind  
Sent: 07/18/2007 10:33 PM EDT  
To: William Johnson; Nelson Hurt; Anthony DiLorenzo  
Cc: Bandula Wijesinghe; Mike Ebbs; David Dew; James Burke; Michael Gallagher; Sandra Peterson; Rob Muth; Andrew P LONG; Douglas MACLEAN; Deborah E Talamo; John P ARMSTRONG; Alan Swan; Anne Liddy; Janet Burak; William M Wong; David W J BAGLEY; Denise Reilly; John HUDSON  
Subject: HBUS GPS Day 2 and 3 Update

Summary of HBUS GPS Implementation Update on Day 2 and 3 (17/18 July 07) of Operations for OCC/FED - Update

This is an update to the interim report provided on 17 July on Day 1 and part of Day 2 of GPS operations.

The Input/ Output proof of the 16 th was completed successfully and fully reconciled. The reconciliation, however, highlighted that some 400 CHIPS messages valued at approximately USD 600 Mn were dropped during the Sunday night issues with the CHIPS link. These have been identified and will be manually processed to credit/debit the HSBK beneficiaries. The root cause has been identified by the vendor, Fundtech, to a situation where the database lost connection with the main CHIPS interface program. A code fix to prevent a recurrence is expected shortly. However, it has been determined that recurrence of the issue should be rare.

Tuesday the 17th saw a volume of approximately 98,000 payments of which approximately 92,000 were processed successfully by the end of the day.

In the morning, payments operations experienced some software issues that affected the accounting interface to HBUS back office systems. These were tracked down to five messages that were carried forward. The interface was recovered once these messages were removed from the system. The outage was approximately two hours and did not affect the daily payment operations unduly to the extent that payment balances were available in the payment engine itself to allow effective execution. No other software issues were identified during the processing day.

The backlog of entries that resulted from the OFAC issue reported previously moved further 'downstream' from a processing point of view to Repair/Verify queues. As reported before, CHIPS/FED extensions were obtained but some 6,400 messages were 'refiled' with the processing date of 18 July valued at

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1516

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approximately 6 Bn dollars. Some user errors due to lack of familiarity of the system and one incorrect rule on an active HSBC account caused significant re repairs. These have now been largely addressed on the 18 th.

A batch processing issue arose during the night related to mail advices which were therefore not sent. Additionally the issue caused an estimated one and a half hour delay in batch run completion. The cause of the issue has been identified. Senior management has determined that this is not a time critical matter and therefore the fix can be implemented within the next two days.

The system was closed down at 1.00 AM on the 18 th and was brought back up around 4.45 AM for the processing on the 18 th. The processing on the 18 th was again handicapped by the volume of unfinished messages that were brought over from the 17 th coupled with the reduction of the time available to process the messages given that the system was not available till 4.45 AM. (Typically processing starts at 9 PM).

There were no software issues experienced on the 18 th. The day saw a volume of approximately 106,000 payments and some 103,000, including some from the carry over payments, were processed successfully by the end of the day. As many large dollar payments as practical were released during the day. However, due to the shorter processing day approximately 8,900 messages valued at approximately 2 Bn US Dollars will be carried forward for processing on the 19 th. No FED nor CHIPS extensions were sought. At the time of writing, efforts are underway to close the system earlier than the previous two days to allow for a processing day as close to normal as possible. Expected system availability is at midnight.

A further update will be provided by end of day of the 19 July.

Regards,

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1517

HSBC-BNI\_E 0396878

From: MICHAEL B GALLAGHER/HBUS/HSBC  
Sent: 7/29/2007 3:14:34 PM  
To: "BANDULA WIJESINGHE" <BANDULA.WIJESINGHE@US.HSBC.COM>  
CC: CHARLES G DELBUSTO/HBUS/HSBC; MIKE EBBS/HBUS/HSBC; STEPHEN A  
TEDESCHI/HBUS/HSBC; "SANDRA PETERSON" <SANDRA.PETERSON@US.HSBC.COM>;  
DEBORAH E TALAMO/HBEU/HSBC  
Subject: Fw: draft strawman

Bandula,

The attached is a draft of an e-mail i propose to send for all of group later this evening. I would appreciate the comments of all here addressed, especially if there are factual mistakes.  
Bandula, this may be useful in respect to the draft note you sent for review, as they seem to cover similar ground.

Charlie - we need to close my draft of with end of day stats, but not later than 6:30 or so, such that asia has pre-open.

From: Andrew P LONG  
Sent: 07/29/2007 04:15 PM GOT  
To: Michael Gallagher  
Subject: Re: Fw: draft strawman

Minor suggested editorial amendments.

Andrew

Dear Group colleagues,

As all of you are aware HSBC introduced a new payments system (GPS) on Monday, July 16th. This new Global Payment System was built to replace decade old technology, respond to competitive and regulatory requirements, and serve our global clients with a consistent and unified "joined up" system. The US was the first site to go live, with subsequent roll-outs planned for the UK and Hong Kong over the next year. We continue to believe that once the system is effectively bedded down and fully deployed, we will have one of the best payments infrastructures in the industry. Unfortunately, that is not the case at present.

The genesis of the significant problems experienced over the last two weeks was the coincidental addition of several regulatory scans within the OFAC (Office of Foreign Asset Control) filters on the day prior to system launch, which interacted in an unanticipated manner and resulted in a tripling of the manual review process. The massive spike in volume was simply not digestible on day one, in spite of around the clock work by the payments teams in the US and India. The backlog that resulted as well as the impact of a second day of excessive reviews (problem not fixed until late day 2) created a volume of failed items that was anticipated to take several days to clear.

In addition to the anticipated challenges of clearing the backlog, several new issues arose with the new system as such volumes of carry overs had not been anticipated and not all of the software required technology to create efficient solutions was not existent. Many payments could not be "rolled over" in to subsequent days and therefore the payments teams were required to cancel payments, print them to paper, and manually re-enter them before the normal system flow could begin. This process is a significant consumer of people and

Page 1

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1518

HSBC-BNL\_E 0396878

time, such that the processing of each days new volumes was daily in jeopardy. We often were having to make intraday management decisions on prior day vs current day payments, fully aware that failure on either was unwelcome.

The result has been that while we have closed with the Federal Reserve and CHIPS on time for all but the first two days, doing so has meant we failed each day on same day items, and were unable to complete all backlog items as each day created additions to the backlog pool. Throughout the past two weeks, in addition to focusing on clearing initial and subsequent backlog items, we have encountered a myriad of daily issues that one might expect with the introduction of any new system of this size. The backlog, for example, caused a process called "refile" (moving today items to tomorrow queues) which was time consuming and negatively impact normal close of day, batch runs and reconciliations, the result of this was late distribution of daily statements, especially to our Asian offices and clients.

As of the close of Friday we carried over less than 200 payments (out of 109,000 today items) and have a team of people coming in on Sunday to clear these in advance of Monday opening.

In terms of ongoing and next steps, IT and our vendor have been hard at work creating system changes and enhancements to add efficiency and correct issues within the system. We will receive a release of these technology enhancements on Saturday, which we need to test, and assuming successful, believe we will eliminate several of our ongoing efficiency issues. A list of additional enhancement has been compiled and we expect an additional release the following weekend. Such rolling enhancements would be normal in any new system.

The next big issue will be coping with the significant increase in customer service inquiries that result from our ongoing challenges. Thanks to the great work done by Group colleagues around the world, customer service inquiries and indeed escalated client issues have been far fewer than we might have expected. Your client interaction and support has paid enormous dividends in thus far lessening the volume of potential issues. Having said that, we recognize that some very significant client issues have occurred, and fully expect more will emerge as clients reconcile, hear from their clients etc., and generally lose patience.

We are enhancing our customer service capacity and working with global colleagues to leverage Group resources to assist in this process and will provide updates as to the number of inquiries and scope of issues. At this point we do not have a good estimate of the monetary impact of these issues, however we will track and report on them as we begin to collect data.

In sum, this has been an enormously challenging experience for all - our staff, our global colleagues, and most importantly the clients who trust us to execute on their behalf. We deeply regret the problem and its duration and appreciate all that you have done in supporting us and working with your customers. We are hopeful that the end is in sight and that we are back to the high level of service and support you and your clients have come to expect from us.

Please do not hesitate to escalate directly to me significant client issues so that we can ensure that we are properly prioritizing our efforts in the coming days.

Michael Gallagher

Michael B. Gallagher  
Executive Vice President  
Global Transaction Banking  
452 5th Avenue  
New York, NY 10018

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1519

Tel: 212-525-5680

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Bankwide KRI  
 AML Transaction Monitoring Alert Aging - K02854

2008													
Measures	Prev. Year Average	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Threshold	>120 Days												
Actual						1%	3%	2%	3%	2%	4%	5%	2%
Goal						2%	2%	2%	2%	2%	2%	2%	2%

2009													
Threshold	>120 Days	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Actual		3%	2%	2%	2%	3%	3%	1%	4%	4%	4%	9%	8%
Goal		2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%

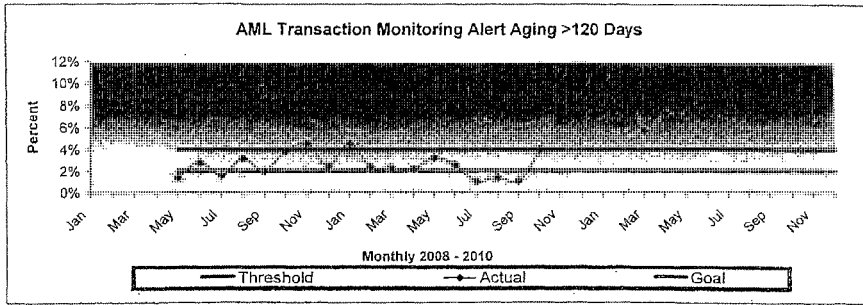
  

2010													
Threshold	>120 Days	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Actual		4%	8%	10%	6%	7%	7%						
Goal		2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%

Escalate	
6%	Mgr Name: [Redacted]
6%	Mgr Name: Lvl 3 - SMC Mgmt Member
4%	Mgr Name: Lvl 2
3%	Mgr Name: Lvl 1

Escalate	
6%	[Redacted]
6%	Janet Burzak
4%	[Redacted]
4%	[Redacted]
3%	Anne Liddy
3%	Wyndam Clark
3%	Carol Selter
3%	Gam Hughes
3%	Paul Sullivan



OpR - Key Risk Indicator (KRI) Details

Primary Risk ID	RO10588
Risk Title	Failure of the bank and/or Securities Broker-Dealer to detect suspicious activity and report such suspicious activity in a timely fashion.
Key Risk Indicator Title	AML Transaction Monitoring Alert Aging
Risk Indicator	This KRI will track the percent of alerts that exceed the average time for resolution. The first level of escalation is triggered when 3% of the alerts reach 120 days for resolution; the second level of escalation is triggered when 4% of the alerts reach 120 days and the third and fourth level of escalation is triggered when 6% of the alerts reach 120 days for resolution. Metrics should be entered into G@RDON on a monthly/quarterly basis.
Unit of Measurement	Percent of items per month
Measurement Details	Automated aging report provided by AML Project Team shows aged alerts.
Measurement Frequency	every 1 select month
Measurement Goal Level	2%
Measurement Threshold Level	75% of threshold or 3% of alerts
Escalation Level 1	select: 75% of threshold or 3% of alerts anite.ttdy@us.hsbc.com, carola.setter@us.hsbc.com, paul.fo'sullivan@us.hsbc.com, camillus.hughes@us.hsbc.com, wynciam.clark@us.hsbc.com
Escalation Level 2	select: 100% of threshold or 4% of alerts Lesley.Mdzain@us.hsbc.com, Curt.Cunha@hsbc.com
Escalation Level 3	select: 150% of threshold or 6% of alerts janet.l.burak@us.hsbc.com
Escalation Level 4	select: 150% of threshold or 6% of alerts jodi.l.richard@us.hsbc.com
KRI Target Date	09/30/08
KRI Complete Date	
Control Name	Jeanne B Buscaglia
Contact Phone	716-844-1421
Approved By SVR	Denise A. Reilly
Date Updated	
Reason Updated	

KRI Details ver#7

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1522

HSBC-BNT\_E 0025463

From: GYANEN KUMAR/HBUS/HSBC  
Sent: 6/11/2007 4:32:00 PM  
To: US BANKNOTE DEPT SALES TEAM  
CC: "HANAN OFER" <HANAN.OFER@US.HSBC.COM>; "DAVID WILENS"  
<DAVID.M.WILENS@US.HSBC.COM>; "ALAN T KETLEY" <ALAN.T.KETLEY@US.HSBC.COM>;  
"CHRISTOPHER LOK" <CHRISTOPHER.LOK@US.HSBC.COM>  
Subject: Re: Casa De Cambio Puebla

Please note that our stance to suspend business activity with CCP stands until further notice. I have discussed this with the client already.

Feel free to speak to me if you have any question.

Thanks  
Gyanen

From: Gyanen Kumar  
Sent: 05/30/2007 10:57 PM EDT  
To: US Banknote Dept Sales Team  
Cc: Hanan Ofer; David Wilens; Alan T Ketley; Christopher Lok  
Subject: Casa De Cambio Puebla

With immediate effect we are suspending all activity with the subject client.

I will speak to you in the morning with more details.

Please treat this matter as confidential..

Thanks  
Gyanen

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1523

HSBC-OCC\_E 0203248  
From: ALAN P WILLIAMSON/HBUS/HSBC  
Sent: 11/12/2007 11:52:45 AM  
To: LEOPOLDO R BARROSO/HBMX/HSBC@HSBC  
CC: DANIEL JACK/HBUS/HSBC@HSBC02; GEORGE TSUGRANES/HBUS/HSBC@HSBC  
Subject: Re: HSBC & Casa de Cambio Puebla in Mexico - Negative Press  
will do

Leopoldo R BARROSO/HBMX/HSBC  
11/12/2007 11:50 AM  
To  
Alan P Williamson/HBUS/HSBC@HSBC  
CC  
Daniel Jack/HBUS/HSBC@HSBC02, George Tsugranes/HBUS/HSBC@HSBC  
Subject  
Re: HSBC & Casa de Cambio Puebla in Mexico - Negative Press

Alan,  
I would prefer if CMP performs the search, and if a customer is found to inform and take actions with the business specifically for the particular case.

Regards  
Leopoldo

Alan P williamson/HBUS/HSBC  
12/11/2007 10:38 a.m.  
To  
Leopoldo R BARROSO/HBMX/HSBC@HSBC  
CC  
Daniel Jack/HBUS/HSBC@HSBC02, George Tsugranes/HBUS/HSBC@HSBC  
Subject  
Re: HSBC & Casa de Cambio Puebla in Mexico - Negative Press

Leopoldo  
Thanks for this, we will forward to the internal compliance group that performs such searches. To clarify, it is your understanding that we cannot share the letter with the business?  
Alan

Leopoldo R BARROSO/HBMX/HSBC  
11/12/2007 11:26 AM

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1524

HSBC-OCC\_E 0203248

To  
Daniel Jack/HBUS/HSBC@HSBC02  
CC  
Alan P Williamson/HBUS/HSBC@HSBC, George Tsugranes/HBUS/HSBC@HSBC  
Subject  
Re: HSBC & Casa de Cambio Puebla in Mexico - Negative Press

Daniel,

I could not respond earlier as I was away from the office; however for practical purposes HBMX received a seizure warrant issued by the Mexican Attorney General of all "CCP" accounts, and other presumed related parties (91 total), linked to Money Laundering counts. As at last Friday, HBMX froze all related accounts (81 customers), ceasing any banking relationship.

I am enclosing a copy of the Seizure Official Letter so that you can verify any relationship with probable involved parties in HBUS, this letter is inscribed as extremely confidential; please, limit disclosure only to CMP staff.

Will talk to you tomorrow.

Regards  
Leopoldo

[attachment "official\_Letter.pdf" deleted by Alan P Williamson/HBUS/HSBC]

Daniel Jack/HBUS/HSBC  
09/11/2007 03:43 p.m.

To  
Leopoldo R BARROSO/HBMX/HSBC@HSBC  
CC  
Alan P Williamson/HBUS/HSBC@HSBC, George Tsugranes/HBUS/HSBC@HSBC  
Subject  
HSBC & Casa de Cambio Puebla in Mexico - Negative Press

Leopoldo,

How are you?

We have reviewed this article today, which mentions CCP in Mexico. You may want to review your accounts and overall relationship in HBMX with them in light of reputational and AML-related risk.

Could you please call us on Tuesday next week (13-Nov-07) at 12:00 noon NY time, so we can briefly discuss this?

Please let us know if you have any more information regarding this MSB.

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1525

HSBC-OCC\_E 0203248

Mexico raids money laundering ring that bought drug smuggling planes in US

The Associated Press

Published: November 8, 2007

Mexican police captured a man on Thursday that they identified as the head of finances for the huge Sinaloa drug cartel. Working in conjunction with U.S. authorities, Mexican police arrested Pedro Alatorre Dany and raided a currency exchange business, targeting a ring they said used laundered money to buy airplanes to smuggle drugs, the Attorney General's Office said in a news release.

Alatorre Dany, who also used the alias Pedro Barraza Urtusuastegui, was captured in Mexico City as he tried to carry out a transaction for US\$2.7 million (€1.84 million), according to the Public Safety Department. He is being held on suspicion of money laundering. Police in Mexico generally have 48 hours to lodge formal charges against suspects.

A total of 74 people allegedly participated in the targeted money laundering ring, which apparently sent drug money to the United States to buy airplanes. One of those planes, a DC9, was seized in southern Mexico in 2006 with over 5 metric tons (5.5 U.S. tons) of cocaine aboard, while a smaller aircraft allegedly acquired by the group crashed earlier this year with over 3 metric tons (3.3 U.S. tons) of cocaine aboard. Later, police raided the Casa de Cambio Puebla money exchange business at the Mexico City international airport, and detained three employees on suspicion of money laundering.

The Sinaloa cartel, formed by an alliance of drug lords, is one of two main trafficking organizations which have engaged in a bloody battle for control of shipping routes to the U.S. market.

Thanks and regards,

Daniel Jack

VP - AML Compliance for Global Banknotes & Metals  
HSBC Bank USA, NA  
452 Fifth Avenue, 7th floor, New York, NY 10018

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Phone: 212-525-8686  
Email: daniel.jack@us.hsbc.com

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HSBC Bank plc

Memo

To Denise Reilly Geoff Armstrong		Date 14 November 2002
From Malcolm Eastwood		Sender's Reference
CC Pat Conroy Marilyn Spearing Quentin Aylward Rod Moxley Paul Proctor Steve Webster Nigel Weir John Chappenden		
Subject <b>COMPLIANCE - OFAC ISSUES IN GENERAL AND SPECIFIC TO IRAN</b>		Receiver's Reference
To Facsimile No.	From Facsimile No. 020 7260 9796	Total No. of pages

This note forms a discussion paper formulated following various conversations that have taken place over the last few weeks. As the custodian of HBEU's payments operation I currently feel that we may be exposing ourselves to unnecessary and unacceptable Reputational and Operational Risk when we are handling payments originating from FIs domiciled in or who are a local branch of an FI domiciled in an OFAC regulated country. As a result there is a need to firstly clarify both the OFAC and HBUS position with regard to these payments and then to determine/communicate the way forward to the RM and PCM Sales teams.

I would emphasise that in no way we are seeking to avoid the OFAC filtering/sequestration arrangements here. Indeed whilst HBEU are not bound by these requirements the FATF principles which are scheduled to become legislation early next year and our own payments filter which is currently being built will take us closer to the US model. I merely wish to establish which way OFAC are looking to deal with the sequestration issue so that we can plan compliance and avoid substantial potential losses which can result from the "incorrect" processing of these payments.

#### BACKGROUND CASES

The above comments are prompted by two high profile OFAC related cases seen in the last few months.

The first is a case involved Ing Bank sending a payment for USD 3M to BBVA from and to the account of the same Cuban Bank beneficiary. HBEU forwarded this payment to HBUS via the Serial Payment route. The HBUS filter identified the Cuban bene and the funds were sequestrated by OFAC. The result of all this is that we are in the closing stages of correspondence between HBEU and Ing lawyers pending a Court case between our two banks. Ing are contending that HBEU should not have sent this payment via a Serial method and that we should have converted the message to generate a cover payment which would not have then been sequestrated by OFAC. We are defending our action vigorously and have a strong case built around the fact that we "paid as instructed". Prudence dictates

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that we have found it necessary to raise a general provision of GBP 2M to cover a potential negative result if and when this goes to Court.

Continued

2

**Compliance – OFAC Issues In General And Specific To Iran**

The second case involves Iran and Bank Markazi when a payment for USD 7.5M was frozen again because the payment was sent via a Serial Route and the OFAC filter identified it as being subject to OFAC rules. Following assertions by HBEU that there was no commercial transaction involved (this was the Iranian Central Bank paying itself at another European bank ie a Money Market transaction) these funds were released but only after a couple of sleepless nights for all of us in London. I have subsequently been advised that this sequestration may have been the result of a clerical error by HBUS but this has not been confirmed to me. Nevertheless HBEU are left settling Standard Chartered's interest claim for late receipt and with an underlying feeling of uncertainty with regard to the Iranian payment issue and the subject of U Turn Payments (we believe that the above payment should have been treated as U Turn) and had thought that this practice was established in the US as a valid payment method specific to Iran.

**COMPLIANCE WITH OFAC ISSUES GENERALLY**

HBEUs historical practice has been to send these types of payments where the U Turn principal applies (ie funds are generally moving from an European bank to another European bank for the credit of an OFAC regulated entity) via the Cover Payment method. This means that the payment instruction received by HBUS contains no mention of the country or entity involved. My understanding is that this has been accepted practice for many years and that HBEU IBL hold accounts, some in USD for FIs domiciled in these countries ie Cuban, Iranian etc.

There is also evidence (the Ing Bank case being a case in point) that some other European FIs are using HBEU to transact business with these banks, primarily because the beneficiaries hold accounts with HBEU but also because they use us as a form of "Filter" for payments being made to the US. Whether we should be supporting this latter business going forward is highly questionable particularly in the light of the FATF regulations. Indeed Ing Bank will be asked to close their account shortly. I feel that there is a need for HBEU IBL to examine the accounts of these OFAC regulated customers to see if there are other examples of other banks with accounts in our books using us for this purpose.

My understanding is that OFACs tolerance of the Cover Payment method is lessening and that there is some pressure being applied to follow the Serial Payment route for all transactions (Denise can you confirm?). Clearly if this is reality this will have major implications for HBEU both from a payments processing and IBL relationship stand point. We therefore need to seek clarification of HBUS/OFACs stance so that we can determine our future payments strategy. Certainly the FATF requirements, whilst not specifying Serial instead of Cover do point toward the principle of "transparency" which the Serial Payment method would support.

Continued

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IRANIAN PAYMENTS

Turning specifically to Iran we have seen the various papers on the subject of U Turn Payments and I believe that we have a reasonable understanding of what these are. The above Markazi situation has put uncertainty in my mind on the validity of this payment method and also highlighted the fact that HBUS have yet to formally "sign off" the process described in your last note. Our conversation suggests that HBUS are now looking at another "U Turn plus" option and I would like to understand what this means for us as payment processors.

I believe that we need to resolve this issue as a matter of some urgency if we are to avoid incidents like the one highlighted above. The Iranian banks continue to send us what I describe as conditional payment instructions which for HBEU require an element of amendment by ourselves. This introduces operational risk and under FATF principles we should not be amending these payment instructions. Acceptance of these items over many years means that we are bound by the precedents currently in place, and I believe that we need to break these precedents by

1. Establishing with HBUS and OFAC the validity of the U Turn Payment principles for Iranian payments. Whether this be by U Turn or U Turn plus I would like these to be signed off by HBUS as soon as possible and certainly by no later than 31/12/02.
2. To agree a "template" payment instruction for these U Turn Payments which can be used by PCM Sales and the RM team and sent to the Iranian Banks stipulating that payments must be formatted in this way, confirming that we will be sending these via the Serial method and that any deviation from this template will be at the Iranian Banks own risk. We would also have to state that the validity of this template would be subject to any change in OFAC legislation in the US. In this way we can give ourselves a level of protection from claims relating to capital or interest which may arise from funds being sequestered or delayed as a result of OFAC seizure.

If we cannot achieve this in the short term then I will have to recommend to my General Manager a view that processing these payments is "unsafe" and that these items should be filtered out and cancelled. This would have severe repercussions for our Groups relationship within the Iranian FIs.

FUTURE BUSINESS STRATEGY

I believe that there is a need, based upon your responses, presumably formulated in conjunction with your colleagues from Compliance for HBEU to consider its business strategy for the continuation/development of its business with OFAC regulated countries. Whilst I am told that there are significant business opportunities particularly with countries such as Iran there are also substantial Reputational and Operational Risks, not to mention Financial losses associated with it.

Continued

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4

**Compliance – OFAC Issues In General And Specific To Iran**

Whilst I am not suggesting that we should discontinue these established relationships there is a need, in the light of the changing regulatory climate for us to review our position and ensure that we have a correct balance between risk and reward.

I apologise for writing at some length but there has been much happening on this front recently and I thought it appropriate to try and pull all of the somewhat fragmented information together and to share our concerns with you.

The only certainty from all of this is that we cannot delay and prevaricate in this matter for too much longer. We have seen potential losses in excess of USD 10M in the last couple of months and it is now time for HBUS to define exactly what is and what is not acceptable to them.

Your views and those of your colleagues in Compliance would be much appreciated.

Regards.

Malcolm

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1530

HSBC-BNI\_E 0378354  
From: RICHARD C BOYLE/HBUS/HSBC  
Sent: 1/9/2006 12:09:42 PM  
To: MICHAEL B GALLAGHER/HBUS/HSBC@HSBC  
CC:  
Subject: Fw: OFAC- Compliance with Sanctions GCL

Michael

I sent this to her on Friday as she was desperate for a meeting she was having with compliance tomorrow. Her feeling is that this is better coming from Group than us. I agree but after the ABN incident, I don't think we can continue to do nothing as we have been.

I'll send the Q&A and conversion guide next.

Richard C Boyle  
Global Payments and Cash Management  
HSBC Bank USA, NA  
Tel 212 525 6492  
Fax 212 525 5699

----- Forwarded by Richard C Boyle/HBUS/HSBC on 01/09/2006 12:06 PM -----

Richard C Boyle/HBUS/HSBC  
01/06/2006 12:15 PM

To  
Michele CROS/HBEU/HSBC  
CC  
Bob Shetty/HBUS/HSBC@HSBC  
Subject  
Re: OFAC- Compliance with sanctions GCL

Michele

This is something we were drafting to show Michael (who has not seen this and does not know we're working on it). Please don't share it. I'm sending it to you for background. When we do send it to him it will be with a recommendation that he send it to the CEO's with a date to convert to serial or take the cover payments to another clearer. Bob says this is not group protocol and Michael probably won't do it.

I'll send the Q & A Vlad's working on and the conversion guide next.

Rich

On December 19, 2005, US Federal and State regulators imposed fines totalling US\$ 80 mil. on ABN AMRO Bank New York. The regulators have assessed these fines based on "findings of unsafe and unsound practices; on findings of systemic defects in ABN AMRO's internal controls to ensure compliance with U.S. anti-money laundering laws and regulations, which resulted in failures to identify, analyze, and report suspicious activity and on findings that ABN AMRO participated in transactions that violated U.S. sanctions laws." (FINCEN Press Release dtd Dec 19, 2005).

Further information related to this issue can be found at the following website:

<http://www.fincen.gov/abnamro.html>

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1531

HSBC-BNI\_E 0378364

ABN AMRO Dubai used their USD nostro with ABN AMRO New York to process USD payments originated through "special procedures" that were executed in violation of US sanction laws (OFAC). Specifically, ABN AMRO Dubai used cover payments as a method of masking Iranian and Libyan financial institutions as the originators of USD wire transfers. This was based upon an illicit process that was set-up by ABN Dubai management that masked the true identity of Iranian and Libyan banks that were government owned institutions. The process was specifically designed to circumvent OFAC sanctions.

The recent regulatory actions clearly establish a precedence that the U.S. entity of a global group will be held responsible for the transactions in USD that may take place anywhere in the Group. In addition to the fines paid by ABN Amro, and Arab Bank, New York both were forced to virtually abandon their correspondent banking business as was Union Bank of California Bank. Regulatory actions have also been taken against Banco de Chile, Standard Chartered and Deutsche Bank. The Banco de Chile case provided for a cease and desist order prohibiting cover payments.

In this connection, we would like to refer you to GHQ GCL 050047 dated July 28, 2005 which states inter alia

Revised policy  
With immediate effect, all Group Offices (including those Offices incorporated or operating outside the US) must refuse to participate in any transactions and activities, or make any payments denominated in USD, which, if carried out by a US person, would be prohibited by any OFAC sanctions (except for the specific 'U-turn exemption' relating to Iranian sanctions discussed below).

When considering transactions for compliance with these sanctions, the transaction as a whole should be considered. This requires that where any transactions involve the use of cover payments (MT202s) any linked message (e.g. an MT103) should be considered together with the cover payment.

This means that in effect the Group is acting as if it is a "US citizen" in applying the OFAC sanctions and will not handle the transaction.

For purposes of full transparency in front of US regulators we urge you to the execute your commercial USD payments as serial payments in which all payment party details are advised through HSBC Bank USA, your USD correspondent. This will allow our automated transaction monitoring system to appropriately analyze all group transactions for suspicious activity that would otherwise be hidden with the cover payment method. This system goes beyond simple OFAC checking to detect repetitive transaction trends indicative of money laundering or terrorist financing. This will assure regulators we are doing everything possible to comply with their requirements.

In the past, there have been valid, customer sensitive reasons for using the cover payment method for customer remittances. These have largely been addressed with improvements to the US clearing system hours and enhancements we have made to our payments processing. Attached is a Q & A that should address any customer concerns.

Also attached is a list of transactions processed by your bank that we believe are cover payments. This should help identify the specific area in your operations whose procedures and systems should be modified to comply. This report will be provided monthly to allow you to track progress on conversion.

Richard C Boyle

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1532

HSBC-BNI\_E 0378364  
Global Payments and Cash Management  
HSBC Bank USA, NA  
Tel 212 525 6492  
Fax 212 525 5699

Michele CROS/HBEU/HSBC  
01/06/2006 11:11 AM

To  
Bob Shetty/HBUS/HSBC@HSBCAMERICAS, Richard C Boyle/HBUS/HSBC@HSBC, Michael B  
Gallagher/HBUS/HSBC@HSBCAMERICAS  
cc  
James J Y MADSEN/HBEU/HSBC@HSBC, Gary BOON/HBME/HSBC@HSBC, John  
ALLISON/HGHQ/HSBC@HSBC, David W J BAGLEY/HGHQ/HSBC@HSBC  
Subject  
OFAC- Compliance with Sanctions GCL

Gentlemen,

Could you provide some urgent assistance to help us confirm to group compliance that there would be no commercial penalty to shift to serial payment methodology for either HBUS or any other group companies. Group compliance is having a closer look at the above GCL, with more specific reference to the recently published details of the ABN AMRO Enforcement Action. They are consider whether it is appropriate, for us to move to use of serial payment methodology. Group compliance needs to give opinion to Group CEO by next friday. Appreciate your urgent reply.

Regards  
Michele

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To: Curt X Cunningham, Anthony Gibbs  
From: Carolyn M Wind, Teresa Pesce  
Date: March 7, 2005  
Report: Monthly Private Banking Compliance Report For February 2005

1. Introduction

- 

2. Compliance Incidents

(a) New Reportable Events :

(b) New Issues Arising

[REDACTED]

[REDACTED]

- [REDACTED]

Redacted by the  
Permanent Subcommittee on Investigations

(c) Update of Previous Reportable Events

- [REDACTED]

(d) Update of Previous Issues Arising

- 

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- **Personal Holding Company Bearer Share Certifications:** Ten accounts remain frozen due to missing Beneficial Ownership Letters. Relationship Managers have been notified that they have 30 days to obtain these documents or the accounts will be closed.

3. Compliance Related Audit Issues

**Redacted by the  
Permanent Subcommittee on Investigations**

4. Regulatory Reporting -- See Attached Updated Regulatory Reporting Spreadsheet

5. Compliance Initiatives

- **HPBI (Miami):**
  1. **Complex Relationships** -- Officers have been requested to provide detailed memos regarding the largest relationships. There were a total of 44 relationships, totalling 761 accounts. Memos properly document relationship between multiple accounts, purpose of each account, etc.
  2. **Updating of KYC Forms for "most active" clients** -- Officers have been requested to review and update KYC Forms for "most active" clients (those with over \$10 million in activity during prior year). A total of 93 accounts reviewed.

Both of the above mentioned reviews have been added to the annual review schedule.

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6. Compliance Test/Review Update

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7. Significant Legislative Action

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Permanent Subcommittee on Investigations

8. Customer Complaints

January 26, 2005

2005 Compliance Report Guidance

3

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9. AML Update

Suspicious Activity Report ("SARs") Statistics February 2005:

Redacted by the  
Permanent Subcommittee on Investigations

10. Resource/Training

- a. **Compliance Staff Training**  
Compliance staff have attended various AML and Industry conferences.
- b. **Business Unit Training Conducted by Compliance**
  - Business units continue to deploy the 2004 HBUS AML Video training program. As of the end of FEB05 the overall completion rate was 92%. All the business units are working towards reaching the goal of 100% by 31MAR05.
  - Regulation W (23A/23B) and Anti tying training programs are in the process of being rolled out to applicable business unit staff.
- c. **Resource Update**
  - **General Compliance:** There are three open positions as follows:
    - IPB NY Compliance team had one resignation during the month. Recruiting efforts have been initiated to fill this position. Efforts continue to fill the open DPB NY position.
    - Efforts continue to fill the open California compliance position
  - **AML Compliance:** There are five open position as follows:
    - There are currently three open positions for New York (two – IPB, one – DPB). It is anticipated that all positions will be filled by the end of 1Q05.
    - There are two open positions for Miami. Management is actively recruiting for the first opening. Expect to fill position by early 2Q05.

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7695264

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB08075960  
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7695265

Redacted Material - Bank Examination Privilege  
Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB08075961  
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7695266

1538

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CAROLYN M. WIND

Jeanne G. Ebersole  
Executive V.P. - Human Resources  
HSBC Bank USA, N.A.

January 22, 2008

Delivered By Hand

Dear Jeanne:

[Redacted]

I was told on November 30, 2007 that I was being terminated effective 2/28/08, due to the fact that the Board had lost confidence in me.

[Redacted]

David and I disagree on the extent to which my organization can withstand cost cuts and still maintain an effective compliance risk mitigation program. I also believe in an open dialog with the Board and its committees, which may go against the desires of some in the organization.

[Redacted]

If the Board has lost confidence in me based on my comments at the October, 2007 Audit Committee, why have I been allowed to continue to run this critical department without additional supervision or any direct follow-up from Group Compliance?

[Redacted]

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7730334

— = Redacted by the Permanent  
Subcommittee on Investigations



Sincerely,

A handwritten signature in cursive script, appearing to read "Carolyn", is written above the printed name.

Carolyn Wind

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7730335

1540

**From:** Ramon GARCIA  
**Sent:** Tue Nov 22 17:31:58 2005  
**To:** John F ROOT  
**Subject:** Re: Memo: Re: HBMX - COMPLIANCE ISSUES  
**Importance:** Normal  
**Attachments:** Doc Link.htm

John,

Find enclosed our answers in bold

Regards,

Ramon

As I mentioned to you Richard was made aware of a number of compliance issues during his recent, but brief visit to HBMX. It may be that a number of these are already known to you and/or in the process of being resolved, but it would be helpful to gain an understanding of where we are with regard to the following issues:-

Richard had a meeting with CNBV. There appears to be some dispute on the part of CNBV that we hold, with the impression that we would continue to hold a list of all SCCs maintained by HBMX within GHQ. Perhaps for obvious local reasons there was some sensitivity to this particularly given that those SCCs would include local politicians and members. I know that we did initially consider as part of implementation HBMX's SCC customer base, but I was not aware that we regularly receive details of their details nor were we involved in their approval.

The CNBV has only verbally raised this issued. CNBV does not want MX SCC'S information in London.

It appears that whilst credit card transactions are, or will be processed on the UK What server the routing of the relevant messages passes through the US first. If this is the case then we may still have an issue dependent on how much intervention is theoretically possible on the part of the US reg. I wonder if you could check this with Ramon and/or HB10

Whilst transactions are routed through the US where the transactions are operated for a fraction of a second for later transfer to the UK. A log file could possibly exist where this transactions could be inquired by a third party.

I was aware that credit card statements are still being printed in the US, but I wonder whether we have a definite date by which this will cease.

Credit card statements are printed in Mexico. HBMX Compliance detected that Household was having remote access to HBMX data in Whirl. We immediately told them to stop. The issue is that HBMX information is routed through the US and Household could have remote access to our information domiciled in UK.

There is apparently a Cayman Islands branch - how much knowledge do we have of this operation

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HSBC OCC 8873261

There is a Cayman Island branch for HBMA. Since there is a restriction by Mexican Law to open accounts to nationals in USD, except for those residing in the Mexico's border, as an alternative former Banco Internacional decided to open this branch where cheques accounts to Nationals could be opened in USD.  
It is also known that these USD accounts were issued also to non Mexican Nationals.

HBMA has responsibility for Panama. My recollection was that this is a local incorporation, could you confirm. Even if it is a locally incorporated entity do transactions for Panama pass through the USA TP gateway.

The USA TP gateway is currently used by Panama.

There appears to be a Premier International operation in Mexico. You can check with Shiraz, but my understanding of the Premier International Cross-border referral Programme was that existing relationships could be say, referred from France to Mexico, but where there was a genuine intended connection with Mexico (i.e. somebody moving them) and on the basis that the referral was in relation to an existing customer. There appears to be some suggestion that France are in the practice of sending walk-in referrals to Mexico.

Premier Mexico is asking the possibility for opening an account at HBMAX remotely from another country to an non HSBC customer. The immediate answer was no. Our understanding was that this product was going to be offered as an additional service to already known ESIC customers with existing relationships.

Richard was made aware of the fact that Jersey (HBIB) might be contemplating the creation of a rep. office in Mexico. Whilst this will require a GSM 3.7 process it may be worth checking with Mark Taylor precisely what is intended when he gets back to the office.

Andrea Windsor sent an e-mail to Fernando Buscuelo and myself in which is requesting the requirements for HBIB to open a rep. office in Brazil, Argentina and Mexico- as an alternative to the referral process. No further queries received.

It appears that we are likely to be fined in relation to a lack of KYC for credit card holders in this something of which we are aware.

We have not received information from the regulator in this regard.

I assume we have a Cross-border Marketing Guide template completed for Mexico, and that this requires matters to be referred to the AGO. It will be helpful if you could check and satisfy yourself that it is up-to-date.

The Cross-border Marketing is in place, was reviewed with Jociana Sheridan.

Apparently there are significant issues with regard to the use of CAMP and the moving of money laundering information cross-border - is this something which has been discussed.

1542

Daily transactions from Hagan which is the main banking application for HBMX are transferred to a text file, this same file is sent to the UK throughout an application known as Confidential Direct Security Plus, said application encrypts the text file along this traveling. Afterwards, the alerts issued by the detection process are depicted by CAMP, thus residing in the UK.

There seems to be some suggestion that Leopoldo, who I believe has just taken up the senior AML position, may be moving on. Is this something of which you have any knowledge.

David Leighton will resolve this point- he is in charge.

John F ROOT@HQ@HSBC  
22/11/2005 09:58 a.m.

To:  
Ramon GARCIA/HBMX/HSBC@HSBC  
cc:  
Subject:  
Memo: Re: HBMX - COMPLIANCE ISSUES

Any progress?

From: Ramon GARCIA/HBMX/HSBC on 18 Nov 2004 15:58

To: John F ROOT@HQ@HSBC  
cc:  
bcc:  
Subject: Re: HBMX - COMPLIANCE ISSUES

John,

I am working on the response.

Regards,

Ramon

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HSBC OCC 8873263



John F ROOT/HGHQ/HSBC  
16/11/2005 07:44 a.m.

To  
Ramon GARCIA/HBMX/HSBC@HSBC  
cc  
Subject  
HRMX - COMPLIANCE ISSUES

Ramon,

Could you provide me with answers on the issues below by tomorrow please?

Thank you.

Regards,

John Root

----- Forwarded by John F ROOT/HGHQ/HSBC on 16 Nov 2005 13:43 -----  
David W J BAGLEY/HGHQ/HSBC on 15 Nov 2005 15:27

Memo  
15 Nov 2005 15:27

From: David W J BAGLEY/HGHQ/HSBC Tel: 7991 8645  
44 2079 918645  
Mail Size: 4902  
Sent by: Marion O ROACH

To: John F ROOT/HGHQ/HSBC@HSBC  
cc:

Subject: HRMX - COMPLIANCE ISSUES

John

As I mentioned to you Richard was made aware of a number of compliance issues during his recent, but brief visit to HRMX. It may be that a number of these are already known to you and/or in the process of being resolved, but it would be helpful to gain an understanding of where we are with regard to the following issues:-

Richard had a meeting with CNEV. There appears to be some disquiet on the part of CNEV that we hold, with the impression that we would continue to

held, a list of all SCCs maintained by HBMX within GHQ. Perhaps for obvious local reasons there was some sensitivity to this particularly given that those SCCs would include local politicians and notables. I know that we did initially consider as part of implementation HBMX's SCC customer base, but I was not aware that we regularly receive details of their details nor were we involved in their approval.

It appears that whilst credit card transactions are, or will be processed on the UK Whirl server the routing of the relevant messages passes through the US first. If this is the case then we may still have an issue dependent on how much intervention is theoretically possible on the part of the US leg. I wonder if you could check this with Ramon and/or HBIO.

I was aware that credit card statements are still being printed in the US, but I wonder whether we have a definite date by which this will cease.

There is apparently a Cayman Islands branch - how much knowledge do we have of this operation.

HBMX has responsibility for Panama. My recollection was that this is a local incorporation, could you confirm. Even if it is a locally incorporated entity do transactions for Panama pass through the USA TP gateway.

There appears to be a Premier International operation in Mexico. You can check with Shiraz, but my understanding of the Premier International Cross-border Referral Programme was that existing relationships could be, say, referred from France to Mexico, but where there was a genuine intended connection with Mexico (i.e. somebody moving there) and on the basis that the referral was in relation to an existing customer. There appears to be some suggestion that France are in the practice of sending walk-in referrals to Mexico.

Richard was made aware of the fact that Jersey (HBIB) might be contemplating the creation of a rep. office in Mexico. Whilst this will require a GDM 3.7 process it may be worth checking with Mark Taylor precisely what is intended when he gets back to the office.

It appears that we are likely to be fined in relation to a lack of KYC for credit card holders - is this something of which we are aware.

I assume we have a Cross-border Marketing Guide template completed for Mexico, and that this requires matters to be referred to the ACC. It will be helpful if you could check and satisfy yourself that it is up-to-date.

Apparently there are significant issues with regard to the use of CAMP and the moving of money laundering information cross-border - is this something which has been discussed.

There seems to be some suggestion that Leopoldo, who I believe has just taken up the senior AML position, may be moving on. Is this something of which you have any knowledge.

An eclectic mix of issues with which I am sure Ramon can help.

Regards

David Bagley

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CORPORATE, INVESTMENT BANKING AND MARKETS(PRIVATE )  
AUDIT COMMITTEE: 2007  
AGENDA ITEM:

2007 COMPLIANCE REPORT TO THE CIBM AUDIT COMMITTEE

MEXICO

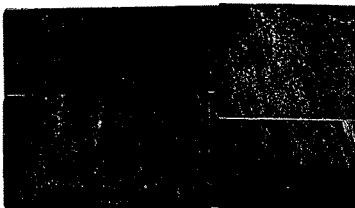
1. ISSUES ARISING

(a) NEW ISSUES

PLEASE PROVIDE UPDATE

(b) MATTERS REPORTED PREVIOUSLY

(i) HSBC Mexico SA ("HBMI")



- **CNBV Fine - failure to meet Mexican money laundering deterrence requirements (4Q06):** On 8 December 2006, a fine totaling MXN 841,464 (USD 76,013) was imposed by CNBV for failure to meet Mexican money laundering deterrence requirements following an inspection visit in September 2004. The CNBV report was issued in March 2005 and, amongst a number of issues, the findings included not considering the risk exposure of the customer to determine the appropriate visitation process, not implementing procedures to update annually the files of high-risk customers and politically exposed persons, not defining internal criteria to determine customers' risk exposure and a delay in formalising the Communication and Control Committee. This committee was established in January 2005, after the CNBV inspection, as a result of revised Mexican regulations issued in 2004 and is responsible for sending SARs to the CNBV through the Compliance Officer and for issuing money laundering deterrence policies. All the recommendations contained in the CNBV report have been implemented. HBMI's Legal

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department proposes to challenge imposition of the fine.  
PLEASE PROVIDE UPDATE IN RED TEXT

[REDACTED]

(ii) [REDACTED]

(iii) [REDACTED]

(iv) [REDACTED]

2. DEVIATIONS FROM COMPLIANCE PLAN

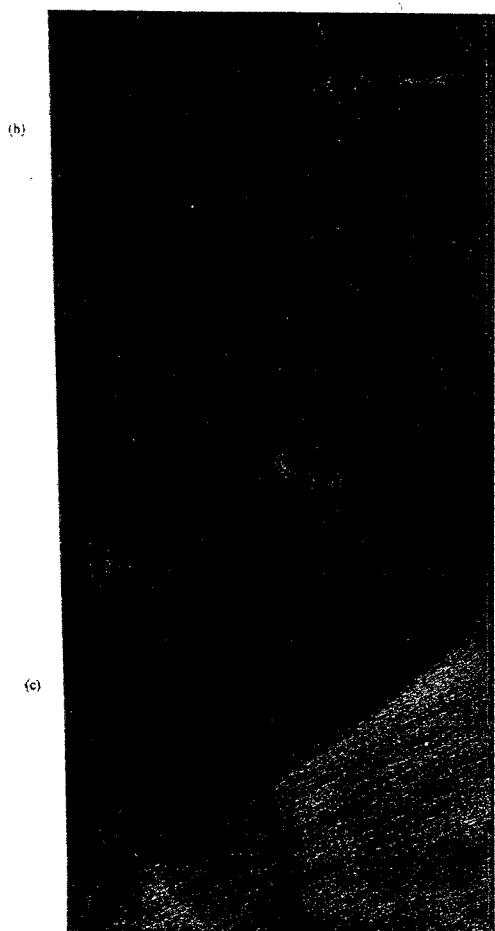
[REDACTED]

3. REGULATORY EXAMINATIONS

[REDACTED]

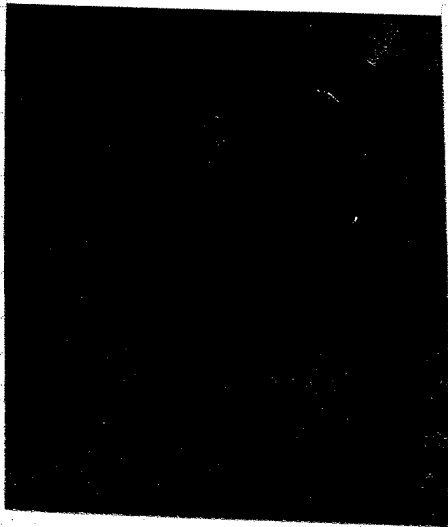
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(d)

(e)

4. RESOURCING

PLEASE ALSO COMPLETE THE RESOURCING TABLE BELOW. NOTE THAT WE NOW REQUIRE THE FIGURES TO BE SPLIT BY BUSINESS LINE.

Region/Business Line	Authorized Headcount	Actual Headcount	Comments
MEXICO:			
CIBM			
HSS			
Global Investment Business			

PLEASE PROVIDE UPDATE

The business case submitted to increase the CIBM Compliance headcount by one FTE remains under review.

From: John F ROOT  
 Sent: Mon Jan 26 09:21:00 2004  
 To: David W J BAGLEY  
 Subject: MLD REGULATORY REPORT  
 Importance: Normal  
 Attachments: image\_0.gif

David,

Below please find Ramon's views of the two recent regulatory reports on Bitat's money-laundering deterrence programme (an English translation of which has been sent to you separately).

Regards,

John Root

----- Forwarded by John F ROOT/HGHQ/HSBC on 26 Jan 2004 09:19 -----



Ramon Garcia Gibson <ramagg@bitat.com.mx> on 22 Jan 2004 19:05

"Susan.A.WRIGHT@hsbc.com" et al

To: "Susan A WRIGHT@hsbc.com" <Susan.A.WRIGHT@mhuhf.com>  
 cc: "John F.ROOT@hsbc.com" <John\_F.ROOT/HGHQ/HSBC@globalserve.com>  
 bcc:

Subject: MLD REGULATORY REPORT

Susan,

Yesterday I received two reports from the Banking Commission, regarding the two inspections of MLD controls, performed in January and August 2003.

Both reports are being already in translation. I hope to have them ready by the end of today or tomorrow morning. I am already preparing a complete time-table to address all the issues observed by the Commission.

At this moment, I have some initial comments:

The first report (January) is more aggressive than the second, in terms of the number of observations they are making. In my view, the most important issues are in regard to the operation of systems to detect suspicious transactions, and the adequacy of the existent MLD handbook

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and circulars. The first point is not a new one and I think it is being addressed by the CAMP system implementation. The second one is being attended since some months ago and it will be solved by submitting a new MID handbook (which will be ready by the 4Feb deadline).

The second report (August) is a better one, although the CNEV insists in the systems issue. They also found deficiencies in files integration which are to be corrected ASAP (for example - for personal customers in 5 out of 69 files that were reviewed the CNEV detected that the "profession" field is missing; for non-personal customers, in 17 out of 20, the CNEV did not find evidence of domiciliary visits).

CNEV is also making some points that we plan to contest, like training, where they consider that branches employees obtained negative results in an MID exam. (7.2 of 10). My point is that employees indeed failed in some questions, but those regarding technical issues (like the timeframe the Bank has to report unusual transactions) which one employee is not supposed to know. On the contrary, they answered correctly to all the questions related to core issues.

I will keep you informed.

Deadline to answer reports is 4 and 10 of February.

Regards,

Ramon

\*\*\*\*\*  
\*\*\*

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Internet communications cannot be guaranteed to be timely, secure, error or virus-free. The sender does not accept liability for any errors or omissions which arise as a result.

From: Graham THOMSON  
 Sent: Tue Oct 28 23:26:05 2008  
 To: Matthew J W KING  
 Cc: David W J BAGLEY; Emilson.ALONSO@hsbc.com.mx; Lewis J P WILSON;  
 Alfredo.BCLANDS@hsbc.com.mx  
 Subject: Fw: HBMX - Proyecto Restauracion  
 Importance: Normal  
 Attachments: image\_0.gif; Doc Link.htm; Minuta junta de cierre ProjRest - ENG.doc

Matthew

I attach for your information the self explanatory correspondence relating to the above, which outlines the results of the recent project audit completed by GAQ.

The attachments that were included in my email to Emilson have been removed as they are in Spanish, although in their place is an English translation of the closing meeting minutes.



If Lewis will keep you advised of developments.

Please let me know if you require any clarification on the foregoing.

Regards

Graham Thomson  
 Head of Group Audit Latin America & the Caribbean  
 Tel (52) 55 5721 6236

----- Forwarded by Graham THOMSON/HBMX/HSEC on 28/10/2008 04:52 p.m. -----

Emilson ALONSO/HBMX/HSEC 28/10/2008 04:48 p.m. To: Graham THOMSON/HBMX/HSEC@HSBC04  
 cc: Luis PENA KECEL/HBMX/HSEC@HSBC04, John R RENDALL/HBMX/HSEC@HSBC04, Chris R BENTLEY/HBMX/HSEC@HSBC04, Lewis J P WILSON/GAA AP/HBAP/HSEC@HSBC03, "Leonardo ARANA" <Leonardo.ARANA@hsbc.com.mx>  
 Subject: Re: HBMX - Proyecto Restauracion  
 cc:

Graham,

Thank you for the up to date. It is disappointing the result of the audit assessment. I am more concerned as this is not what I was assured by HBMX management in the last HBMX EXCO when the matter was reviewed.

Looking forward to see the final audit report.

Rds

Emilson

Graham THOMSON

----- Original Message -----

**From:** Graham THOMSON  
**Sent:** 10/28/2008 04:29 PM CST  
**To:** Emilson ALONSO  
**Cc:** Luis PENA REGEL; John R RENDALL; Chris R BENTLEY; Lewis J P WILSON  
**Subject:** HBMX - Proyecto Restauracion

Emilson

As requested I attended the recent closing meeting of the GAQ audit of the above project.

The auditors in completing their review of Phase 1 of the Project, graded its control risk as AMBER for reasons stated in the attached agenda. The detailed IPDs, which are also attached and will form the core of the audit report, have been reviewed and agreed by the business units. They had not in their final form been signed off by the project sponsor, John Rendall. Attached is a copy of the closing meeting minutes.

The key issues that were identified in the audit and which are being addressed by management include slow progress with remediating PEPs/SOCs and other high risk customers, with some 40% of the KYC records of PEPs/SOC customer segment as at 29AUG08 (internal deadline) not yet remediating. These accounts are now in the process of closure by HEMX Legal.

John Rendall in responding to the audit conclusion, expressed his frustration at the slow progress achieved by the Project team. He enquired how things could be improved and was advised that perhaps the historical resources assigned to complete the task had been underestimated. This resource issue is one of the High Risk IPDs raised by the auditors.

Separately it has been reported that checks done by CMP on visit reports completed by branch staff, which are a key component in KYC procedures for PEPs and higher risk customers, continue to reveal an unacceptable level of "manufactured" visit reports. The accuracy of these visit reports will be key in remediating the Cayman Island (CI) position as the HBMX CEO has determined that all CI customers should be treated as high risk. This situation was discussed in a further meeting that I held with Luis Pena and John Rendall on Monday, when it was confirmed that management would be applying a zero tolerance policy to offenders.

The scope of the audit did not extend to reviewing CI customer KYC. The KYC for accounts opened for CI customers will be verified centrally and remediating in Phase 2 of Project, despite those customers prior to the CEO's embargo on new business, being able to complete account opening at many of the branches and being subject to the same CNBV requirements as onshore customers. It is anticipated that the KYC for approximately 1,000 customers classified in the CI "red" segment for which files are being

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HSBC OCC 8873464

received centrally, should be remediated by 31OCT08 (an internal deadline).

Currently the business owner and compliance are still discussing with GMO CMP the product parameters that are to be applied to lift the current embargo and relaunch the CI product. It is important that these discussions result in practical product parameters as the CI portfolio is an important source of funds for HBMX and it is hoped the replacement product will be shortly submitted to the new products committee and then relaunched.

I shall forward a copy of the foregoing email with only a copy of the closing meeting minute (in English) to Matthew King and David Bagley. Before doing so, please advise if you have any comments you wish to add.

Please let me know if you require any clarification on the foregoing

Regards

Graham Thomson  
Head of Group Audit Latin America & the Caribbean  
Tel (52) 55 5721 6236

[attachment "Agenda de Cierre Proyecto de Restauración v4.doc" deleted by Emilson ALONSO/HBMX/HSBC]

[attachment "Apéndice 1.xls" deleted by Emilson ALONSO/HBMX/HSBC]

[attachment "IPDs Restauración 4 Totales.doc" deleted by Emilson ALONSO/HBMX/HSBC]

[attachment "Minuta junta de cierre v4.doc" deleted by Emilson ALONSO/HBMX/HSBC]

From: Warren G LEAMING  
Sent: Tue Dec 23 08:44:44 2008  
To: Catherine BUSSERY  
Cc: John F ROOT; David W J BAGLEY; Richard E T BENNETT  
Subject: Fw: RV: Anti Money Laundering: Shock plan - Update 081215  
Importance: Normal

Catherine

Some of the responses in blue raise more questions than they answer which I will discuss with Ramon. I know that Ramon has challenged the legal position before, the question is whether those challenges have been supported by the business. Whether freezing of accounts is illegal or not is not the question, its a risk based analysis that is required weighing the consequences of a customer bringing a small case against us versus the risk of continuing in bank customers who we think are probably money laundering!

I'll let you know how my discussion with Ramon goes.

Regards,

Warren Leaming  
DEPUTY HEAD OF COMPLIANCE-GMO CMP1 HSBC HOLDINGS PLC HSBH  
N Canada Square, Canary Wharf, London, E14 5HQ, United Kingdom

Phone: 020 7991 6287  
Fax: 020 7991 4719  
Email: warrealeaming@hsbc.com

----- Forwarded by Warren G LEAMING/GMO/HSBC on 23/12/2008 08:08 -----

Ramon GARCIA/HBMX/HSBC@HSBC04  
Dec 22 2008 18:41

Mail Size: 15990

To: Warren G LEAMING/GMO/HSBC@HSBC  
cc: Susan A WRIGHT/HGHQ/HSBC@HSBC, Jaime J SAENZ/HBMX/HSBC@HSBC04  
Subject:  
Fw: RV: Anti Money Laundering: Shock plan - Update 081215

Entity

Warren, below please find responses in blue. Regards, Ramon

----- Mensaje original -----

De: Warren GLEAMING  
Enviado: 12/16/2008 11:31 AM GMT  
Para: Ramon GARCIA  
CC: Susan A WRIGHT  
Asunto: Re: Anti Money Laundering: Shock plan - Update 08/21/05  
Ramon,

Thank you for your update. I know that Susan has commented on the SAR's analysis. My thoughts are:

I note that it is mandated to ensure appropriate remediation of accounts to which their suspension status is not at all commensurate.

[Redacted]

[Redacted]

We will have a meeting to work on a risk based approach with legal and the business segments, in order to assure that the high risk suspicious accounts are given priority for cancellation through the most efficient and less risky process. We will keep you inform on the advances on this issue.

[Redacted]

2. I understand that you have spoken to Ramon about my visit report and that items will be actioned. The most important ones appear to me to be:

- a) the status of the backlog and use of Legal to close accounts and
- b) if strict enforcement of GBP25 resulting in the closure of accounts after two SARs is to be enforced as part of the shock plan, we will need to ensure that SARs are only lodged once we have the appropriate suspicion and not just because the deadline has been breached.

All the cases reported are of Alerts of suspicious not supported. We are working close with the business segments in order to promote that the clarifications are on time, in order to comply with the timelines established by the local regulation.

I note that there is to be a focus on completing the remediation programme by the 31st January. Given that the Cayman accounts and CMB accounts have barely started this seems to be overly ambitious. Am I correct in assuming that a large number of staff have been dedicated to this role. If so are they staffed from Compliance or from the business as your resources seem stretched already.

There are 3 members of the AML Staff who are dedicated almost full time to updating and reviewing databases of thousands of accounts and doing other operational work like putting different colors to the customer files.

Redacted Material  
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depending on the degree of integration. However, the AML staff is not remediating the files directly.

Also, it is our understanding that the business segments are dedicating more resources in order to make significant advances in the remediation of accounts in this last phase of restoration.

Happy to discuss.

Regards

Warren

Ramon GARCIA/HBMX/HSBC@HSBC04  
Dec 15 2008 19:23

Mail Size: 8944

To: Warren G LEAMING/GMO/HSBC@HSBC, Susan A WRIGHT/HGHQ/HSBC@HSBC, John F RGOT/GMO/HSBC@HSBC  
cc: David W J BAGLEY/GMO/HSBC@HSBC  
Subject: Anti Money Laundering: Shock plan - Update 081215

Entity

Below please find weekly report on the subject, Regards, Ramon

----- Forwarded by Ramon GARCIA/HBMX/HSBC on 15/12/2008 01:33 p.m. -----

Eduardo MESSMACHER/HBMX/HSBC  
15/12/2008 01:18 p.m.

To: Ramon GARCIA/HBMX/HSBC@HSBC04, Lorenzo RAMIREZ/HBMX/HSBC@HSBC04, Luis ALVAREZ TRILLO/HBMX/HSBC@HSBC04, Gerardo VIGUERAS/HBMX/HSBC@HSBC04, Ignacio VERA/HBMX/HSBC@HSBC04, John R. RENDALL/HBMX/HSBC@HSBC04, Lars REIDING/HBMX/HSBC@HSBC04, Roy CAPLE/HBMX/HSBC@HSBC04, Leonardo ARANA/HBMX/HSBC@HSBC04  
cc:  
Subject: Anti Money Laundering: Shock plan - Update 081215

Based on our Dec 11 meeting

**DECISIONS TO-DATE**

Starting January 1, HSBC branches in Mexico will be "Dollar Free":

-We will no longer buy or sell dollars in cash at ANY branch (customers or non customers). We will, as an alternative, offer travelers cheques to customers only. Also customers can withdraw dollars at HSBC ATMs located at airports (starting Jan 15) or from any ATM in the world with their debit card.  
-We will no longer accept deposits of cash dollars in any account at any branch (dollars or pesos)

On January 31, 2009: All accounts of the restoration project to be properly documented. Otherwise the closure process of these accounts will begin

Before January 1, 2009: At least 4 branches will be closed as disciplinary actions. In January, some branches (10-20) will have all the staff dismissed based on suspicious activity

All accounts of Casa de Cambio or similar (including employees of Casas de Cambio) will be closed. Roy will review the list provided by Compliance to start the closure process. "Remesadoras" will be kept

The metric to be included in the BSC will be: Number of accounts with two or more SAR. The intention is that when accounts reach 2 SAR are close immediately. Compliance will track this information monthly and will provide the information for the BSC.

International clients of HSBC will be given the same treatment as domestic clients, provided proper identification is possible

Metals transactions will also be eliminated

Starting January 2009 the group will also focus on MXP transactions

<The following are directives of MG>

All staff should be made aware that if there are persistent breaches of KYC in a particular branch, the branch will be closed and all staff dismissed regardless of how much business we will lose on account of it.

Everybody (that is required to) has in their Balanced Score Card the need to implement CAMP to the maximum- including the closing of all accounts that have two or more suspicious transactions highlighted.

<Directives from EA>

Benchmark HBMX against HBBR, HBUS, HBEU and HBAP in terms of volume of suspicious transactions - Ramon - TBD

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HSBC OCC 8873477



**TO DO ITEMS TO IMPLEMENT THE PROGRAM.**

**Sundry:**

- Send Emilton and Luis the benchmark of HBMX against HBBR, HBUS, HBEU and HBAP in terms of volume of suspicious transactions - Ramon - TBD
- Visa Pre-paid Card - Leonardo - January 15
- Follow-up of closure of accounts of casas de cambio (or similar) - Ramon - December 31
- Communication strategy for high risk locations (e.g. Cd. Juarez) - Roy
- Security hotline for employees having to implement the program - Jethu

**For the January 1 deadline**

- Monitoring process for USD kept by the branches - Luis Alvarez
- Visa travel card: February 15 - Lorenzo
- Debit card for accounts in USD - January 15 - Lorenzo
- Closure of branches: 22 and 24 of december: requires managing safesboxes

**For the January 31 deadline [closure of improperly documented accounts]**

- Propose long term solution for CMB - Gerardo - TBD
- Audit of CMB files - Ramon - January 15
- Freeze of accounts improperly documented to comply with consultation with authority (Based on BR)

**TO DO ITEMS TO TRACK THE PROGRAM.**

- Weekly tracking report on the achievements of milestones - Gerardo - Weekly, by Friday
- Weekly tracking report of USD exported - Luis Alvarez - Weekly by Friday

From: David W J BAGLEY  
Sent: Tue Jan 27 05:35:07 2009  
To: Susan A WRIGHT  
Cc: David W J BAGLEY; Warren G LEAMING  
Subject: Re: Fw: Press Release  
Importance: Normal

Susan,

I think verbally we should say something along the following lines:

HSBC as a Group is committed to maintaining the highest standards of AML controls with both robust Group minimum standards, but also observance of the letter and spirit of all rules and regulations. It is clear that Mexico is facing real challenges in combating the activities of drug traffickers and those involved in illegal activity and that the Mexican Government is committed to seeking to combat these activities.

As a result HBMX in dialogue with Mexican authorities is constantly reviewing AML controls to reflect the risks of doing business in Mexico, whilst being able to support its legitimate client base. Recognising the additional risks posed by transactions in cash, particularly USD, a decision has been taken to restrict transactions by non-customers and limit the amount of cash that the bank will accept from existing customers.

We will continue to monitor the position and adjust policy as required to reflect the risks and to do all we can to avoid our services being used inappropriately.

I do think though that HDMX have to be advised to be thoughtful about the fact that there is clearly scrutiny from the North. I am surprised that HBUS still have cambio clients.

Regards

From: Warren G LEAMING  
Sent: Fri Oct 24 13:42:57 2008  
To: David W J BAGLEY  
Subject: Fw: RV: Fw: HBMX - CAYMAN ACCOUNTS  
Importance: Normal  
Attachments: image\_0.gif; Doc Link.htm

Fyi, as discussed

Regards,

**Warren Leaming**  
DEPUTY HEAD OF COMPLIANCE-GMO CMP | HSBC HOLDINGS PLC HSBH  
8 Canada Square, Canary Wharf, London, E14 5HQ, United Kingdom

Phone: 020 7991 6207  
Fax: 020 7991 4719  
Email: warren.leaning@hsbc.com

----- Forwarded by Warren G LEAMING/GMO/HSBC on 24/10/2008 13:42 -----

Warren G LEAMING/GMO/HSBC Oct 23 2008 To: Ramon GARCIA/HBMX/HSBC@HSBCOM  
10:58 Phone no. 790 16207 cc: Susan A WRIGHT/HGHQ/HSBC  
44 0 207 9016207 Mail Size: 76779 Subject: Fw: RV: Fw: HBMX - CAYMAN ACCOUNTS  
Entity

Ramon

We are corresponding separately in respect of re-launching the Cayman USD account product but could you please update us where we are on the remediation and whether John received a response from Luis?

Many thanks

**Warren Leaming**  
DEPUTY HEAD OF COMPLIANCE-GMO CMP | HSBC HOLDINGS PLC HSBH  
8 Canada Square, Canary Wharf, London, E14 5HQ, United Kingdom

Phone: 020 7991 6207  
Fax: 020 7991 4719  
Email: warren.leaning@hsbc.com

----- Forwarded by Warren G LEAMING/GMO/HSBC on 23/10/2008 10:54 -----

Adrian CRISTIANI@HSBC Oct 10 2008 To: Warren G LEAMING@MOA-SBC@HSBC  
16:45 Mail Size: 2923 cc:  
Subject: Re: RV: Fw: HBMX - CAYMAN ACCOUNTS  
Entity

Warren,

Thanks. I will follow up with the business and come back to you.

Best,

Adrian

HSBC Bank plc  
Registered Office: 8 Canada Square, London E14 5HQ  
Registered in England - Number 14259  
Authorised and regulated by the Financial Services Authority

Warren G LEAMING

----- Original Message -----

From: Warren G LEAMING  
Sent: 10/10/2008 16:39 GDT  
To: Adrian CRISTIANI  
Subject: Fw: RV: Fw: HBMX - CAYMAN ACCOUNTS

Adrian

From the attached it appears that

1. the remediation is not progressing to plan
2. the new product details are still with the business to determine the final form that it will take.

We will forward to you a response from the business when we receive it but at this stage there is little else that we can do. Very happy to discuss.

Regards,

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**Warren Learning**  
DEPUTY HEAD OF COMPLIANCE-GMO CMP | HSBC HOLDINGS PLC HSBH  
6 Canada Square, Canary Wharf, London E14 5HQ, United Kingdom

Phone 020 7961 8207  
Fax 020 7961 47 19  
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----- Forwarded by Warren G LEAMING/GMO/HSBC on 10/19/2008 15:38 -----

Ramon GARCIA/HBMX/HSBC@HSBC04 Oct 10 2008 13:10 Mail Size: 16284 To: "Warren G LEAMING" <[warren.learning@hsbc.com](mailto:warren.learning@hsbc.com)>  
cc: Subject: RE: Fw: HBMX - CAYMAN ACCOUNTS Entity

Warren, Adrian's proposal on not accepting cash has been sent it to the business as an instruction, I will follow up due compliance to it. On remediation's topic, below please find self-explanatory mail sent to Peña by Rendall, I expect to have a response from CEO today. I will send also today to business and product the instruction stating that if the product is re-launched all existing accounts have to be frozen and remediated as and when transactions occur.

Regards,

Ramon

**John R RENDALL**

----- Mensaje original -----

De: John R RENDALL  
Enviado: 10/09/2008 07:52 PM CET  
Para: Luis PERA REBEL  
CC: Leonardo ARANA; Ramon GARCIA; Gerardo VIGUERAS  
Asunto: Fw: HBMX - CAYMAN ACCOUNTS

Luis

I have become concerned about the plans for the way forward here:-

there appears to have been very limited progress with the enhanced KYC process  
our current enhanced KYC process is very onerous (c. 100 questions) and, given that staff are continuing

to do very badly on site visit reports, I am not optimistic about the likely quality of work going forward as our PLD regime becomes better joined-up we need to be careful about the risks of failures wrt Caiman processes leading to "good" customers getting classified as high risk, prompting closures etc.

Leonardo and Ramon share these concerns.

We have worked with the product team and GMC to establish revised criteria for opening new accounts - there is still more work to do on these, especially wrt agreeing limits on volumes of cash deposits.

Once we have determined a final set of cash limits rules and processes for new accounts, we will apply to old as well. I have asked CMP to work with product on whether we can safely shorten our PEPs/SCCs enhanced KYC to create a more manageable and specific process for this product category.

Finally, wrt the existing customer base, a lot of work has been done to analyse the risk profiles of the account holders. We have asked the Divisional Directors to focus on the highest risk cases - 1,314 customers (2.8%) and then the highest risk cases 2,027 cases (4.1%). The good news is that 47k (62%) are viewed as low risk. We have also deduplicated each category against the Restriction processes - to avoid doing the same processes twice over.

If we want to achieve the best balance between customer service and risk-based PLD, I believe that we need to change the plan as follows:-

implement an agreed set of new product parameters and apply the transactionality rules to the existing stock too - nb will be manual at first  
 implement a more streamlined "enhanced KYC", have it countersigned, checked in Operations and tested by sampled checks (as we are doing with site visit reports)  
 drop the enhanced kyc for existing low risk customers to allow all our efforts to be focused on the higher risk cases

While the last point sounds like a significant change, with the revised product specifications and the enhanced transactional monitoring that we now have, I believe it is a balanced and more risk-aware proposal.

If you believe this is a viable solution to the concerns expressed earlier, I would suggest that we work with GMC CMP and with LAM Audit to get their feedback and input before formally proposing as a revised plan. As we still have a month and a half to go before our deadline, I think that it is an opportune time to propose a revised plan.

I also feel that the new product should go through the New Products Committee process.

We will continue to work on the items mentioned above. Also please be reassured that as far as everyone across ten bank is concerned today, the plan is unchanged. Would welcome your thoughts.

John

Forwarded by John R RENDALL/HBAX/HSEC on 05/10/2008 09:06 p.m.

Luis PENA KEGL/HBMX/HSEC 31/07/2008 To: Erickson ALONSO/HBMX/HSEC@HSEC, David WJ

11:43 a.m.

BAGLEY/GMO/HSBC@HSBC

John R RENDALL/HBMX/HSBC@HSBC, Merlin G ROACH/HGHQ/HSBC@HSBC, Matthew J W KING/GGM/INA GHQ/HGHQ/HSBC@HSBC, Michael F GEOGHEGAN/HGHQ/HSBC@HSBC, Richard E T BENNETT/HSBH/HSBC@HSBC, Andy GENT/HBMX/HSBC@HSBC, Graham THOMSON/HBMX/HSBC@HSBC, Leonardo ARANA/HBMX/HSBC@HSBC

Subject: Re: HBMX - CAYMAN ACCOUNTS

These type of DDA Cayman accounts were being opened, offered and advertised in Mexico (the bank was fined for this recently). Mexican law prohibits Mexican banks to offer dollar denominated deposits to Mexicans, with the exception of residents in border zones. Starting this past Monday, we have cancelled this service. We will establish a process of enhanced due diligence KYC for the 35,000 customers holding USD\$400 million in DDA deposits in Cayman. We will divide these accounts amongst the 8 Divisional Directors. They KYC process will be coordinated by Compliance and will end by December 1 according. After this date we will cancel all the accounts that we were not able to complete files on and will send cashiers checks to all the respective customers. For the future, Mexicans who wish to open a dollar denominated account will undergo a referencing process, in which the accounts will be promoted and opened by the bank's staff in a proper offshore book as we do in our Premier offering. We have an additional challenge because Cayman also holds CDs of Mexican customers. The amount there is USD\$1.1 billion from 59,546 customers. We will follow the same enhanced KYC procedures, with the same December 1 deadline. Unfortunately we will likely lose some deposits as we do not expect the KYC process to succeed 100%, but we will offset a significant control and regulatory risk. Regards, Luis Peña

David W J BAGLEY--31/07/2008 10:34:58 a.m.--Richard We have been in discussions with HBMX CMP with regard to certain potentially suspicious transactions identified by you!

From: David W J BAGLEY/GMO/HSBC  
To: Richard E T BENNETT/HSBH/HSBC@HSBC  
Cc: Michael F GEOGHEGAN/HGHQ/HSBC@HSBC, Emilton ALONSON/HBMX/HSBC@HSBC, Matthew J W KING/GGM/INA GHQ/HGHQ/HSBC@HSBC, John R RENDALL/HBMX/HSBC@HSBC, Luis PEÑA KEGEL/HBMX/HSBC@HSBC  
Date: 31/07/2008 10:34 a.m.  
Subject: HBMX - CAYMAN ACCOUNTS

Richard

We have been in discussions with HBMX CMP with regard to certain potentially suspicious transactions identified by routine transaction monitoring. This initial report has widened into a more general issue as detailed below. Whilst we continue to follow up with HBMX, I think it is appropriate to provide an initial report as follows:

I am awaiting further details of the suspicious activity identified, but in brief it appears that our CAMP monitoring system identified significant USD remittances being made by a number of customers to a US company. Appropriate reports have been filed and have apparently enabled the authorities to identify significant related activity passing through other banks. This led to a review of the way in which HBMX operates USD-denominated accounts through its Cayman branch. HBMX holds a Category B banking licence in Cayman which allows them to provide banking services anywhere other than to Cayman residents. The licence, inherited from Bitai, allows HBMX to provide USD-denominated services to persons domiciled in Mexico. Mexican regulation apparently prohibits individual Mexicans (i.e. non-corporate) to hold USD-denominated deposit accounts in Mexico. The branch currently holds USD400m and 35,000 accounts. There is no physical presence in Cayman and effectively front and back office services are provided on the ground in Mexico. Although HBMX were recently fined USD50,000, for the inappropriate promotion of these services in Mexico, I am advised that CNBV are aware of the existence of the accounts and services and have raised no concerns. HBMX are however sensibly reviewing the position. I have also asked CMP to review whether there are any similar operations in LATAM. There continues to be a real focus on the level of USD-denominated activity in Mexico by CNBV and other bodies, and the extent of HBMX's activity in this area. This account base has to therefore be seen as high-risk from an AML and reputational perspective. Apparently an audit carried out in 2005 of the Cayman branch activities was rated as below standard and identified significant KYC weaknesses. It will be important to ensure that these accounts will be covered by the various account remediation processes underway in HBMX, and as a priority area. As a precaution HBMX have issued instructions that no new accounts be opened pending a review of these activities. We are also checking whether any similar activities exist in LATAM.

I will report further in due course, but thought it important to provide preliminary reports.

Regards

David Bagley

Warren G LEAMING@HSBC Oct 08 2008 To: Ramon GARCIA@HBMX@HSBC  
15:17 Phone no. 796 76207 cc: John F RODG@GMO@HSBC, Susan A WRIGHT@HQB@HSBC  
44 0 207 9616207 Mail Size: 612543 Subject: Fw: HBMX Cayman Strategy  
Entity

Ramon

Adrian Cristani, Head of Wealth Management globally has asked whether the final product proposition

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has been amended following the comments set out in my attached note. For the record he also opposes accepting cash deposits to such accounts. He is keen to ensure that business in Mexico take account of compliance concerns but that the new product be launched soon.

is there any chance that you can respond or call me today?

Many thanks,

**Warren Leaming**  
DEPUTY HEAD OF COMPLIANCE-GMO CMP | HSBC HOLDINGS PLC HSBC  
6 Canada Square, Canary Wharf, London E14 5HQ, United Kingdom

Phone 020 7991 6207  
Fax 020 7991 4719  
Email [w.leaming@hsbc.com](mailto:w.leaming@hsbc.com)

----- Forwarded by Warren G LEAMING/GMO/HSBC on 08/10/2008 15:12 -----

**Warren G LEAMING/GMO/HSBC** Oct 05 2008 To: Remon GARCIA/HBMX/HSBC@HSBC04  
17:35 Phone no. 799 16207 cc: David W J BAGLEY/GMO/HSBC@HSBC, John F  
44 0 207 9916207 Mail Size: 612064 ROOT/GMO/HSBC@HSBC, Susan A WRIGHT/HQHQ/HSBC@HSBC,  
Adrian CRISTIAN/GMO/HSBC@HSBC  
Subject: Re: HBMX Cayman Strategy  
Entity:

Remon,

Further to our discussion last night, thank you for the updated Cayman Strategy.

I also had a discussion with Adrian Cristiani this morning as to progress in both remediation of existing accounts and proposed strategy going forward and undertook to provide him with both a summary of our position and an update of progress (which the attached Strategy will provide).

For this reason I attach a copy of recent correspondence that I have had with yourself and John Rendall ??? of our advice.

Subject to any comments that Susan may wish to make (she is out of the office today but returns on Monday) it appears to me:

The proposed strategy would still allow individuals to deposit cash up to \$10,000 and for corporates to deposit cash up to \$100,000. Our advice as stated in my memo of 28 September to Maria Selezar, is that no cash deposits should be accepted to such accounts.

Would you please clarify that all existing customers will be validated against a blacklist which would include all CFAC lists and Worldcheck if you use this in Mexico.

1568

You will recall that Susan would like to review the enhanced KYC questionnaire. For Corporate customers we should complete KYC on the underlying beneficiaries and accounts should also be screened against Wulf.

In respect of the remedial exercise we would expect that all red and amber accounts are frozen to prevent any transactions on those accounts until the enhanced KYC is completed.

I am happy to discuss if you have any questions.

Regards,

Warren

Ramon GARCIA---03/10/2008 14:31:37--- Please find attached English translation to a document with our Cayman Strategy. I hope this information gives you more light o

Ramon GARCIA/HBMX/HSBC@HSBC Oct 03 2008 14:31:37: Mail Size: 561233 To: Warren G LEAMING/GMO/HSBC@HSBC, Susan A WRIGHT/HQ/HQ/HSBC@HSBC, John F ROOT/GMO/HSBC@HSBC cc: David W J BAGLEY/GMO/HSBC@HSBC Subject: HBMX Cayman Strategy Entity:

Please find attached English translation to a document with our Cayman Strategy. I hope this information gives you more light on where we are on this topic. Regards, Ramon

[attachment "Grand Cayman Strategy Update 3.ppt" deleted by Adrian CRISTIANU/GMO/HSBC]

John

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Point taken, wasn't thinking of the central Restauracion doc record keeping.

Reasoning is that they are regulated by seperate regulators and accounts are in different countries we need to be able to show that they are not Mexican accounts. If it is the same legal entity, HMNY, and the

Regards,

Warren

\*\*\*\*\*  
HSBC Holdings plc  
Registered Office: 8 Canada Square, London E14 5HQ, United Kingdom  
Registered in England number 817987

\*\*\*\*\*  
John R RENDALL

----- Original Message -----

**From:** John R RENDALL  
**Sent:** 26/09/2008 11:46 GMT  
**To:** Warren G LEAMING  
**Subject:** Re: Cayman Accounts

what is reason for keeping lyc documents separate ? My concern is that we will end up doing this badly for good exsting customers that are already well identified and trigger consequential account closure problems. Everything that we have been working towards with Restauracion is for us to identify customers properly once

John

-----  
Warren G LEAMING/GMO/HSBC/HSBC

Warren G LEAMING/GMO/HSBC/HSBC      to      Maria SALAZAR/BMW/HSBC/HSBC04

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1570

26/09/2008 10:00 a.m.

cc: John F. ROOY@SMO@HSBC, John R. RENDALL@HBMX@HSBC@HSBC04, Ramon GARCIA@HBMX@HSBC@HSBC, Susan A. WRIGHT@HGHQ@HSBC@HSBC, Warren G. LEAMING@GMO@HSBC, David W. J. HOGG@LYN@HGHQ@HSBC@HSBC  
Subject: Re: Cayman Accounts

Maria,

In response to your proposal we note:

Not only should the information from the HBMX accounts and Cayman Branch accounts be separated but in addition it should be made clear that the account opening/KYC documentation should be also held separately. You should confirm whether there is any Cayman legal requirement for it to be held in Cayman or arrangements made for it to be made available to the Cayman authorities. I understand that John Root has been giving advice in this area so that if you have not received any advice from Cayman may be able to assist.

Susan would be keen to review the enhanced KYC questionnaire.

We assume that the validation of prospective customers against blacklist would include all OFAC lists. Could you please advise what the blacklists include.

It is our recommendation that no cash deposits should be accepted to such accounts.

We agree that accounts should only be opened for existing HBMX customers who have held accounts for six months.

I would be happy to discuss further.

Regards,

Warren

Maria SALAZAR---18/09/2008 20:40:58---Warren and Susan, in order to continue opening USD Cayman accounts as requested by product area, we would be grateful if you c

Maria SALAZAR@HBMX@HSBC@HSBC04 Rep To: Warren G. LEAMING@GMO@HSBC, Susan A. WRIGHT@HGHQ@HSBC@HSBC  
18/09/2008 20:40:58 Mail Size: 3416  
cc: John F. ROOY@SMO@HSBC, John R. RENDALL@HBMX@HSBC@HSBC04, Ramon GARCIA@HBMX@HSBC@HSBC

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Subject: Cayman Accounts  
of  
Entity

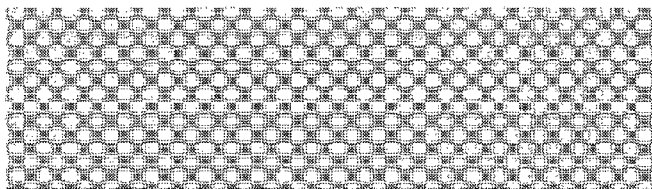
Warren and Susan,

In order to continue opening USD Cayman accounts as requested by product area, we would be grateful if you could give us an opinion on the action plan implemented in HBMX regarding these accounts.

The main issues regarding these accounts are the following:

Mexican regulations set out that USD accounts can be opened only in border zones. In order to offer USD account across the country, HBMX opened a branch located in Grand Cayman in 1990. In JUL08 CAMP monitoring system identified significant USD remittances made by a number of customers to a US company allegedly involved in supplying aircrafts to drugs cartels. SARs have been filed with the authorities. On 28JUL08 the opening of USD DDAs and CDAs located in Cayman was suspended and a review of the process followed by HBMX to operate USD accounts through its Cayman branch was commenced. On 31JUL08 HBMX CEO instructed that all customers with USD accounts located in Cayman branch should have a complete identification file and an enhanced KYC by 01DEC08. The customers were classified in order to establish priorities to complete these actions considering customers' transactional activity as follows:

**CAYMAN ACCOUNTS**



\*The information was obtained through DVM

Customers were classified according to traffic lights considering their transactional activity as follows:

- RED SSC status blacklisted people and customers with one or more reports to the authority (SARs).
- AMBER Customers alerted by CAMP system without SARs
- WHITE Customers who are not included in the two above categories.

Legal and Compliance areas have issued an opinion as follows.



CAMP HBMX requested to implement the following controls which were agreed in a working group with

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product area in order to continue offering these accounts, they will be implemented in two stages:

- All new customers should fill in an enhanced KYC Questionnaire; in case the RM does not complete the KYC timely, the account will be canceled.
- Validation of prospect customers against blacklists.
  
- Cayman accounts can be opened only by customers with 6-month old MXN Account.
- Individuals can open only one account in USD either in Cayman branch or in BDMX.
- A maximum cash deposit amount was set as follows:  
USD 10,000 for individuals  
USD 100,000 for companies
- A commission for cash deposits will be paid by customers.

We expect the above information is useful for you to give an opinion, so that product area can continue offering these accounts.

Thank you in advance and regards.

**Maria del Consuelo Salazar**  
Subdirector Compliance | HSBC México, S.A.  
Paseo de la Reforma 347, Piso 5, Col. Cuauhtémoc, México D.F., C.P. 06500

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Phone: (5255) 57 57 56 40  
Fax: (5255) 57 23 57 55  
Email: [maria.del.consuelo.salazar@hsbc.com.mx](mailto:maria.del.consuelo.salazar@hsbc.com.mx)

---

1573

From: Luis ALVAREZ  
Sent: Mon Jul 28 23:58:29 2008  
To: John F ROOT  
Cc: Ramon GARCIA  
Subject: Major Issues Outstanding  
Importance: High

John:

Please find the answer outstanding below.

Best Regards,

Luis

USD payments -- what are the results of our investigations into the high volumes from cambios and, increasingly, brokerages? Please address the David Bagley note (4 July) on the need to include brokerages (casas de bolsa) in heightened SCC procedures. Your report should include an analysis of the Cayman accounts (including the recent SARs) and also discuss the CNBV and UIF and US investigations.

Large USD Deposits:  
In order to mitigate risk in HBMX, 100K process was implemented (customers who make USD cash deposits exceeding 100k within a one-month period). It has been identified that 974 customers made cash deposits for a total amount of USD 308 Million from Jan to May. These customers are classified in our monitoring systems as high-risk customers and an enhanced KYC must be performed for them. If any customers do not meet requirements, accounts are closed.

Another action being taken is that Money-Exchange Firms (5) that have a business relationship with HBMX and Intermediary Banks are being examined by Product to decide whether to continue the relationship with the bank or not. This decision must be confirmed at the next MLD Committee meeting to be held on 31 JUL.

100K Cash Deposits:  


Expanding from other investigations, customers who possibly made money laundering activities through HBMX are identified, totaling 175.

All accounts identified in these investigations have been reported to the authorities and relevant business lines have started account closing.

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1574

procedures.

Regarding CNBV and UIF issue, it is related to an enquiry made to the Institution informing that an investigation was opened in relation to different transactions. This investigation is underway. Therefore, different data are now being provided to respond these enquiries.

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HSBC OCC 8873599



1575

From: Marion O ROACH  
Sent: Wed Feb 16 11:56:55 2005  
To: Stephen K GREEN  
Cc: Richard E T BENNETT  
Subject: DISCLOSURE LINE - HBMX CMP  
Importance: Normal

Stephen

I refer to my note of 21 JAN 05 where I gave initial notification of the serious allegations received via the Disclosure Line. The disclosure made by three members of the Compliance function allege that senior persons within the Compliance function fabricated records of certain mandatory anti-money laundering meetings and provided these false records to the local regulator CNBV.

It was agreed with Sandy Flockhart that these allegations should be investigated by the local audit function in association with GHQ CMP.

The final report has been received which confirmed the following:-

The relevant mandatory monthly meetings had not been held between July and December.

Attendance sheets and minutes were fabricated to disguise the fact that the meetings had not taken place. False records were produced in response to a request from CNBV (received during a routine examination) for sight of the relevant minutes and attendance sheets.

Two junior employees admitted involvement and knowledge of this fabrication albeit acting under instructions from Carlos Roshin (CR) the former Head of Money Laundering Deterrence within HBMX.

CR admitted giving the relevant instructions and to being solely responsible for the fabrication. To his credit CR was entirely open and candid in responding to questions and immediately tendered his resignation. This was accepted.

Ramon Garcia (RG), the Head of HBMX CMP was unaware of the fabrication, but was found to be culpable given that he had failed to ensure that the relevant meetings had taken place, particularly as he had been designated chairman of the relevant committee. RG has been given a final written warning, and will not receive any bonus or salary increase for the year ended 2004.

CNBV have been advised and it is not expected that any action will be taken. It has been agreed that I should advise FSA in a low key manner which will then hopefully close matters.

The need to closely oversee, supervise and indeed support RG on an ongoing basis is recognised and we will do what we can from GHQ CMP to assist in this regard. Overall RG has performed credibly, has worked very hard, and would otherwise be hard to replace. In the circumstances whilst we will need to keep his position under review at this stage I endorse the decision to retain his services given that his failure is limited to one of failing to supervise a very senior and trusted subordinate.

I will provide an appropriate report to GAC at the next meeting.

David Bagley

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1576

From: Ana T NUNN  
Sent: Wed May 14 16:07:47 2008  
To: Karl BARCLAY; Derek W LEATHERDALE  
Cc: David W J BAGLEY; John ALLISON; Alison N HILL  
Subject: RMM - Country Risk  
Importance: Normal

Karl,

I just tried to call you re your RMM query and hopefully we can talk later.

I believe you have sight of our Country Reputational Risk Table but, as previously discussed, unless there are some specific concerns it is not proposed to highlight the highest risk countries as a matter of course.

There are however two countries to which we would like to draw to RMM's attention on the basis of the criteria you are using:-

Venezuela - the Chávez regime and political/commercial environment in Venezuela, together with the level of corruption, presents us with a significant reputational risk when accepting and/or maintaining relationships with certain Venezuelan government/state owned bodies and also certain banks/individuals/companies who are known to be associated with and to have benefited from the Chávez regime. This is further exacerbated by the poor relationship between Venezuela and the US and Chávez's stance and support of countries deemed to be opponents of the US. It is believed that the Group will need to consider a specific policy/procedures re doing business with Venezuela to manage these risks. These risks have already been flagged, have been discussed in GRRC and a number of decisions reached to restrict certain areas of activity.

Mexico - there are specific risks in relation to pressure from the US with regard to the laundering of the proceeds of drug trafficking through Mexican casino de cambios. HBMX have a number of customers who are cambios/money service businesses (MSBs) with links to the US and consequently payments from HBMX are made through HDUS. Whilst enhanced due diligence and transaction monitoring is being implemented these are notoriously difficult businesses to monitor, particularly as in many instances their business is transacted via a multitude of agents who can vary from larger businesses to corner shops/travel agents, etc. Through the Bancino acquisition the Group also has an MSB in the US (Bancinal) which operates through a number of branches and which is managed by HSBC El Salvador. A specific review of this operation is to be arranged. With regard to Mexico, there is also US concern with regard to the amount of USD cash deposits and transactions between the US and Mexico and HBMX has been identified as one of the banks with the highest level of activity in this area. A review of our involvement in this area is currently underway within HDMX. HDMX and HDUS are also liaising with regard to MSB traffic and bank notes business.

Regards Susan Wright

P.S. We have subsequently discussed.

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1577

**From:** Michael F. GEORHEGAN  
**Sent:** Wed Jul 28 18:19:04 2010  
**To:** "Beata BARANOVA"  
**Subject:** Fw: RCC NORTH AMERICA  
**Importance:** Normal  
**Attachments:** image\_0.gif; Doc Link.htm; Senior CMP objectives 2009.doc.zip

Pp

\*\*\*\*\*

HSBC Holdings plc  
whose registered address is 8 Canada Square, London E14 5HQ, United Kingdom

\*\*\*\*\*

David W.J. BAGLEY

----- Original Message -----

**From:** David W. J. BAGLEY  
**Sent:** 07/28/2010 05:15 PM GMT  
**To:** Michael F. GEORHEGAN  
**Cc:** Douglas FLINT  
**Subject:** RCC NORTH AMERICA  
Mike

I attach a series of e-mails as requested in which I raised reservations with regard to various changes made within the Compliance function in North America, both in relation to the most recent change (where Janet assumed a combined role), but also previously when a decision was made to combine the role under Dave Gibbons during Bobby Mehta's time. My only additional comments would be:-

Concerns in relation to the most recent appointment were heightened by the fact that I had previously had real concerns about the approach taken when Dave Gibbons assumed the role on the retirement of Jim Kaufman.

This was clearly reflected in some of the feedback I got from the function when the role was combined as a combined Legal and Compliance role, detailed in one of the attached.  
I fully accepted that Sherkian, Paul and Richard had the right to make this call, although as I said to you in Vancouver I now wish I had been more vociferous, and in the current way my role operates I am confident that I would have a far stronger say.  
I have noted my assessment in the third bullet point of the note of 11th June, which given where we stand now clearly justified. All I would say is that at that stage compliance risk management was rated as 'satisfactory' by both OCC and FRB, there had been no particularly adverse audits, and in terms of cooperation and interaction with GMO CMP, Janet had acted appropriately.

David Bagley

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----- Forwarded by Manon O ROACH/HGHQ/HIBC on 28/07/2010 17:52 -----

David W J BAGLEY/HGHQ/HIBC Sent by Manon O ROACH/HGHQ/HIBC To: Richard E T BENNETT/HBHN/HIBC@HSBC  
 Apr 23 2007 17:07 Phone no 7991 8845 cc  
 +44 (2079) 20 7991 8845 Mail Size: 3279 Subject: NORTH AMERICA CMP  
 Entity

Richard

Things in North America have settled down slightly in that the temporary structure is up and running, and the review of the best way to structure matters is ongoing. I will remain closely involved in this, and have already given my views as to what issues need to be addressed in the new structure. I am however keeping in close contact with Brendan and in a conversation with him recently the following points were clarified.

He confirmed that he has now had a frank conversation with Dave Gibbons with regard to the true nature and extent of his role going forward. This is obviously considerably reduced and may even prompt a review of its package. Brendan's assessment was that there was a distinct possibility but Dave may decide the role is sufficiently diminished so as to want to move. In those circumstances Brendan fully understands that we will need a new head of compliance for North America and is open minded as to whether this should be a recruitment or secondment. Obviously it is helpful that he is open minded, but we will have to see if in fact this occurs.

Brendan made it clear that ultimately there probably is an intention to return to a single head of business for North America and that therefore in our planning of the structure and going forward we should anticipate and expect that this will ultimately be the structure.

Regards

David Bagley

----- Forwarded by Manon O ROACH/HGHQ/HIBC on 28/07/2010 17:52 -----

David W J BAGLEY/HGHQ/HIBC Sent by David W J BAGLEY/HGHQ/HIBC To: Richard E T BENNETT/HBHN/HIBC@HSBC  
 May 15 2007 07:34 Phone no 7991 8845 cc  
 +44 (2079) 20 7991 8845 Mail Size: 4668 Subject: Re: Entity

Richard,

I have given this some thought and wonder if there is in fact the need to either decide right now or raise it at a dinner next week if this will not happen until 3Q. I do not think that there are objections in principle as this is a well-established model for us as a Group but think there are number of issues on which we would

need to be comfortable before going ahead. These include:

I have a real concern that this is a very big job and if Janet is stepping up to take over LGA it is asking a lot to also ask her to take on management of all of CMP. It is hard enough being an RCO in any jurisdiction but the regulatory pressures in the US are greater than anywhere else in the Group and the mix of businesses and regulatory bodies is extremely complex. The size of the combined LGA and CMP teams would be as big a team as anywhere else in the legal and compliance. In previous discussions the key attribute for the RCO role was seen as being strong management skills as much as technical input. I have no feel for how good a manager Janet is, accepting fully her skill and experience as a lawyer. I am concerned that this may be seen as a potential cost-saving exercise at a senior level. I would have thought that at very least Janet would need someone with considerable experience underneath her to run the compliance function- is this something that has been discussed with Brendan and Paul. I am struggling to see how one person will be able to give both you and I the level of information we need functionally as well as deal with all of the issues in front of Boards and Audit Committees- this I think means that an RCO equivalent is needed under the Head.

Is this something which needs to be discussed with the Boards or Audit Committees in USA.

Should we see what the reaction of our primary regulators might be.

Other than simplifying the reporting line at the very top I am struggling to see any real advantage other than potentially a cost saving, which I am wary about for the above reasons, but can see some risks- do we want or need to do this in what is still the most difficult jurisdiction for compliance. I do recognise that we would need to find the right person for an RCO role, but would have to do this anyway even if JS was put in charge. What do you see as being the main advantage.

There are some issues between LGA and CMP and we would need to make sure that we manage these personalities should not however be allowed to get in the way if we think this is the right decision.

Regards

Regards

----- Forwarded by Marion O ROACH/HQHQ/HSBC on 28/07/2010 17:48 -----

David W J BAGLEY/GM/HSBC Sent by: Marion O ROACH/HQHQ/HSBC To: Richard E T BENNETT/HSBH/HSBC  
 Jun 11 2009 09:10 Phone no: 7991 6045 CC  
 44 0 20 7991 6045 Mail Size: 13995 Subject: HALF YEAR REVIEW - JANET  
 of

Richard

I understand that you will be conducting Janet's half-year review on a face-to-face basis in the margins of the Legal ExCo. I am also working on the basis you will do the same for Mel.

I thought, therefore, it might be helpful if I gave some feedback from a CMP perspective. The key points are:-

I have received a copy of Janet's balanced scorecard. Whilst this follows the spirit of the core RCO objectives that I set (which I intended to be standard across the function) the letter has not been followed. This is a query that I have raised with Janet. I have made it clear that regardless of precise wording I will

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Judge her performance against the same criteria as the other RCOs. A copy of our standard generic RCO objectives are attached.

Overall I was a little troubled by the absence of any form of measures of an objective nature in her BSC. Everything seemed to be based on regional CEO and your feedback. I would have thought that where specific actions were required as part of, say, a plan or numbers were involved around a budget it would be possible to set objective measures as opposed to merely judgmental matters on the part of Brendan and you.

Overall I would rate the performance of the North American Compliance function as a firm '3' but no more than this. I think matters have been handled appropriately in accordance with core Group standards although there are a number of areas where I have some concerns.

As you know, I retain concerns that combining what were four roles in North America into a single person is too much regardless of the fact that we are shrinking our activities within North America as a whole. Having said this, I can only apply the standards required and not make allowances. Specific areas of concern have been the fact that it was necessary for me to identify that a specialist AML director is required, we have had a number of operational issues in relation to OFAC compliance, it appeared that OFAC procedures within the realtion area have not been considered and I am afraid that I think the Compliance function and issues get less attention than matters legal. That, however, may be justified and as I say core standards are met.

Overall, however, the function is responsive, meets standards, and I recognise that it is sensible for me to direct enquiries other than through Janet to avoid unnecessary burden being placed upon her.

One final point is that I do think Janet travels rather a lot and I am not always sure that that travel is strictly necessary - I wonder though if this is a function of her having too many duties as opposed to that travel being excessive.

Regards

David Bagley



----- Forwarded by Mason O ROACH/HG/HQ/HSBC on 26/07/2010 17:45 -----

David W J BAGLEY/HG/HQ/HSBC Sent by: Martin O ROACH/HG/HQ/HSBC	To: Richard E T BENNETT/HSB/H/HSBC
Jun 21 2007 14:36 Phone no:7991 8645	cc:
+44 (2375) 20 7991 8645 Mail Size: 6194	Subject: North America Compliance
	Entity:

Richard

As you have seen I have liaised closely with Janet who has been extremely active in contacting the key members of the Compliance function, explaining the changes to them and seeking to provide some reassurance. The comments made to Janet directly have been relatively constructive, with perhaps the most vociferous concerns expressed by Carolyn, both from her own perspective but also from the perspective of Denise Reilly. In this latter case I think Janet has been able to take prompt steps to

reassure Denise.

I separately have spoken to both Carolyn and Lesley Midzain, I have to say that the responses given to me direct were perhaps less favourable, partly because I will not be their new line manager but also because I think they have had a little more time to think through the ramifications. It is also fair to say that their overall morale is probably also impacted by the general levels of change and uncertainty in North America across the whole business, not just Compliance.

The essence of the core points made to me are however as follows:-

They are fed up with serial management changes and the uncertainties that come with this. They do not particularly mind reporting to Legal as opposed to a Head of Risk but cannot understand why a new full time RCO is not being appointed. They point to the model elsewhere across the Group accepting that there is a report into Legal but nowhere (with the exception of Middle East) is there a lawyer who also acts as the RCO without a Compliance specialist underneath them. Arguably even in the Middle East Ian Eden performs this role in all but name. This is nothing to do with Janet they cannot see how it is justified, think a specialist Compliance Officer is required and query the capability of one person to manage a very large legal function and a Compliance function. Their concern therefore is that Compliance will be pushed down below Legal and they also think it adversely reflects upon them as individuals in that there were not seen as being fit to discharge the role of an RCO. I have done what I can in this regard, but as you know this was one of my key concerns and remains, and I did find the structure hard to defend as compared across the rest of the Group, particularly given the complexity of the regulatory environment in the US. Having said this, Carolyn, Curt and Lesley are all very experienced. There are undoubtedly some personality issues as between certainly Carolyn and Janet and some mistrust within CMP of LGA and the way they are treated and supported by LGA. I have obviously made the point that the single management of both functions will hopefully seek to address some of these divisions going forward.

There is a general credibility issue in convincing people that no further changes are envisaged and overall the impression was that they have been downgraded in importance and influence. There was a separate concern on the part of Lesley as to whether she too would be put under Annette. I see no reason for this, have no basis for suspecting that this is intended but I think it would be very adverse were there ever any suggestion that, say, within HBUS Carolyn would report to Emmerson, HBEO, Curt to Susan George and Canada Lesley to Annette. I pointed out that, say, within Hong Kong Paul Hedley doesn't report to the senior CIBM lawyer nor does Alan Ramsay report to Andrew Jackson. Further Keith Ford is Head of Legal in HBEU but Chris doesn't report to him. I will speak with Janet as this may be something we are able to explicitly address. Subsequently confirmed that this is not envisaged.

I have not copied this note to Janet as I do not want in any way to interfere what have been generally positive direct interactions, it is not surprising that at this stage people are not wholly on board and I know we are committed to giving it a try, but I would not want anybody to think that this is in any way going to be straight forward or without risk or challenge. I will continue to do everything I can to make it work, hope that it will settle down and I will continue to work closely with Janet.

Regards

David Bagley

1582

From: ANNE LIDDY/HBUS/HSBC  
Sent: 12/30/2002 3:09:36 PM  
To: DAVID W J BAGLEY/HQ/HSBC@HSBC  
Cc: CAROLYN M WIND/HBUS/HSBC@HSBCAMERICAS  
Subject: OFAC: PLC wire on behalf of Mellii Bank PLC

David, fyi.

----- Forwarded by Anne Liddy/HBUS/HSBC on 12/30/2002 03:10 PM

Elizabeth Protomastro on 30 Dec 2002 14:49  
Note  
30 Dec 2002 14:49

From: Elizabeth Protomastro Tel: 212-525-6552  
Title: Vice President Location: 452 5th Ave, Floor 07  
WorkGroup: Compliance Mail Size: 48958

To: Carolyn M Wind/HBUS/HSBC@HSBCAMERICAS  
Anne Liddy/HBUS/HSBC@HSBCAMERICAS  
Denise A Reilly/HBUS/HSBC@HSBCAMERICAS  
Subject: OFAC: PLC wire on behalf of Mellii Bank PLC

FYI, the attached payment from PLC was rejected on Friday, December 27. The originator is "Bank Mellii PLC" and the BBI field reads "Do not mention our name in NY".

I have advised Nancy's group to continue to reject such (U-turn) payments containing that message.

----- Forwarded by Elizabeth Protomastro/HBUS/HSBC on 12/30/2002 02:45 PM -----

HBUS Fax  
12/30/2002 12:16 PM

Subject: Distribution of [REDACTED] Fax from "302 636 2005"

Status: Received  
Time: December 30 2002 12:16:02  
Pages: 4  
Receiver's Name: BSA Fax  
Receiver's EID: [REDACTED]  
Receiver's ID: [REDACTED]  
Calling Fax Machine ID: 302 636 2005

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

Attachment: r0039178.tif

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1583

From: David W J BAGLEY  
Sent: Tue, Oct 28 13:08:41 2003  
To: Ajay BHANDOLA  
Cc: Gary BOON; root john f  
Subject: Memo: Re: IRAN - STRATEGY DISCUSSION PAPER  
Importance: Normal  
Attachments: image\_0.gif; image\_1.gif; Doc Link.htm

John,

Could you liaise with Gary on your initial conclusions on the Iran sanctions and the assessment of the services we are currently providing to a number of Iranian banks.

Thanks

-----  
Ajay BHANDOLA/RM/PCM MEM/HBME/HSBC on 27 Oct 2003 05:38

Memo  
27 Oct 2003 05:38



From: Ajay BHANDOLA/RM/PCM MEM/HBME/HSBC Tel: 971 4 5077745  
-----

-----  
David W J BAGLEY et al

To: David W J BAGLEY/H3HQ/HSBC@HSBC  
cc: Gary BOON/MGR/PCM MEM/HBME/HSBC@HSBC  
Re: IRAN - STRATEGY DISCUSSION PAPER

David,

As discussed on the phone there is a lot of work that Gary has already done on this in understanding OFAC regulations and possible payments processes. Can I suggest that John Root speaks to Gary as a starting point to pick his brains. Gary is travelling on business at the moment and will be back on Thu 30th Oct.

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Regards

Ajay

----- Forwarded by Ajay BHANDoola on 10/27/2008 -----

26Oct2008

Memo



To: David W J BAGLEY/HGHO/HSBC@HSBC et al

To: David W J BAGLEY/HGHO/HSBC@HSBC  
cc: Tim W O'BRIEN/CGM PLG GHQ/HGHQ/HSBC@HSBC  
John F RIGOT/HCH/HSBC@HSBC  
Steve BANNER/MGR PLG MEM/HBME/HSBC@HSBC  
Ajay BHANDoola/RM PCM MEM/HSE/HSBC@HSBC  
bcc:

From: David H HODGKINSON Tel: 971 4 5077462

Our Ref: Your Ref:

Subject: Re: IRAN - STRATEGY DISCUSSION PAPER

David,

Thank you for copying me on your note addressed to Banner

HSBC earns USD7.5m a year from its business dealings with Iran and we believe that there is significant long-term potential for growth. As we discussed at the HBME board on Thursday, we are very keen to ensure that we look at the various issues very closely and try to find an acceptable way to offer the maximum range of services possible without jeopardising the Group's position in the U.S. This new initiative was discussed with Youssef Nasser and it was he who suggested contact with Paul Lee

We very much appreciate your concerns, and those of Paul Lee, and am happy to incur some expense to investigate in the fullest way the various options with respect to USD payments and other business.

Regards,

David

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1585

From: Tony P COLLINS  
Sent: Thu Dec 18 17:17:43 2008  
To: John ALLISON  
Cc: David W J BAGLEY, Malcolm G EASTWOOD, Rod MOXLEY, Jeremy R WALKER, Nigel J WEIR,  
Geoff ARMSTRONG, Quentin R AYLWARD, Brian W RICHARDS, Gary BOON, John F ROOT, John R  
WILKINSON, Susan A WRIGHT  
Subject: Memo: Re: Iran - U-Turn Payments  
Importance: Normal  
Attachments: image\_0.gif, image\_1.gif, image\_2.gif, Mellii Pyrrt Processing.doc, Mell Rev.doc

The processing of Iranian payments and the subsequent reputational risk involved has been a major talking point during the last few years. These discussions began due to the number of Iranian payments frozen by HBUS, the subsequent pressure placed upon them by the Federal Authorities and our own fears concerning our global reputation.

OFAC Sanctions state that "US Depository institutions may handle "U-Turn" transactions ( cover payments involving Iran that are by order of a third country bank to another third country bank ), provided they do not directly credit or debit an Iranian account.". The subsequent pressure by the Federal Authorities caused HBUS to move the goal posts slightly, eventually advising that Serial Payments alone would be acceptable in order to receive full disclosure.

The political situation then changed in the wake of 9/11 which I would guess strengthened HBUS resolve for full disclosure, but whether the adoption of the original findings which have now been proposed are still valid today should be put under closer scrutiny.

During the previous 7 months RMS have investigated the Iranian issue with an open mind, taking into consideration our reputational risk, current and possibly future Iranian business and the technical, staffing and financial implications. The most important issue was obviously to ensure that we complied with current OFAC sanctions and to effect payments with the minimum of reputational risk. Cover payments met this criteria and with the proposed addition of all OFAC Sanctions to the Project Wall database and the extra security provided by the OFAC Backstop Queue in London, we believed that Cover payments were the way forward. With this in mind, we were under the impression that Group Compliance would contact Legal Counsel with a view to pursuing their agreement that Cover payments were acceptable, and to subsequently approach HBUS with a new recommendation for cover payments.

It has now been confirmed that the reason for not contacting Legal Counsel at the outset was to ensure we didn't incur legal expense without first discussing the approach with HBUS. We understand the reasoning but believe we have lost the impetus of the original plan to persuade HBUS to accept cover payments as valid payment method, agreed by both OFAC and hopefully Legal Counsel. HBUS have therefore reiterated their desire for full disclosure as per their original discussions pre 9/11.

Assuming that the example of payment formatting provided for Bank Mellii will now be duplicated for all our Iranian accounts, HBUS will therefore need to open separate processing accounts for all our current and future customers which will subsequently be entered into their OFAC filter as a "token" to ensure that every transaction is filtered for investigation.

HBUS will therefore require further FTE to process these payments but a business proposal including actual pricing has yet to be agreed. Were the 3 original FTE required for Bank Mellii payments only? If so, how many will be required for all Iranian accounts? With the deadline only a few weeks away we may find ourselves agreeing to pay costs that in the future may not prove financially sound. These costs again may rise as our Iranian customer base increases.

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If customer transfers are to be effected by MT202, the customer must input Fd 56 to ensure that MPS processes the payment through the serial method. It is possible that if Fd 56 is left blank, MPS will send out 2 x MT202s by the cover method.

Will all our Iranian customers be required to sign "Terms and Conditions" explaining that HSBC will not be liable for any payments we process using an MT100 series payment method? What stance will we take with those customers who don't wish to sign?

MPS cannot locate specific payment types for a specific customer base and send them to a repair queue. Therefore the only option would be to set a marker on all the Iranian accounts and manually check each payment. If no action is taken, an MT103 from Bank Mellat could still STP causing an automated cover payment to be effected via the US. If MPS cannot be amended, where will the onus of checking each payment lay? Which ever department is chosen for this task, time will be required for a business plan to be investigated to discuss future staffing levels and costs.

As it is illegal to tamper or amend a payment instruction as it may be deemed as "side-stepping" current sanctions, what action will be taken by Livingston/Global when an illegally sent MT103 fails to repair due to a formatting issue other than the payment being a 103? It will also be necessary to re-educate our customers with regard to formatting and especially Field 72 with the commonly used statement "Do not mention Iran". There is also the legal implications concerning interest claims if HBUS hold a valid MT202 payment for further investigation. Who will pay these costs when both the customer and HBEU believe the payment complies with OFAC sanctions?

For the serial method to have any chance of success, it will require our correct interpretation of a U-Turn transaction for every single payment, a full business proposal to include staffing levels in HBUS and HBEU plus costings and the agreement of the customer. Due to many banks closing their Iranian business, I would expect our customer base to increase significantly when they realise that HSBC is happy to process USD payments. This also causes concern.

In conclusion, this method will require an extremely difficult manual process which takes us one step back in our fight for STP. Group Compliance have advised that "Due to the current regulatory climate, all payments must be transparent" which increases the likelihood of HBUS seeing something they don't like and holding funds for investigation/freezing assets. With regard to U-Turn payments, it all comes down to interpretation. In addition, there is an extremely limited amount of time available to set the required wheatis in motion. My view is that the serial method requires a large amount of work prior to commencement, a disproportionate amount of expense and a higher than average risk to the banks reputation being damaged by a future payment.

Regards

Tony

-----  
Susan A WRIGHT/HQ/HO/HSBC on 11 Dec 2003 17:30



Memo

11 Dec 2003 17:30

From: Susan A WRIGHT/HQ/HQ/HSC

Tel: 7992 3354  
44 2079 925554

11/11/03 17:30

To: Nigel J WEIR, et al

To: Nigel J WEIR/RM ID MEM/HQ/HSC@HSC  
Geoff ARMSTRONG/HBEU/HSC@HSC  
Quentin R AYLWARD/DMD/K/HSC@HSC  
Brian W RICHARDS/SMB/K/HSC@HSC  
Rod MCXLEY/HBEU/HSC@HSC  
Clary BOON/MGR PCM MEM/HQ/HSC@HSC  
John F ROOT/HQ/HSC@HSC  
John A L IRON/HQ/HQ/HSC@HSC  
Mairiam G EASTWOOD/SB/K/HSC@HSC  
John R WILKINSON/HBEU/HSC@HSC  
Jeremy R WALKER/HBEU/HSC@HSC  
Tony P COLLINS/HBEU/HSC@HSC  
David W J BAGLEY/HQ/HQ/HSC@HSC

cc:

Subject: Re: Iran - U-Turn Payments

Further to my recent emails please find attached the proposed U-turn process/procedures forwarded by Carolyn Wind.

Could you please advise John Alison of your comments as soon as possible. It may be worthwhile convening another conference call and if you would like us to arrange this please let me know.

Regards

Susan Wright



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1588

From: Nigel WHITE  
Sent: Wed, Sep 22, 15:41:53 2008  
To: Iain STEWART  
Cc: Marilyn H SPEARING; Alan RAMSAY; Makutini G EASTWOOD; Geoff ARMSTRONG; Phil BAINES;  
David W J BAGLEY; John ALLISON; Nigel J WEIR; Rod MOXLEY; Ajoy BHANDOOJA  
Subject: Iranian U Turn Payments  
Importance: High  
Attachments: image\_0.gif; image\_1.gif; image\_2.gif; IRANIAN PAYMENT PROCESSING  
PROPOSALS.doc; GHQ CMP Comments re Iran U Turn Payments.doc; Response from Phil Baines to  
compliance comments re Iran U Turn Payments.doc

Iain

Discussions on the question of Iranian U Turn payments have now been completed, and the attached  
paper provides recommendations for their future handling. The proposal is to continue to provide this  
service, subject to the processes detailed in the document.

Our objectives - within that decision of continuing the service - are as follows:

1. To protect the Bank by avoiding actions which might lead to us being accused of deliberately  
circumnavigating the US OFAC legislation.
2. To ensure that traffic directed to HBUS complies with OFAC legislation and specifically the disclosure  
rules, to protect our US licence.
3. To place the sequestration risk with the Iranian banks rather than ourselves as far as all non-Group US  
Bank traffic is concerned.

The proposal has been reviewed by GHQ Compliance, which unit made a number of comments. These  
are attached below for your reference and have been addressed via an e-mail response from Phil  
Baines. This is also attached below.

In summary, all involved parties have signed off on the proposal, and the next step is for GHQ  
Compliance to engage with their colleagues in HBUS to obtain their agreement.

I will be grateful to receive your endorsement, and approval to request GHQ CMP to execute that next  
step.

Regards

Nigel



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HSBC OCC 8874024

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HSBC OCC 8874025



1591

**HSBC BANK PLC**

**IRANIAN PAYMENT**

**PROCESSING PROPOSALS**

**JULY 2004**

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HSBC OCC 8874026

This paper sets out the arrangements currently in place for the processing of payments originating from Iranian Financial Institutions highlighting risk areas and suggesting some changes to existing practices

#### **Background**

There are currently US originated OFAC sanctions against Iran but these are not mirrored by UN, UK or EU sanctions and therefore not binding in respect of payments made by HBEU. There is however an impact if these payments are made in USD or enter US jurisdiction

A number of years ago a procedure was devised whereby Iranian FI customers put a cautionary note on their payments in Field 72 saying typically "Do not mention Iran". The payments fell to a repair queue where HSBC operators remove references to Iran to prevent possibility of sequestration by the US authorities in New York. Other warning messages inserted include "care sanctioned country", "do not route via the USA" and "we take no responsibility for this payment". It should be stressed that the vast majority of payments are valid, falling within the U-turn exception payments which are permissible by the US authorities. In any event, such transactions would be deemed to be bona fide under EU or UK legislation. The processing of these payments using the cover rather than serial routing effectively removes any mention of Iran from the majority of these payments when they leave HBEU. Many of these payments are in favour of customers of the HSBC Group or HSBC Group entities themselves.

The Iranian banks who have used this practice are Bank Melli Iran, Bank Markazi, Bank Tejarat, Bank Kesharvazi and Export Development Bank of Iran.

The vast majority of payments have been successfully effected, although more stringent filtering in US by the US Banks and, driven by the Fed, has meant that more payments were being frozen or investigated particularly following 9/11. This culminated in a Bank Markazi payment for USD7.5m in October 2002 which would have been sequestrated at HBUS but for the personal intervention of HBEU Senior Manager Payments.

#### **Iranian Payments**

This payment had been sent by the serial route and it is still uncertain as to whether the freezing had been precipitated by OFAC or a clerical error within HBUS. This incident brought into focus the risk associated with making these payments and the need for a greater understanding of valid or U-turn payments versus those which could be seized.

HBEU had already been proactively pursuing an alternative processing solution after being prompted by a Compliance Officer visit in June 2002, when the above practice was challenged. In the knowledge of a tightening of the Fed's approach to sanction legislation, which has prompted a small number of banks to exit this business and others to be subject to financial penalties, our primary aim is to find a means of continuing to support payment processing for our Iranian customers, whilst managing operational and reputational risk within acceptable levels. It should also be mentioned that there remain some US banks active in this market.

**Current position**

- We understand that Deputy Chairman HBME (Hodgkinson) and HBEU have been communicating to confirm there is a definite appetite for this business and obtain suitable sign-off. We have not seen evidence of the outcome of these discussions although we note the supportive email received from Robert Gray dated 21 June 2004 and the most recent email to our CEO.
- HBEU CMP have expressed concerns with the current payments practice but do not believe it is their place to exit this business- this is a commercial decision in their eyes
- The current situation is that payments continue to be submitted by some Iranian customers saying "Do not mention Iran" or one of the other options highlighted above and processed manually as before. This procedure carries a high degree of risk, both financially and reputationally as we could be seen to be intervening in the processing of these payments to avoid OFAC legislation, rather than simply supporting valid U-turn transactions.
- HBUS are uncomfortable with the existing practice and with the involvement of US legal Counsel have proposed a solution incorporating adaptations to MT202 cover payments ensuring that they contain disclosure of the underlying payment details in field 72. This is discussed in more detail below.
- An MT202 performs a dual role within payments. It can be used on its own as a bank to bank transfer, for example in settlement of a FX trade, and incorporates full disclosure of the remitter and beneficiary. The MT202's other role is to provide cover for an associated MT103 and it is in these instances that the remitter and/or ultimate beneficiary is not disclosed.
- Payment Services Compliance certificate in Dec 03 was caveated to highlight the fact that the present practice is continuing, accruing risks detailed below. The June 2004 certificate has been similarly caveated and there is now a need to develop a robust action plan to ensure that clean sign off can be given at the next opportunity.
- Current volumes of Iranian payments business through HBEU are difficult to quantify precisely, although the most recent daily volumes indicate a total of between 10 and 50 payments per day with approximate total value of USD 500,000/USD 1,000,000. Central Bank payments typically are made at certain times of the month and tend to be much larger ie in the USD 10 million value level.

**Additional Risks**

- Reputational risk if an Iranian payment is effected by HSBC when it contravenes US sanctions.
- Personal responsibility attaching to HSBC staff who are involved in amending and subsequently processing these payments.

- Financial risk from operational losses resulting from HSBC having to refund a customer whilst funds sitting in a frozen account with OFAC. This can involve both capital and interest although limited interest benefits can be accrued on OFAC frozen balances and released when unfrozen.
- Potential income loss, and reputational damage with Iran if we withdraw from the processing of these payments.

#### Possible solutions

##### 1. SWIFT MT202 cover payment with full disclosure.

although we have the undernoted problems with this approach:

- It is at variance with normal market practice and could result in duplicated payments. Most banks will only expect to see a minimum of details on an MT202 message and a practice whereby we quote the full beneficiary name in addition to other details could confuse the US Banks receiving the SWIFT message.
- From HBEUs perspective MPS (the UK payments system) is set up in such a way that field 72 (effectively the disclosure field) is a protected field within an MT202 cover and cannot be accessed (amended) by operators. It may be possible to have this changed but this would be a substantial piece of work and may well have implications across the Back. It would not be desirable to open this field for manipulation as it could introduce new areas of risk i.e. fraud. Additionally it would have implications for our Wolf filtering, as we would have to ensure that we are filtering MT200 series messages. These are currently excluded from filtering on the basis that this traffic represents pure bank to bank payments traffic.
- Unless the MPS enhancements in ii) above were implemented, MT202 with full disclosure would become a completely manual process carrying the disadvantages of them being prone to human error and costly. Additionally, we would not be offered the protection offered by filtering, as MT202 serial cover payments are not presently filtered by Wolf.
- Stance of other US banks. Even if we effect payments perfectly from UK, there is still a diversity of opinion and strategy by US banks themselves, which means that we cannot guarantee that payments will definitely not be frozen at a later stage. There is an element of "grey" even in the U-turn legislation or at least the interpretation of it by the major US Banks.

##### 2. SWIFT MT103 serial payment option.

This is the preferred HBEU option but suffers from a couple of significant disadvantages. This would involve a request to the Iranian remitters to remove their special instructions in field 72. HBEU would treat the payment as a serial payment.

Redacted Material

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The two challenges HBEU would have to meet here would be:

- i) Allowing Iranian FI payments to STP without intervention by HBEU represents a significant shift in approach. There could be some reputational issues with the Iranian FIs unless this change is clearly communicated. The financial risks associated with funds potentially being sequestered would need to be accepted. From a system viewpoint, this infers that some form manual intervention and verification is mandatory. Affirmation that the MT103 payment qualifies as a U-turn payment would need to be confirmed by HBUS before the final payment is effected. The same issue would arise for payments directed to other US banks and where we would be uncertain of their processing arrangements/interpretation of OFAC legislation.
- ii) Adopting a rule whereby HBEU filters Iranian payments prior to passing them to US FIs also presents risks. On the basis that we advise Iranian remitters to exclude cautionary phrases such as "Do not mention Iran" in their instructions, but we do not fully automate these payments, we will be reliant upon the operators of the HBEU repair queue or Wolf operators to act as judge and jury as to whether the payments should be processed.

Each payment would be allowed to automate through HBEU's payments system but mention of Iran would prompt referral to the WOLF queue. The role of the WOLF team would then be to validate the item against set U-turn rules and release it. It would then be for the next US Bank in the chain to validate the item. This would include HBUS who would need to satisfy themselves as to its validity within OFAC legislation. Both of these activities incur costs and we would only undertake this work on the basis that all liability for sequestered items remain the responsibility of the Iranian remitting banks. This is a conscious and specific change from the current approach where the Iranian Banks rely upon us to "clean" payments for them. There would be a need to ensure that robust checking mechanisms are in place within HBUS to ensure that all Iranian payments are interrogated and meet the relevant legislation.

Our preference would be to follow the solution offered in 2i). This is because the nature of U-turn payments, (payments involving Iran, which are by order of a third country bank for payment to another third country bank, provided they do not require the US Bank to directly credit or debit an Iranian account) the payments must not finalise in the US) demand that the US undertakes some manual scrutiny of each item. Any reputational risk would be mitigated by the Iranian customer (a financial institution) taking responsibility for submitting only bona fide U-turn payments and HBEU/Wolf filter detecting potential terrorist-linked payments.

HBEU will continue to adopt an internal best practice whereby it views and releases payments taking an overview of this traffic using the WOLFs and Country Validation Backstop queues but this will purely be for internal monitoring purposes. The overall approach is that the Iranian FIs will monitor their own payments traffic and to ensure that only valid U-turn payments or payments which are permissible under the terms of US legislation are submitted to HBEU. Effectively the risks associated with sequestration would be placed with the Iranian FI rather than HSBC.

The proposed solution would therefore involve the following components:

- We can continue to process MT200 series instructions from Iranian FIs in respect of Bank settlement instructions
- All commercial payment instructions must be sent via MT103 serial route.
- Full disclosure to be evident and any references to "Iran" in customer payment instructions to remain without material alteration.
- HBEU Payment Services to undertake their normal checks, particularly those highlighted by Wolf filter.
- HBUS to have opportunity to validate all Iranian payments using existing filtering techniques (and release, if appropriate).
- Sequestration risk to be borne by Iranian remitting bank.

There will be costs associated with the manual interrogation of these items and we would only feel able to support this approach on the basis that loss of principal, interest, and FX costs associated with delay would be the responsibility of the Iranian Bank. An appropriate fee structure for the manual interrogation of these items by HBEU/HBUS would need to be agreed

**Scenarios using the fully automated MT103 solution**

Remitter	Beneficiary	Payment type	HBEU	HBEU HBUS	
			Filter	Action	Filter
Iranian FI	European FI	USD U-turn	Country backstop	Pay	Pay
Iranian FI	US FI	USD non U-turn	WOLF	Pay	Freeze/Seek OFAC approval to pay
Iranian FI	HBAP ac IR national	USD U-turn	Country backstop/Wolf	Pay	Pay
Iranian FI	US FI ac US national	USD non U-turn	Country backstop/Wolf	Pay	Freeze/Seek OFAC approval to pay

**The way forward**

HBEUs view is that if we are to continue to support our Iranian payment business solutions need to be centred around 2 above. In order to progress on the basis outlined, three areas of the business would need to be comfortable with our proposals and take action accordingly:

- RMs to contact Iranian bank customer base. Iranian remitters would need to be advised of our revised procedures, stipulating that they must only submit MT103 serial payments, which do not include special instructions in field 72 such as "Do not mention Iran", "Care sanctioned country" and "Do not route via the US". Additionally field 56 should be populated to assist routing. Their risks and responsibilities would be outlined, specifically if payments are frozen in the US and the possibility of increased tariff would need to be considered due to potentially increased costs in HBUS. Acceptance of sequestration risk by the Iranian bank would also need to be incorporated into any proposal.

- HBUS to agree to this solution. The MT202 cover payment proposed is unacceptable to HBEU and MT103 serial payment route is in our opinion the only viable and transparent solution. Action to be taken if non U-turn payments are identified require to be agreed. An appropriate fee structure would need to be agreed to reflect costs associated with the interrogation of Iran payments traffic in HBUS. This would be accommodated through a deduction from the final payment made to the beneficiary.
- HBEU and Group Compliance to endorse any proposal. Unconditional sign-off of the proposed course of action would be required from Compliance. The comfort factor would be in that all Iranian payments will be subjected to checks through the Wolf filter or Country Validation Backstop in HBEU (RMS) and, in crucially, HBUS will utilise its own filters to second check payments and ensure that they are complying.

**Communication Plan**

1. Draft letter wording to be agreed with Nasser Homapour, Senior Country Representative, Iran.
2. Once agreed Relationship Managers to write to Iranian FI customers advising them of these requirements and such letters to be hand delivered by Nasser Homapour to Senior Management in the Iranian FIs.
3. PCM Dubai to visit Iranian FIs (suggested) one week after 2 above) to ensure that they are fully aware of the formatting requirements outlined in the letter
4. HBEU to monitor traffic and refer any problems to Nasser Homapour so that local intervention can take place where appropriate

This should enable the Iranian payments business to continue without compromising the position of the Bank. In order to expedite this solution a draft template letter (below) to be sent to the Iranian customer base advising them of the changes has been developed for consideration. At this stage there has been no Group legal input into this draft.

**Draft customer letter**

Dear Sirs

**US DOLLAR PAYMENTS**

I am writing to inform you of the necessity to amend the way in which HSBC acts as your agent for US dollar payments and how we propose to continue to handle the USD payments business we process on your behalf.

You will be aware that the regulatory climate has changed in respect of cross border payments, particularly those which are denominated in US dollars and involve certain named (by OFAC) countries. Over the last few years we have been able to service your US dollar payments business by ensuring that our attention is drawn to the fact that each payment remitted by Iranian Banks is a U-turn payment and then take appropriate action.

In the light of the changing regulatory environment the inclusion of additional text examples of which are outlined in item ii) below is no longer acceptable practice. In order to meet with our requirements we now propose the following changes.

- i) All USD MT100 series payment instructions should be sent to HSBC Bank plc via SWIFT MT 103 message. These will be processed using the serial payment method. Your MT100 series messages in Bank to Bank transfers are unaffected.
- ii) Field 72 should not contain any special cautionary instructions. These include but are not restricted to phrases like "Do not mention Iran", "Care sanctioned country" and "Do not route via the US". Payments which continue to be sent with these instructions will be cancelled and treated as null and void by our payment processing areas.
- ii) Field 56 should be populated by you with the code of the intermediary bank who will be effecting the payment to the beneficiary bank. This information should be readily available from your beneficiary customers.

Fulfillment of the above requirements will enable us to continue to effect US dollar payments efficiently on your behalf. We must stress, however, that due to the complex and varied nature of these types of payments, the risk and responsibility in the event that payments are sequestered by the US regulatory authorities remain your responsibility. Any interest, foreign exchange or consequential costs associated with a delay in the processing of such payment, whilst enroute to the beneficiary will be borne by yourselves.



1599

To reflect the need to reimburse costs associated with these payments it is suggested that these payments are marked "charges beneficiary" so that a deduction can be made and the payment net of such charges. For those payments marked "charges out" any costs will be charged to yourselves.

We would ask you to ensure that payment instructions incorporate the above 2 conditions as soon as possible but no later than 31 August 2004. It would be helpful if the implementation of this procedure could be made under advice to me at least one week in advance of the change being made.

I would like to emphasise that HSBC greatly appreciates the value of your business and your long-standing relationship with us. We request your assistance to implement the above course of action.

If you have any difficulty with the implementation of this proposal or wish to discuss further, please arrange to contact me on

Yours

Unquote

In order to ensure that we do not agree a suitable way forward with the customer and then have an issue with HBUS, it would be appropriate to obtain your agreement to the above course of action and then obtain an "in principle" agreement from HBUS via Compliance before making proposals to our Iranian FI customer base.

9

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1600

From: Marion O'ROACH  
Sent: Wed, Dec 15, 10:32:06 2004  
To: Marilyn H. SPEARING  
Cc: David H. HODGKINSON  
Subject: IRAN - OFAC  
Importance: Normal

Marilyn

At the Group CEO's request I have kept him informed as to progress made in relation to the above matter. Consequent upon my having advised him that a compliant solution had been agreed in principle with HBUS he indicated that he did just want to consider the issue and perhaps discuss with the Group Chairman.

Do we have any view as to the possible value of our being able to address this issue of payments through the US in terms of the potential commercial value to the organisation both in terms of existing business, but perhaps more importantly in terms of future business. I would not suggest that we seek to try and influence the debate at this stage (and indeed I don't think it would be prudent to start lobbying at this stage) but it might be helpful if I was armed with the likely value to the Group if we are in effect making a reputational risk over possible reward type judgement.

I think it will probably be sensible for us to gently continue however to proceed assuming that we may get sign-off.

Regards

David Bagley

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1601

From: Ajay BHANDOOCLA  
Sent: Sun Apr 10 14:27:50 2005  
To: David W J BAGLEY  
Cc: David H HODGKINSON; Mukhtar M HUSSAIN; Alan KERR; Christopher G LEWIS  
Subject: Re: Fw: IRANIAN BUSINESS - OFAC  
Importance: Normal  
Attachments: image\_0.gif; image\_1.gif; Iran USD Payments.doc

David,

I am enclosing the paper on payments alternatives for Iran for you to include any portions you see relevant in your own paper.

Re. the other paper on the extent and nature of the Group's Iranian business that you had requested from the Iran office, I believe Nasser is on leave. Jeremy is visiting the UAE tomorrow and he will call you on this.

Regards

Ajay  


David H HODGKINSON

David H HODGKINSON cc  
Apr 2005 11:05

To: Christopher G LEWIS/HDM/HSBC  
Alan KERR/HRM/HSBC  
Ajay BHANDOOCLA/HSM/HSBC cc: Mukhtar M  
HUSSAIN/HSM/HSBC  
David W J BAGLEY/HDM/HSBC Subject: Fw: IRANIAN  
BUSINESS - OFAC Our Ref: Your Ref:  
Entity: HSBC Bank Middle East Limited

Gentlemen

Can you please make sure this summary covers everything and send your alternatives paper to David Bagley as a p. The principal concern I have is not so much about our existing business but the impact on the Iranian hierarchy of HSBC being seen to "do a BP" and as a result being excluded from the opening up of the Iranian banking market when it finally occurs.

Regards

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1602

David

-----  
HSBC Bank plc  
Registered Office: 8 Canada Square, London E14 5HQ, United Kingdom  
Registered in England - Number 14258  
Authorised and Regulated by the Financial Services Authority  
-----

David W J BAGLEY

From: David W J BAGLEY  
Sent: 08/04/2005 17:52  
To: David B HODGKINSON  
Cc: Nasser RIZKAPOUR  
Subject: IRANIAN BUSINESS - OFAC

David,

In your absence I have chased Nasser for what I understood to be the first part of the policy review - namely an assessment of the extent and nature of our Iranian business. This is needed partly as part of the risk over reward equation, but also because we will need to both analyze each different type of business and assess how we will deal with legacy issues.

Having spoken to Stephan, prompted by discussions relating to a specific transaction for NPC, he has instructed me to prepare a paper by the end of next week for consideration by the Chairman setting out an analysis of the issues and with recommendations. This timetable makes it very urgent that I receive a draft of the above business summary as quickly as possible, even if in part completed form by Monday close at the latest. We will I recognise have an opportunity to discuss this further on Tuesday.

It is not all as bad as it seems as the conversation today gave some clear possible alternative approaches to an outright ban.

Richard Cole has kindly offered to provide a summary of the PEF business in HBEU.

Happy to speak over the weekend, although Saturday am I will be in the car on the way up North. My mobile is 07803 034695, and for this evening I will be at home from about 6pm on 01788 530143

I am anxious to avoid rushing this exercise, although this is now inevitable, and if there is anything that can be done to expedite the above work I would be grateful

Regards

----- Forwarded by David W J BAGLEY@HSBC on 08 Apr 2005 17:01 -----

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1603



Memo

08 Apr 2005 15:47

From: David W J BAGLEY/HQHQ/HSBC

Tel: 7601 8645

44 2070 918646

01151 111 27

Sent by: Marion O ROACH

Nasser: [HOMAPOUR et al](#)

To: Nasser HOMAPOUR/HSSL/HSBCAPAC@HSBC

cc: Jeremy H Barton/HBME/HSBC@HSBC

bcc:

Subject: IRANIAN BUSINESS - OFAC

Dear Nasser

My understanding is that you and/or Jeremy are in the process of documenting the extent of the Group's Iranian related business which might be affected were there to be any change in the Group's policy towards transactions that might be affected by OFAC related concerns even if conducted through non-US incorporated Group entities.

I recognise the obvious concerns that these proposals will raise with you, but we are currently in something of an ambiguous position, where I am being required to give a compliance view on a case by case basis, such that it is clearly desirable for us to resolve our final policy and approach as soon as possible.

I would be grateful if you would confirm that my above understanding of your involvement is correct and if so would you please provide me with some idea of how far you have reached in the process.

Regards

David Bagley

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1604

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HSBC OCC 8874054

#### Iranian Accounts and USD Payments

*Objective:* To evaluate alternatives to continue making payments from Iranian Banks accounts with HSBC to protect our Iranian franchise while minimizing any possible legal, regulatory or reputational risk to HBUS.

A number of alternatives have been evaluated with details provided in the annexures however there seem to be just 2 viable alternatives that are explained below.

##### 1. Use an alternate USD correspondent

This is the recommended alternative as it is the only way by which payments, both Trade and commercial, can continue to be made without any risk to HBUS or to our Iranian business. This does not mean that HBME would aggressively become the Iranian payment bank, but instead would just be able to continue with the existing payments that are being done out of Iranian bank accounts with the Group.

*Methodology:* An alternate (to HBUS) USD correspondent would be used for HBME UAE. Full transparency of the purpose of the account will be required with the correspondent; hence a correspondent is unlikely to agree to our business for Iranian Payments alone and would need to be given a larger share. All USD accounts of Iranian banks held with different offices across the Group could be moved to HBME. Market intelligence is that other banks like ENP etc are following similar processes.

- Pros:*
- Eliminates HBUS risk
  - Easy to set up as existing systems can be used without any manual processes etc
  - It is the best alternative to continue all types of transactions including commercial payments
- Cons:*
- There is an element of HSBC group risk (through HBME), which can be mitigated through transparency and full disclosure.
  - Loss of revenues for Group (HBUS) if entire HBME UAE business is moved.
  - With the current environment it may be difficult to find a willing US correspondent
- Actions:*
- Evaluate the loss of business to the Group as a whole
  - Initiate discussions with select banks. Care is required since this announces our intentions in a small market place.

##### 2. Treasury Defunding

This alternative would support the existing Trade, Project & Export Finance and Structured Finance businesses only and would not support general USD commercial payments. There would be some relationship repercussions since the proposition is curtailed however, attempts would be made to minimize the impact so as to protect our main businesses.

*Methodology:* All non-USD accounts of Iranian banks and companies anywhere in the group can continue. USD accounts can continue to be kept open, but can be used only for the purposes specified below.

1. USD payments to HSBC accounts in that country (Internal book transfers)
2. Foreign currency (non-USD) payments
3. Receipts of funds (USD or FCY), which would be primarily Trade related.
4. Periodic defunding of this account to R's own accounts with other banks e.g., Bank Saderat HSBC UK to Bank Saderat, UBS, Switzerland. These payments would be Treasury defunding transactions and not commercial payments.

*Clarification required:* A Treasury defunding transaction would be paid to the Iranian bank rather than a third party. These transactions would be by way of a cover MT202 through the US. As per the legal opinion received all payments require full reporting of the underlying transaction. However, since these are treasury defunding transactions, there is no underlying transaction and would comply with J-Turn regulations. Clarification would need to be sought as to whether these payments can be made through HBUS.

- Pros:*
- Minimises HBUS risk.
  - Protects the main businesses of Trade and Project finance
- Cons:*
- There is a significant change in the terms of the account that would have market repercussions
  - Since commercial payments cannot be made, there is expected to be some loss of business.
- Actions:*
- Seek clarification as to whether Treasury defunding transactions can be made through HBUS

- Estimate the loss of Iranian business if this option is used.

**ANNEXURE 1**

There are other alternatives that have been considered, however they would all cause greater market repercussions and would jeopardise our Iranian position, or are too cumbersome/risky to implement, hence are not recommended. They have been listed below:

**1. Use the HK USD clearing system**

*Methodology:* Use the Dollar clearing systems outside US to make payments to the correspondent banks. The payments would be restricted to specific banks who have accounts in that country and only prior payment arrangements can be made

- Pros:*
- Eliminates HBUS risk
- Cons:*
- An additional large HSBC entity would get involved.
  - This approach would require transparency with HKMA. HKMA have worked with FED on their USD Payments system, hence any request may be routed to the US FED for approval. With the large HK interests of HSBC, the issues in involving HSBC would probably be similar to the issues with HBUS.

**2. Use the UAE Central bank's USD accounts services**

*Methodology:* Financial institutions operating in the UAE are permitted to open USD accounts with the UAE central bank and make USD payments to each other. Banks generally do not use this system, since it is new, not thought through and there is no benefit over their existing correspondents. However we could encourage specific local banks to use these services. Any HSBC Group bank that needs to make Iranian payments would open a USD correspondent relationship with HBME and HBME would make payments on their behalf to specific pre-arranged beneficiaries.

- Pros:*
- Eliminates HBUS risk
- Cons:*
- Only a small Group entity is involved (HBME).
  - Payments can only be made to UAE Financial institutions that have accounts with the UAE central bank.
  - There are no banks using this system at present and it therefore may be difficult to get a bank to agree to this for our convenience only. Other compensations would need to be used.
  - If banks do agree this would mean payments only to specific pre-arranged beneficiaries
  - There would be a need for mutual processes to make these payments

**3. Make payments in other currencies (EUR, GBP)**

*Methodology:* Iranian DCs and other payments are generally oil related, hence Iran's requirement is generally in USD. They do have alternate EUR accounts set up as a contingency, however USD is clearly the preferred currency. We would therefore convert USD payments into say EUR and remit EUR with the corresponding reverse foreign exchange transaction at the beneficiary bank.



- Pros:*
- Eliminates HBUS risk since there is no USD involvement at all
- Cons:*
- Expensive (Costs 5 pips i.e. equivalent to say 5 basis points)
  - Risk of market movements. These could be quite substantial
  - A dispensation to make 3rd party payments through treasury deals is required for both HSBC and the receiving bank.



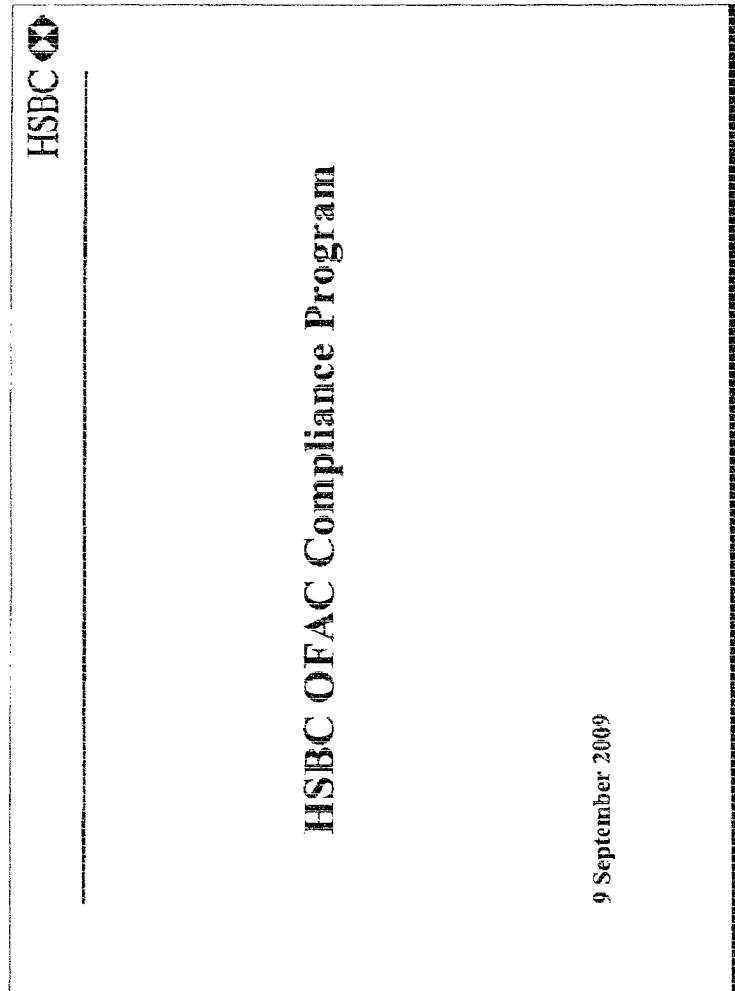
- Possible reputational risk if seen to be doing this to go around USD  
Annexure 2

A specific clarification is required to make payments to Non Iranian entities that are 100% owned by Iran. This payment alternative would be specific and limited to certain entities with prior approval. It would not be applicable as a general payment alternative.

*Methodology:* Some entities e.g. Project & Export Finance, would like to make payments to [REDACTED] which is a UK entity, 100% owned by Iran. There may be similar entities in other countries where payment can be made to local entities.

- Pros:* - Simple and effective  
*Cons:* - Routing is still through HBUS  
*Actions:* - Investigate legalities of this arrangement  
- Investigate if full disclosure would involve OFAC filters etc

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HSBC OCC 8874194



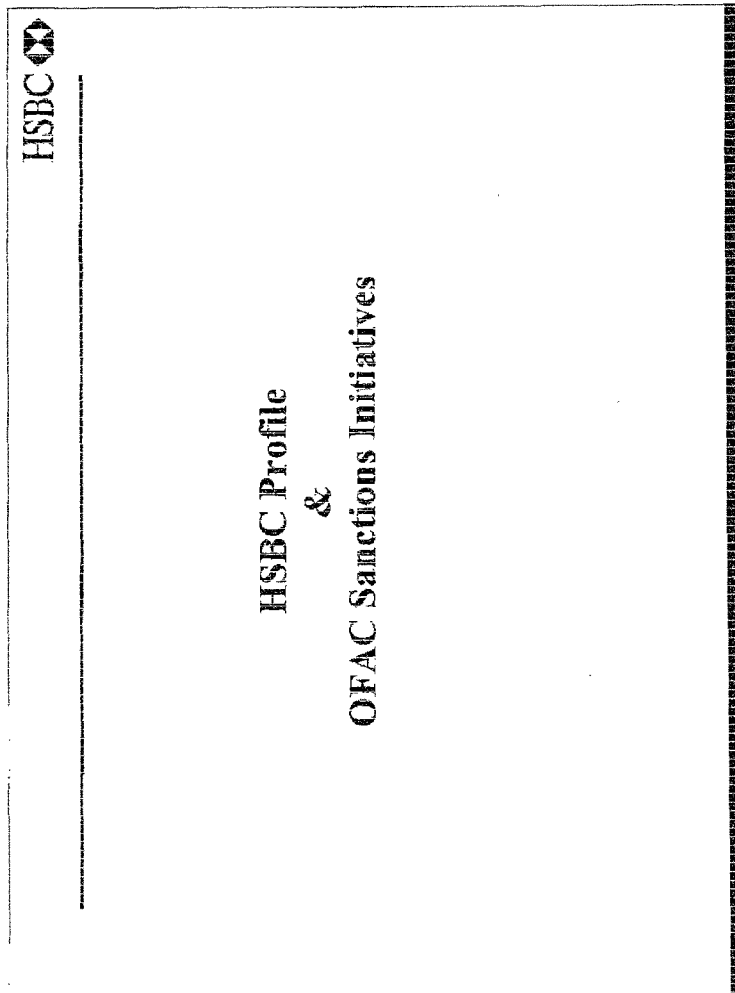
## Topics

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- **HSBC**
  - HSBC Profile
  - HSBC OFAC Sanctions Initiatives
    - ✓ Overview
    - ✓ Policy Directives
  
- **HSBC Bank USA, N.A. (HBUS)**
  - *HBUS OFAC Compliance Program*
    - ✓ Overview
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  - *Initiatives & Industry Challenges*
    - ✓ HSBC's Initiatives
    - ✓ Industry Challenges

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## HSBC Profile



### ➤ HSBC Holdings plc

- Incorporated in England and Wales and headquartered in London.
- Lead regulator is Financial Services Authority (FSA) U.K.

### ➤ HSBC Group Companies

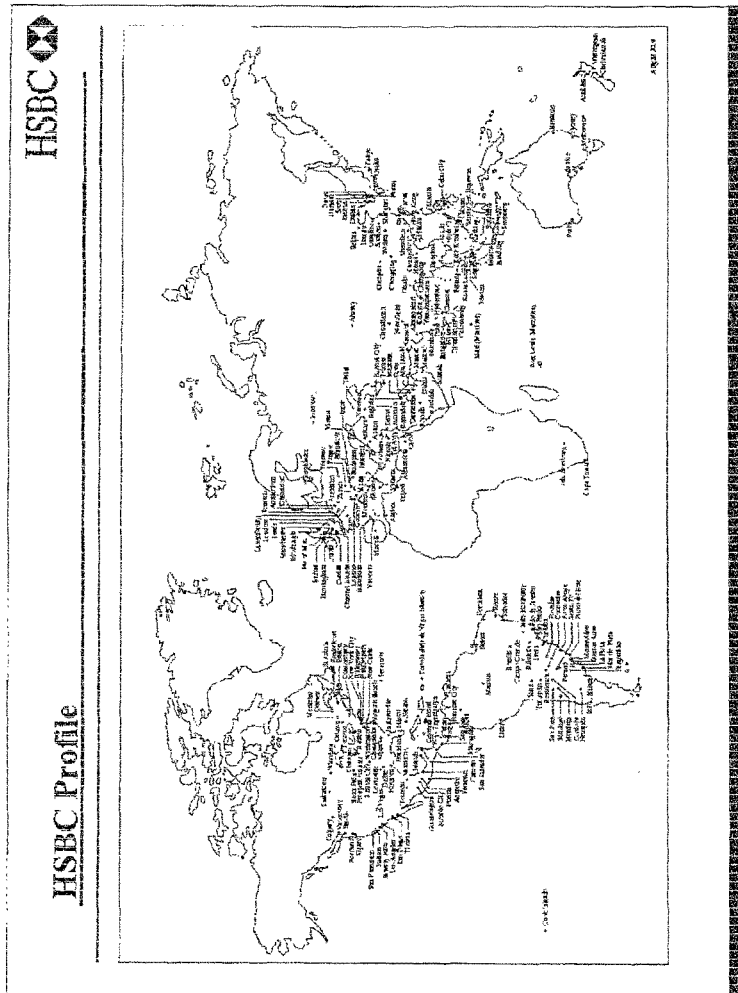
- Located throughout Europe, Asia Pacific, the Americas, the Middle East, and Africa.
- Approximately 9,500 offices in 86 countries and territories with 300,000 employees.
- Serving over 100 million personal customers and approximately 3 million commercial customers.
- Supervised by approximately 540 central banks and regulatory authorities.

### ➤ HSBC's Business

- Major lines of business are Personal Financial Services, Consumer Finance, Commercial Banking, Global Banking & Markets, Private Banking and Insurance.
- HSBC Group companies execute approximately 12 million cross-border payments (in all currencies) monthly, 2.3 million of which are in USD.

### ➤ HSBC Bank USA, N.A. (HBUS)

- Primary business operations include Personal Financial Services, Commercial Banking, Correspondent Banking, Trade Services, Banknotes, Global Banking & Markets, Private Banking.
- HSBC Group affiliates clear virtually all USD payments through accounts held at HBUS, representing 63% of all USD payments processed by HBUS.




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## HSBC OFAC Sanctions Initiatives - Overview



- HSBC is committed to complying with both the spirit and specific provisions of all relevant laws and regulations.
- HSBC plays an important role in furthering international efforts against money laundering and terrorist financing.
- HSBC Group and HBUS are active within the industry, including the Wolfsberg Group and the New York Clearing House Funds Transfer Committee and OFAC Working Groups.
- HSBC's global policies regarding sanctions reflect the Wolfsberg Principles, are developed from the center by HSBC Group Compliance and are endorsed by HSBC Executive Management
  - Commencing in March 2004 and continuing into 2009, HSBC Group Executive Management issued a series of sanctions policy directives applicable to all Group offices.
  - HSBC has adopted a "total transparency" policy, requiring Group companies to use fully disclosed serial SWIFT messages when initiating USD payments.
  - HSBC has applied a Group wide policy restricting business with Iranian entities, which was implemented prior to the withdrawal of the Iranian u-turn exemption.
  - Payments are subject to review against OFAC sanctions and sanctions imposed by multiple jurisdictions (EJ and LFN).

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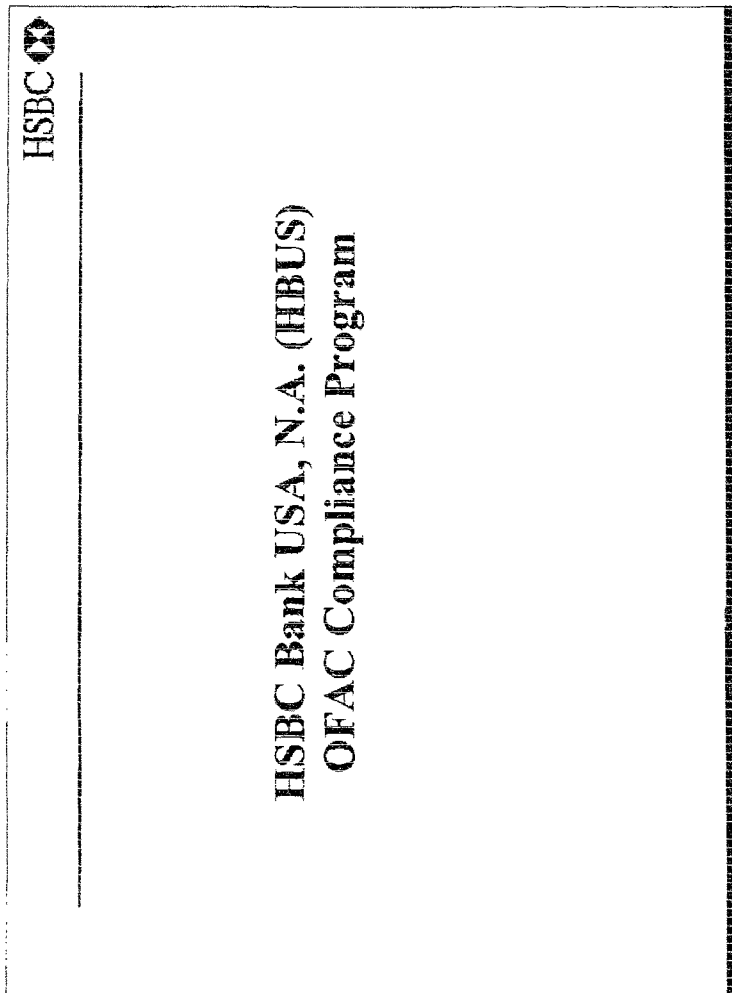
HSBC 	
<b>HSBC OFAC Sanctions Initiatives - Policy Directives</b>	
Date	Policy
March 2004	Established an automated payment scanning system, "WOLF", to be used Group-wide (Fircosoft is the vendor). Group List includes (a) United Nations sanctioned entities; (b) Terrorist lists issued by the relevant Competent Authorities in UK, EU, US, and HK; and, (c) US Office of Foreign Assets Control SDN list.
November 2004	Reminder that US citizens working abroad are unable to execute transactions related to OFAC sanctions.
July 2005	Reminder that all Group transactions in USD must be in compliance with OFAC sanctions. Also required that all Group office USD Iranian payment transactions, which are permitted under the "U-Turn" exception to the OFAC sanctions, be routed through a segregated account with HSBC Middle East for special review to ensure compliance with the OFAC Iranian sanctions program, with resulting payments being made on a transparent basis.
April 2006	Required that all USD payments initiated by Group offices be remitted to HBUS as fully disclosed serial payments.
October 2006	U-turns no longer permissible (OFAC regulation effective November 2008).
August 2007	Group introduced a requirement to supplement the local sanctions and terrorist lists with a Group minimum standard list of sanctions and terrorist names. This standard is applied to <b>transaction scanning</b> .
September 2007	All account relationships with Iranian banks must be closed, regardless of currency. No new relationships to be established with entities or persons in Iran.
May 2009	All clients must be scanned against the Group List. Group's strategic direction is to replace existing local client scanning systems with the Group <b>client scanning</b> system, Security Compliance Data Matching (SCDM).
June 2009	All HSBC offices required to apply the Wolfsberg and the USA Clearing House Association LLC payment message standards in respect to international payments.



## HSBC OFAC Sanctions Initiatives - Overview



- HSBC has taken proactive measures to ensure Group-wide adherence to the sanctions policy, including:
  - A global Compliance review of conformity to HSBC sanctions policy (4Q08).
  - A benchmarking of HSBC's sanctions policy against peers and an effectiveness test of HSBC's payment scanning tool, Fircosoft (3Q09).
  - A Group-wide internal audit of sanctions compliance (commenced 3Q09).
  
- HSBC has implemented training programs to ensure consistency of approach and to mitigate risk, including:
  - Group sponsored OFAC Training.
  - Anti-Money Laundering Training Program.
  - Compliance and Reputational Risk Training.



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## HBUS OFAC Compliance Program - Overview



- Adherence to OFAC sanctions is a key component of the HBUS Anti-Money Laundering (AML) Program.
- Oversight of the AML Program, as well as issue escalation, is provided by the Board of Directors, Audit Committee and Risk Management Committees.
- All four required components of an AML program are applied in the management of the HBUS OFAC compliance program:
  - The assignment of a Compliance Officer to oversee the program;
  - The development and execution of Policies and Procedures to ensure adherence to OFAC regulations;
  - Training of impacted personnel to ensure their understanding of the regulations and the roles they play in ensuring adherence; and
  - Independent Testing to ensure that policies, procedures and training are executed appropriately.
- The program is implemented on a risk based approach, utilizing the Compliance Risk Mitigation Program (CRMP) framework which defines requirements for conducting high level and detailed risk assessments.

**HSBC**   
**HBUS OFAC Compliance Program – Compliance Organization**

➤ **The Compliance Function:**

- Assists line management in meeting its responsibilities to comply with both the letter and spirit of all relevant laws, regulations and standards of good market practice, and assists in resolving compliance deficiencies.
- Provides independent reporting of compliance matters to senior Business and Compliance management, both locally and at Group, and to oversight committees.
- Develops and implements a compliance management framework to keep pace with business initiatives, changes in market practices and the regulatory environment. The framework includes policies and procedures, monitoring and review programs, and training programs.

➤ **The Compliance Officer:**

- The designated BSA/AML Officer for HBUS has a reporting line through to the SEVP and General Counsel of HBUS, who acts as HSBC's Regional Compliance Officer for North America.
- The BSA/AML Officer also has a functional reporting line through to HSBC's Chief Money Laundering Control Officer.
- Both the HSBC Chief Money Laundering Control Officer and the Regional Compliance Officer for North America have a functional reporting line to the Head of HSBC Group Compliance.
- The BSA/AML Officer is supported by specialized staff, including the OFAC Compliance team as well as staff who develop organizational policy and other aspects of the compliance management framework.

## HSBC HBUS OFAC Compliance Program - Policies & Procedures

- The HBUS AML Policy is well defined, consistent with industry standards and HSBC Group requirements. The Policy is updated, as necessary, and approved annually by the HNAH AML Director and the Board of Directors. The AML Policy includes OFAC requirements, covering:
  - Roles and Responsibilities
  - Scanning New and Existing Customers
  - Scanning Transactions
  - Scanning Employees and Service Providers
  - Blocking & Rejecting
  - Reporting
- Business unit procedures implement the AML Policy and include OFAC requirements. All procedures are updated in conjunction with the AML Policy and approved annually by the BSA/AML Officer and the relevant business head.
- HBUS OFAC Compliance has developed an approved deskbook manual detailing OFAC related tasks, including the handling of:
  - Escalated OFAC items
  - OFAC Communications



## HBUS OFAC Compliance Program – Training

### ➤ Annual AML Training

- Enterprise-wide annual web-based AML Training contains a section on OFAC requirements and a skill check to challenge understanding. Each employee must score no less than 80% on the final assessment that includes OFAC related questions based on actual cases.

### ➤ OFAC Compliance Officer Facilitated Training - High Risk Business/Operations Units

- Approximately 2,000 HBUS staff members attend a trainer-facilitated program annually. It details the regulations and cases that occurred during the year.
- Attendees include: Payment Operations, Payments & Cash Management, Banknotes, Private Banking, and the AML Monitoring Teams.

### ➤ Targeted Training for Payment Operations

- Regular specialized training sessions are scheduled with Payment Operations to review recent activity and discuss appropriate actions.

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## HBUS OFAC Compliance Program – Testing

### ➤ Annual Independent Audit

- HBUS deems OFAC requirements as “High Risk” and therefore the program is subject to an annual independent audit conducted by the HBUS Internal Audit team.
- Audits have consistently reported Satisfactory control risk ratings.

### ➤ Regulatory Examination

- The HBUS OFAC program is subject to examination by the Office of the Comptroller of the Currency (OCC).

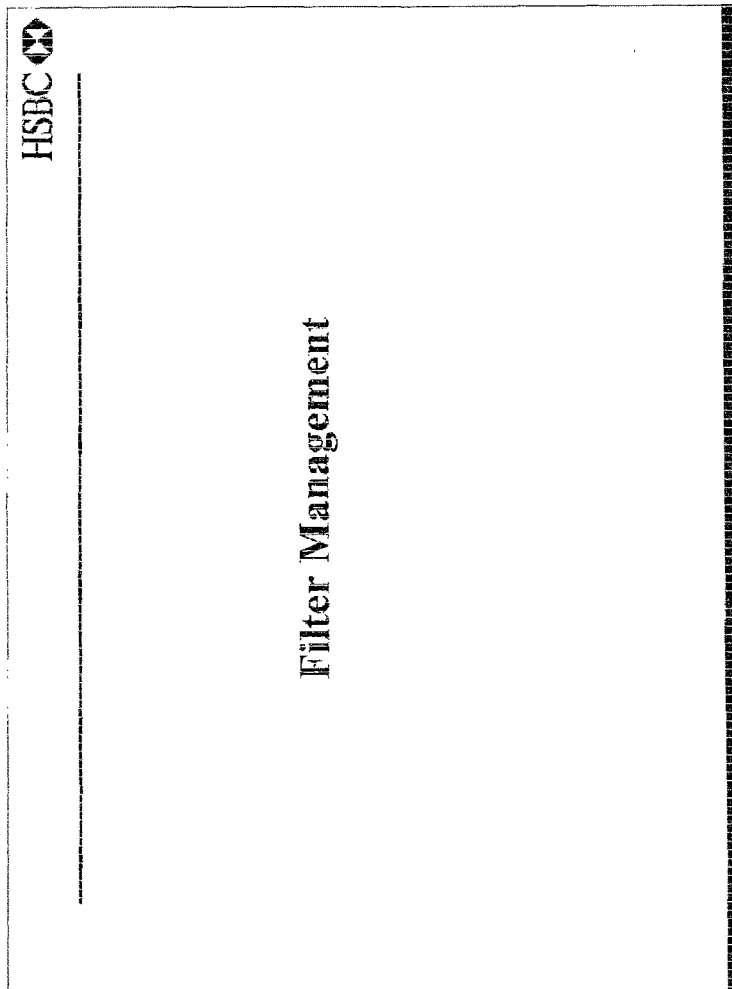
### ➤ Internal Compliance Monitoring

- Business line compliance monitoring programs are in place to test adherence to internal policies and procedures.

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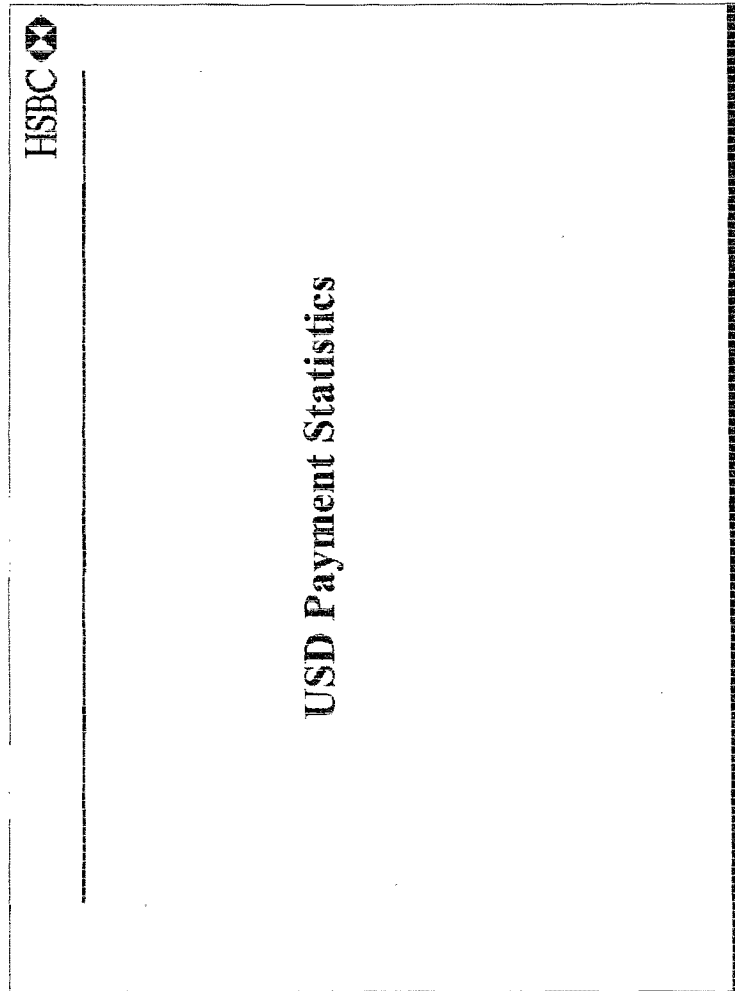
## Filter Management - Overview

- HSBC utilizes a vendor product, Fircosoft, for automated client and transaction scanning.
- The main components of the filter include:
  - Artificial Intelligence.
  - Matching Principles.
  - False Positive "Hit" Refinement.
- In addition to OFAC, HBUS also scans entries against:
  - Maritime Attachments.
  - AML Compliance Targeted Names.
  - HSBC Group List (UN, EU, HK).
- HBUS has the ability to add and update local list entries in response to information uncovered during account activity monitoring and due diligence efforts and/or peer communications (i.e., non-sanctioned interests).
- Filter list entry procedures are in place to ensure the timeliness, appropriateness, and effectiveness of entries included in the filter, inclusive of exclusions built to reduce "false positive" hits.

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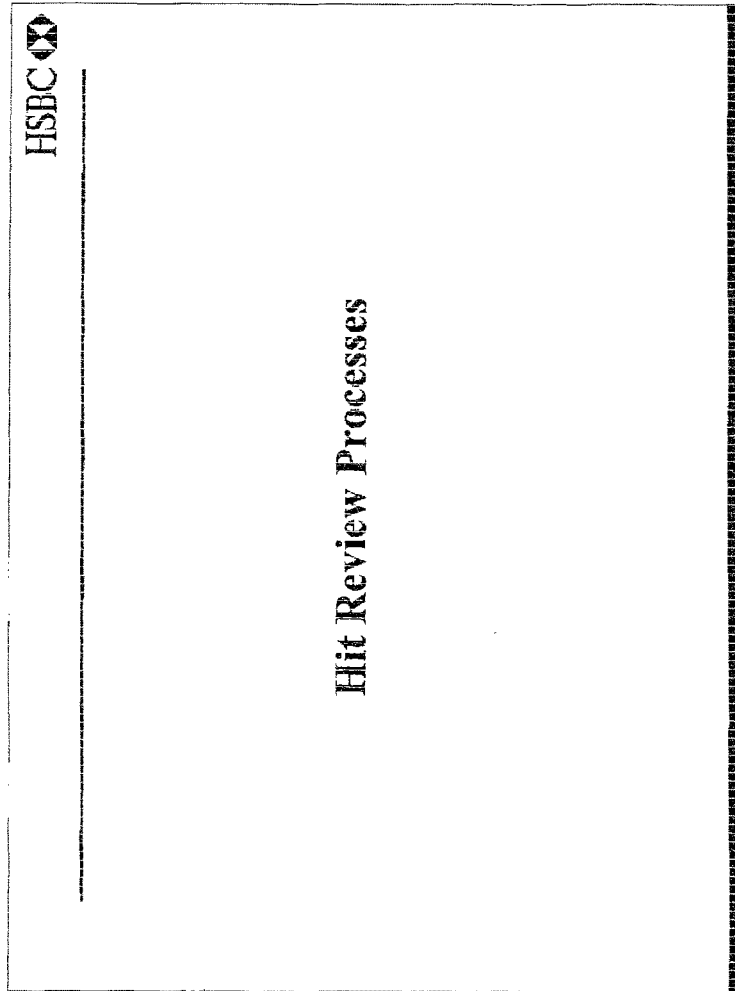


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<b>USD Payment Statistics – Fact Sheet</b>		
	2001	2009
Daily Average Payment Volume	58,515	115,000
Daily Average USD Processed	\$185 Billion	\$377 Billion
CHIPS Ranking	5 <sup>th</sup> largest USD processor	3 <sup>rd</sup> largest USD processor
Volume Breakdown	15% Corporations & NBFIs 23% Banks 44% HSBC Group Accounts 18% Internal Branches/Depts	8% Corporations & NBFIs 26% Banks 63% HSBC Group Accounts 3% Internal Branches/Depts
# of Payment Messages Stopped by the Filter for Review	Daily Average: 1,580	Daily Average: 7,620
Number of Staff Assigned to OFAC Support	Payment Ops/Central Services: 5 Compliance: 1	Payment Ops/Central Services: 15 Compliance: 3
OFAC Blocked Items	Number of Items: 218 Value of Items: \$10,479,296.40	Number of Items: 426 Value of Items: \$19,562,618.19
		<i>Note: Figures are as of June 30, 2009</i>



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HSBC OCC 8874212

## Hit Review Processes - Client & Transaction Scanning



### ➤ Client scanning includes:

- New customer relationships.
- Existing accounts that have undergone a change in name or address field, including country field.
- All new accounts for existing customers.
- Re-scanning of all customers against OFAC list updates.

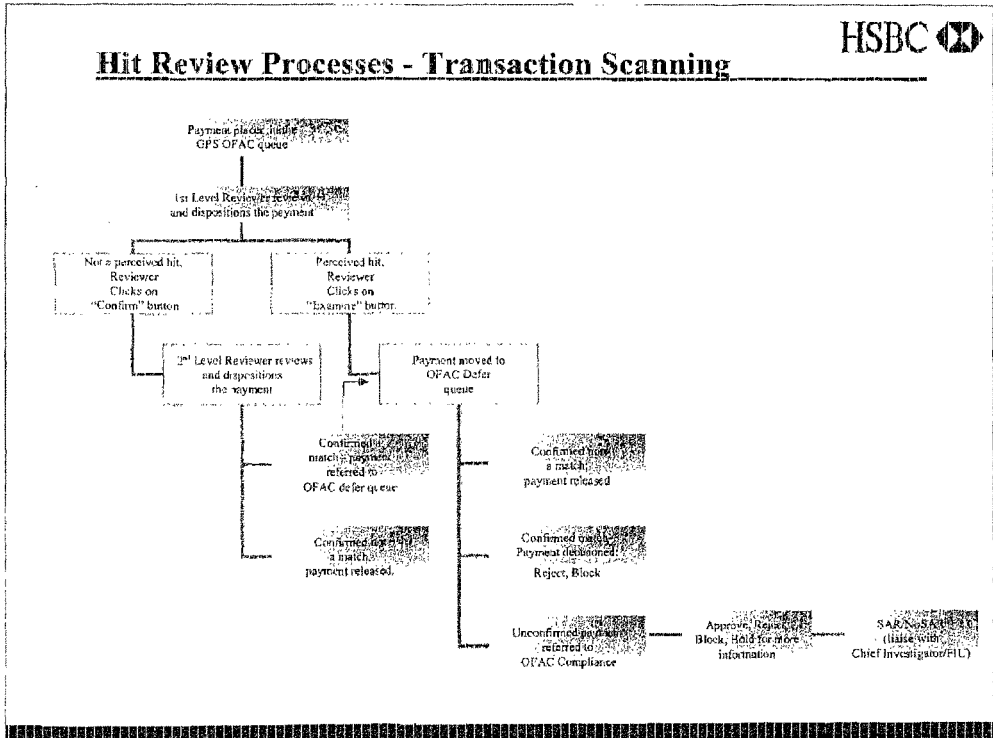
### ➤ Transaction scanning includes:

- US and FX wire payments.
- Trade transactions.
- Accounts Reconciliation Service.
- Private Banking Investments.
- Precious Metals transactions.

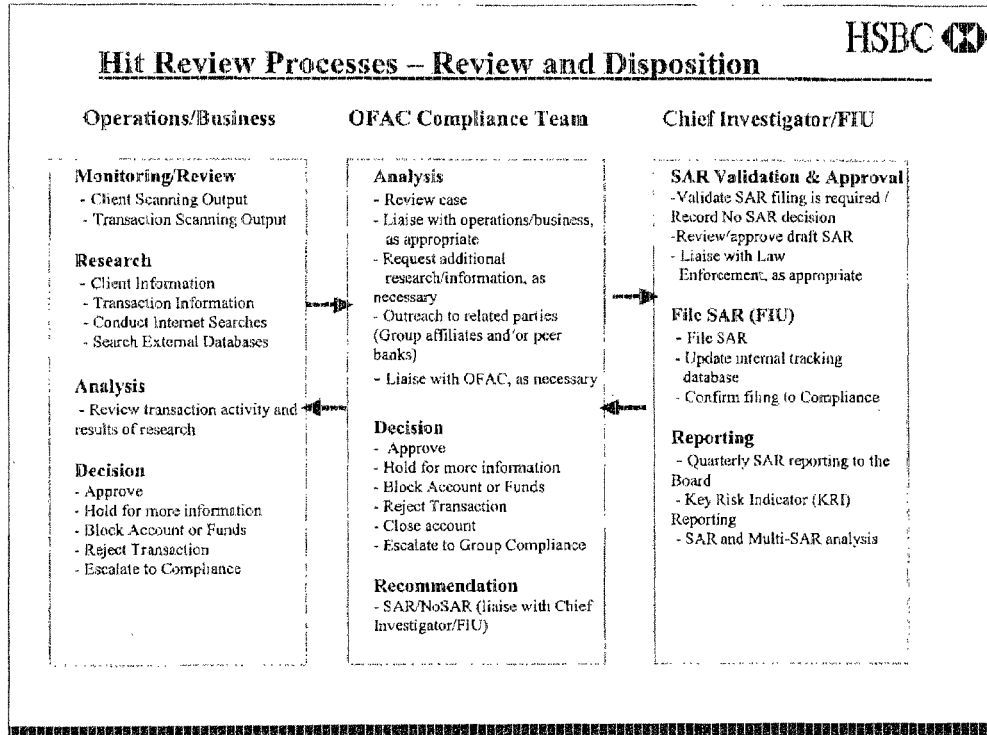
### ➤ Escalation & Reporting

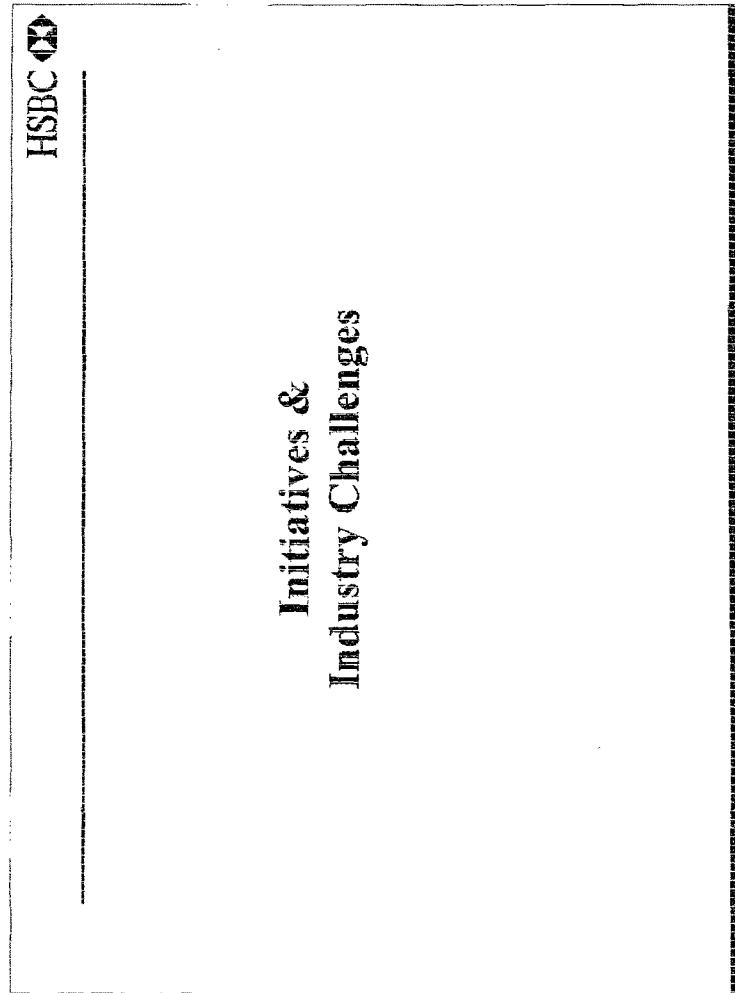
- Possible or ambiguous matches (of customers or transactions) that cannot be determined by operations teams are escalated to the OFAC Compliance Team for further investigation, review and decisioning.
- The OFAC Compliance Team liaises, as necessary, with Treasury's OFAC Department for final disposition on these complex matters and instructs the appropriate parties within HBUS to take the required actions.
- For transactions, this may include approval of the payment transaction for processing, blocking of funds or rejecting and reporting the transaction.
- The OFAC Compliance Team liaises with Chief Investigator/FIU regarding appropriateness of a SAR filing.

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## Initiatives & Industry Challenges

▼ HSBC's Initiatives include continuous enhancements and improvements to the OFAC compliance program, for example:

- Filter screening and payment systems enhancements.
- Process improvements.
- Group policy and procedure changes.
- Specialized training programs.
- Client Education.
- Increased SAR Reporting.
- Adoption of new cover message type or use of serial.

▼ Industry Challenges include:

- Conventions from multiple jurisdictions Impact of Non-Proliferation of Weapons of Mass Destruction (NPWMD) classification on Iranian vessels, i.e. blocking/rejection of documents.
- Islamic Republic of Iranian Shipping Lines (IRISL) vessel name changes.
- Use of "General Trading" businesses in Dubai established to move goods and funds to/from Iran.
- Increased scrutiny has caused some financial institutions to err on the side of caution.
- List entries have increased significantly over time (OFAC SDNs, Non-Sanctioned Interests, Maritime Attachments).
- No standardization of list naming.

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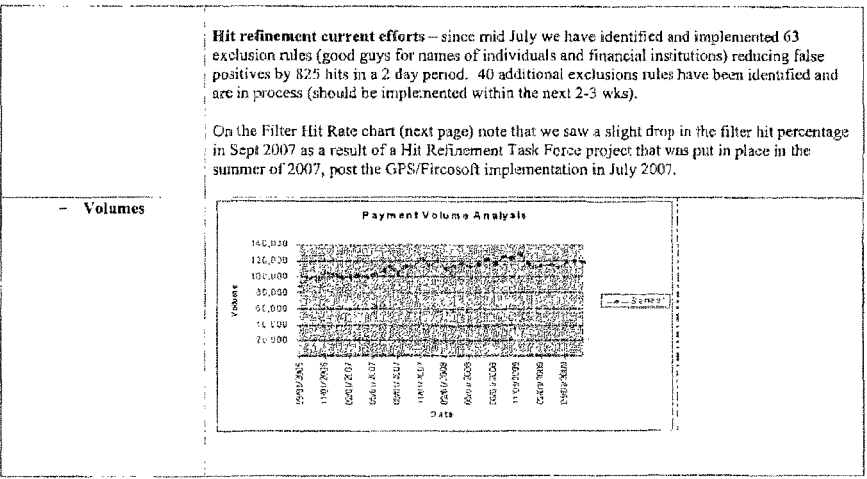
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Topic	Notes
<b>HSBC</b>	
HSBC Profile	Page 5 Map indicates office in Tehran -- may need to be prepared to discuss [David Bagley].
HSBC OFAC Sanctions Initiatives – Overview	Page 6 & 7 May need to be prepared to discuss why we are applying OFAC globally for USD and not other currencies [David Bagley].  Page 8 Deloitte benchmarking review -- OFAC may be interested in knowing more detail on this review and the results [David Bagley].
<b>HBUS</b>	
HBUS OFAC Compliance Program	
- Overview	Page 10 May need to be prepared to discuss how we risk assess our OFAC program.  Answer: We utilize the HNAH Compliance Risk Mitigation Program (CRMP) which includes an annual assessment conducted by Compliance of OFAC regulation against each line of business. The business then conducts (annually) a detailed risk assessment utilizing more granular risk templates developed by Compliance - indicating controls, etc. Results of the High Level Risk Assessment drive the Compliance Testing Program in terms of frequency and coverage. Examples of business lines scored as High Risk for OFAC in the High Level Risk Assessment are: FCM, Banknotes, Private Banking, Retail/PFS.
- Compliance Organization	Page 11 Discuss Corporate Governance and Board involvement/reporting.
- Policies and	Page 12

<p><b>Procedures</b></p>	<p>What is our position on Iranian entities?</p> <p>Answer: We take a hard stand against Iranian entities, to the point that we have added over 3,000 non sanctioned interest Iranian businesses and companies known to trade with Iran into our filter.</p>
<p>- <b>Training</b></p>	<p><b>Page 13</b></p> <ul style="list-style-type: none"> <li>- Specialized training conducted for PCM, Private Banking, Compliance officers conducting monitoring, particular Group entities, Operations staff.</li> <li>- On-going meetings with the Operations team to discuss recent misses and remediation, as well as items appropriately stopped.</li> </ul>
<p>- <b>Testing</b></p>	<p><b>Page 14</b></p> <p>Note the comment regarding CRMP above.</p> <p>In higher risk businesses there are specialized risk based transaction monitoring in place to detect violations and suspicious patterns.</p> <p><b>Example:</b> PCM was conducting threshold violation monitoring and detected large wires being sent to a customer in Greece (shipping company). When asked about the sudden increase in activity they explained that they lease ships to a Chinese company which purchases natural gas from Iran and ships it to China. We placed the name of the Chinese entity in the filter, discussed the violation with our customer's attorney, notified the correspondent bank of the originator (Chinese company) and filed a report with OFAC.</p>
<p><b>Filter Management</b></p> <p>- <b>Overview</b></p>	<p><b>Page 16</b></p> <p><b>Non-sanctioned entities include:</b> Trading companies operating out of Dubai which were identified by HBUS or a peer bank as trading with Iran, vessel name changes, businesses identified as transacting with Iran etc.</p>

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	<p><b>FILTER Hit Rate</b> (percent of total messages with OFAC hits, not total hits)</p> <table border="1"> <caption>Approximate data from the FILTER Hit Rate graph</caption> <thead> <tr> <th>Month</th> <th>Hit Rate (%)</th> </tr> </thead> <tbody> <tr><td>Aug 07</td><td>5.5</td></tr> <tr><td>Oct 07</td><td>5.8</td></tr> <tr><td>Dec 07</td><td>6.0</td></tr> <tr><td>Feb 08</td><td>6.2</td></tr> <tr><td>Apr 08</td><td>6.4</td></tr> <tr><td>Jun 08</td><td>6.6</td></tr> <tr><td>Aug 08</td><td>7.5</td></tr> </tbody> </table>	Month	Hit Rate (%)	Aug 07	5.5	Oct 07	5.8	Dec 07	6.0	Feb 08	6.2	Apr 08	6.4	Jun 08	6.6	Aug 08	7.5
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<p><b>Hit Review Processes</b></p> <ul style="list-style-type: none"> <li>- Client Scanning</li> </ul>	<p>Page 20</p> <ul style="list-style-type: none"> <li>- Scanned using Firecoft on a nightly batch process and output reviewed through ICRO.</li> <li>- We scan authorized signers and beneficial owners on all of our Retail and Corporate accounts.</li> <li>- We have a program underway to scan secondary users on accounts transacted on-line.</li> </ul>																
<ul style="list-style-type: none"> <li>- Transaction Scanning</li> </ul>	<p>Page 20</p> <ul style="list-style-type: none"> <li>- IAT ACH project under way to be compliant September 18, 2009.</li> <li>- We do not scan paper checks. (Try not to bring this up voluntarily.)</li> <li>- NOTE: We do have an enterprise wide <b>pouch review program</b> in place whereby checks received through pouch services are reviewed for red flags by processing units which include the requirement to review for OFAC countries. One item was identified and reported to OFAC.</li> </ul>																

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	<ul style="list-style-type: none"> <li>- Page 21</li> <li>- 4 eyes on every payment stopped by the filter. If escalated to Compliance - 6 eyes.</li> </ul>
<b>Initiatives</b>	
- <b>On-going Activities</b>	<ul style="list-style-type: none"> <li>- Specialized training for Operations staff reviewing missed items and discussions on potential remediation of protocols</li> <li>- Client education: IPB has crafted letters to distribute to clients involved in Trade, stating our position related to trading with entities in sanctioned countries and the use of sanctioned vessels.</li> <li>- Middle Market worked with Group affiliates to craft a position paper on declining relationships with European entities with known Iranian operations.</li> <li>- Internal policy related to SARs for rejects and blocks involving US entities was established in Nov. 2008.</li> </ul>
- <b>Industry Challenges</b>	<ul style="list-style-type: none"> <li>- OFAC may ask how we are handling incoming covers (not fully disclosed from non Group affiliates). <b>Answer:</b> If we detect a cover that hit for another reason, we review it and require full disclosure through a MT 199. We do not stop all covers (Some banks do)</li> <li>- OFAC may ask how we are handling Iranian shipping entities. <b>Answer:</b> We have a staff in the UK who research name changes. Once identified, the new names are entered into the filter. Recently we had our first experience with a Letter of Credit citing use of an IRISL vessel. We filed for a license which authorized us to reject the documents and return them to the exporter, our customer. Since then we have had two similar incidents.</li> <li>- May ask about Sudan... In Jan 2009 we implemented a specialized review process in Payment Ops for hits involving OFAC countries, including Sudan.</li> </ul>

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**Vulnerabilities**

Issue	Background	Action taken
<p><b>Systems (GPS &amp; Filter)</b></p>	<ul style="list-style-type: none"> <li>- Installed new payment system (GPS) and filter (Fircosoft) in July 2007.</li> <li>-</li> <li>- Went from a token based filter to fuzzy logic.</li> <li>-</li> <li>- Identified issues related to:                             <ul style="list-style-type: none"> <li>- <b>BICs</b> - GPS issue - BICs not expanding into text – expansion issue rectified in 4Q08.</li> <li>-</li> <li>- <b>Line splits</b> – GPS issue (i.e: I Ran) which resulted in the filter not identifying the item because of the inserted space, which was inserted to avoid a text wrapping issue. Working with IT teams for solutions.</li> <li>-</li> <li>- <b>Embedded words</b> - Filter issue (i.e.: <i>Iranmaterials</i>). Industry challenge.</li> <li>-</li> </ul> </li> </ul>	<p><b>Filter refinement current efforts:</b></p> <p>Continue to work with Fircosoft to remediate issues through ongoing dialogue as well as structured weekly team meetings. Fircosoft, Compliance and IT staff are a part of the team discussions and work together to document and resolve issues and test new filter enhancements. We are taking a new filter release in Nov 2009 with enhancements HSBC has requested to improve our filtering capabilities.</p> <p>In addition, recently met with Fircosoft in their NYC office with NYC senior acct manager and 3 senior product developers/owners from their head office in France to discuss filtering challenges, such as embedded words (which is an industry challenge). Fircosoft indicated in our meeting that another U.S. customer recently had an issue with an embedded word. Fircosoft is actively working on this industry wide issue and balancing the issue of missing an embedded word against the potential impact of false positives based on filter algorithm changes. We've requested that our Fircosoft account manager put together a business proposal to come onsite with their developers to work with HBUS to brainstorm on filtering issues faced by HBUS and the industry – and in particular the embedded word issue. We do not currently have a date on proposal timing.</p>

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<p><b>Human Error</b></p>	<p>Increase in filter hits has increased the volume handled by both the reviewers and Compliance.</p>	<p>The following activities have been implemented or are currently in process:</p> <p>Specialized review of country sanction hit review process and Compliance quality control review processes have been implemented.</p> <p>Hit workflow improvements (designated system queues). -- Including creation of a new process flow which is currently manually executed and will be systemically executed by year end. The flow isolates OFAC country hits for particular review. (Iran, Sudan, Burma and Cuba). System enhancements will also isolate non OFAC related hits (i.e.: Maritime Attachment hits) from OFAC SDN hits.</p> <p>Filter and payment systems enhancements to improve the presentation of the hit and related transaction information for ease of review. Due for release 3 of GPS in 4Q09.</p> <p>Hit refinement to create better quality hits and manage the "false positives." Project team established. Exclusions input since July 2009 have resulted in reduction of 825 false positives in a 2 day period. Ongoing efforts.</p> <p>OFAC support staffing needs analysis underway.</p> <p>Inclusion of HIBUS identified 'Non-Sanctioned Interest Entities' (aka Grey list) in Group list for Group-wide USD payments scanning -- implemented effective 31AUG09. These are mainly Iranian entities, which is in keeping with Group policy in terms of not processing USD payments involving Iranian entities.</p>
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	<p>Group policy to adopt HBUS standard of "Second Level Reviewer" process (i.e.: '4 eyes approach') Group-wide. Not yet implemented. No date yet set. Historically has been met with some resistance by the business.</p> <p>Specialized training programs have been designed and implemented to assist specific audiences in the review of the matches - Specialized training for dedicated staff responsible for reviewing country sanction hits and training of Group entities who process USD payments through HBUS.</p> <p>In the process of enhancing individual employee performance accountability program re human error and MIS to track "repeat offenders".</p> <p><u>Human Error Stats</u> since receipt of Cautionary Letter in OCT08:</p> <p>OCT08 - 14 NOV08 - 11 DEC08 - 5 JAN 09 - 2 FEB09 - 4 MAR09 - 2 APR09 - 3 MAY09 - 0 JUN09 - 2</p> <p>Total of 43.</p>
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		Note that the change in review process for country sanction hits was implemented ended in mid JAN09. Specialized training has also been implemented.
<b>Non-Sanctioned Interest</b>	<p>Vessel names are changing.</p> <ul style="list-style-type: none"> <li>- US FIs are independently identifying Iranian businesses operating out of Dubai and the Far East. These result in rejects and subsequent reports. In the event the entity was unknown to HBUS, we place the entity on the filter. We now have over 3000 non-sanctioned entities in our filter which cause us to review all potential hits related to these names.</li> </ul>	<p>inclusion of HBUS identified 'Non-Sanctioned Interest Entities' (aka Grey list) in Group list for Group-wide USD payments scanning - implemented effective 31AUG09. These are mainly Iranian entities, which is in keeping with Group policy in terms of not processing USD payments involving Iranian entities.</p>
<b>Removal of Payment Information</b>	<p>Originating party removed reference to Iranian ship after HBUS rejected the same payment earlier the same day.</p>	<p>Exiting the relationship (ref [REDACTED])</p> <p>Created and implemented a reject surveillance process to identify/prevent similar situations from occurring.</p> <p>Parameters input into GPS to detect re-effected wire include:</p> <ul style="list-style-type: none"> <li>- Value range (+/- \$100)</li> <li>- Date range (2 weeks)</li> <li>- Debit party account number</li> <li>-</li> <li>- Program in early phases, will modify based on learnings.</li> <li>-</li> <li>-</li> <li>- <u>Comfort Level:</u></li> <li>-</li> <li>- <b>Transparency</b> - Group has implemented leading edge policies re sanctions compliance (i.e.: fully serial method for USD payments, stopped processing U turns prior to OFAC revoking the U turn exemption)</li> </ul>

1641

[REDACTED] - Redacted by the Permanent Subcommittee on Investigations

		<p><b>Tone From the Top</b> - Set a strong tone from the top -- HSBC takes this seriously, evident in the issuance of Group policies re OFAC.</p> <p>- <b>Cover Payments</b> -- within HBUS, when a cover payment is stopped by the filter and escalated to Compliance we hold the payment and request more information from the originating party, such as purpose of the payment, good/services involved, if goods involved we request vessel name, ultimate beneficiary of the payment, etc. Information received is reviewed and assessed then a decision is made re payment disposition (process, return, reject, block, hold for more info).</p>
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HSBC OCC 8874228

1643

Report No: GAQ 060007

●  
GENERAL AUDIT REPORT  
●  
HBMX - KYC OF USD CURRENT ACCOUNTS IN GRAND CAYMAN  
GROUP AUDIT MEXICO  
JANUARY 2006

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**1 EXECUTIVE SUMMARY**

**1.1 Background**

HBMX offers their clients the option to open USD current and investment accounts in Grand Cayman so that clients profit the advantages of that country, such as tax free investments, under confidentiality terms

At NOV05 HBMX reported c 1,500 current accounts located in Grand Cayman. The relevant branches hold responsibility for the opening, management and control of such accounts.

The audit was conducted by Raúl Aguirre and Daniel Garcia of Group Audit Mexico from 25DEC05 through 05JAN06. This is the first audit of the KYC process of USD current accounts based in Grand Cayman conducted by HBMX GAQ

**1.2 Audit objectives**

The objectives of the audit were to assess and report on:

- the appropriateness, efficiency and effectiveness of the internal control environment and the susceptibility of that environment to failures in internal controls or breaches in authority in relation to KYC.
- compliance with Group and local policies and procedures regarding the opening of USD accounts in Grand Cayman
- the adequacy of account file completion.
- the accuracy of the information input to the CIS-Hogan system against the information contained in account files
- the security in the administration and custody of account files

**1.3 Audit scope**

The scope of the audit fieldwork entailed, inter alia, a review of the KYC of 68 USD accounts located in Grand Cayman.

- Accounts with statuses 1 (new), 4 (dormant with balance above MXN 1k) and 99 (Active)
- The account files that were reviewed covered a total of 26 HBMX branches corresponding to 5 District Offices of the PFS Metro region, as follows
  - Z01B01 - Branches 17, 99, 77, 504, 1920 y 3007
  - Z01B03 - Branches 19, 41, 1236 y 3003
  - Z01A10 - Branches 39, 59, 561, 584, 1157, 1574, 1017 y 3025
  - Z01A11 - Branches 87 y 3009
  - Z01A12 - Branches 55, 537 y 3011
- Adequate completion and existence of account files as per internal and external policies (Art 115 Banking Law and circular letter Depvist045)
- Adequate custody of account files as per Bank's regulations (circular letter Admon013)
- Reasonability and consistency of the information captured in CIS and Hogan against the documentation maintained in the file.

**1.4 Conclusion**

Derived from the findings noted in the process to open USD current and investment accounts in Grand Cayman and KYC process, the auditors have assessed the control risk of the District as **Below Standard**, mainly due to the key issues detailed below:

More than 50% of account files that were reviewed lacked the relevant visit report, which weakens the position of HBMX in terms of the KYC process for these types of accounts (Grand Cayman), particularly those accounts opened by foreigners. In addition, in 13% of files reviewed the visit reports failed to include material information enabling to have adequate KYC.

Weaknesses were noted in the supervision over the account opening process, which also impeded to detect promptly any information missing in account files or inconsistencies between the information produced by the client and the data captured in C&Flogan. Omissions were noted in the references that should be captured at the DOPR screen, which impeded the system to detect any duplicated references. In addition, the auditors identified foreign clients who were input to the system as nationals.

In addition to the foregoing, c. 15% (10) of account files were not found at the Branches. No actions had appeared to be taken to instruct RMs to complete client's file again.

In particular the auditors identified that for accounts opened by foreign clients, these had produced expired immigration forms and that Branch staff did not maintain a copy of all the pages composing such document. This situation was due, in part, to the fact that circular letter Depvis045 (Procedure to open current and term accounts) is not clear in the procedure to open these types of accounts (Grand Cayman).

The auditors wish to thank PFS Branch staff for their assistance and cooperation during the course of the audit.

Appendix I

**COMPLIANCE RELATED RECOMMENDATIONS**

The auditors considered the following recommendations were compliance related issues

<u>REPORT</u> <u>REF</u>	<u>RECOMMENDATION</u>
3.1 & 3.4	Branch should ensure that KYC and account opening documentation is complete and in compliance with regulations.



1647

**From:** Sandy Flockhart  
**Sent:** Wed Apr 04 15:13:37 2007  
**To:** Graham THOMSON, Matthew J W KING  
**Cc:** Liz A TESTER, Paul A THURSTON, Sergio PINA  
**Subject:** Re: GROUP AUDIT COMMITTEE - APR07  
**Importance:** Normal  
**Attachments:** Doc Link.htm

Graham,

I believe you need to show some light and shade as to the steps taken to improve documentation, the improvement in Fiduciary, the rationalisation of Finanzas, and Finanzas we know the issue but in Fiduciario as we cannot lay off the risk there will always be uncertainty the fact that in credit cards the principal issue is the updating of F&A on and growth points and balancing of resources the fact that our principal fraud reflected to prior years and that the casino funds were organised crime events and that prevention was very difficult unless staff spoke up and possibly there was pressure put on them. As for regulatory fines we have stopped fighting these which may be a mistake but a number were where the past administration decided to clear their books.

This type of analysis should be brought to the Audit Coms attention. I would appreciate if you could consider such an analysis as it will benefit members understanding of our environment.

Respect,

Sandy

----- Original Message -----

**From:** Graham THOMSON  
**Sent:** 04/02/2007 05:46 PM  
**To:** Matthew J W KING  
**Cc:** Liz A TESTER, Paul A THURSTON, Sandy Flockhart, Sergio PINA  
**Subject:** Re: GROUP AUDIT COMMITTEE - APR07

Matthew

In response to your email I comment as follows:

The main systemic weaknesses in HBMS, which I believe remain outstanding, are as follows:

KYC as identified in branch and continuous audit reports.

The lack of adequate documentation and filing systems which remain from the former Bital days, evidenced most sharply in the legal cases in Bital and the outstanding Trust cases, where we continue to be at risk.

Lack of a compliance culture evidenced in the most serious way by the number of staff delinquencies and (in a more widespread general negligence) in

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HSBC OCC 8874328

the number of fines we receive from the regulators for avoidable errors -  
e.g. failing to report branch openings, or senior management appointments, on  
time

User access control and passwords

Inconsistent MI produced by Finance, the Business and CRM which has hindered  
early identification of problems as well as hampering effective decision  
making

Regarding operating losses and credit card frauds I append the following  
comments

Op Losses - The trend in 4Q06 caught the attention of Management and action  
has been taken to mitigate losses. A working group is being established to  
improve the reporting (timeliness and completeness), accuracy of the Goodwin  
database and analysis of events, based on recommendations made recently by  
GAQ.

Credit Cards - A review of credit card frauds which was the most significant  
contributor to Op Loss, was recently completed by GHQ and the business is  
responding to the report's recommendations and are putting in place a series  
of steps to improve the quality of our card fraud prevention and management  
so as to reduce card fraud back to within local industry norms.

The foregoing was discussed with Paul Thurston. These comments will be  
included in my report to the next HBMA Audit committee

Regards

Graham Thomson  
Head of Group Audit Latin America & Mexico  
Tel: (323) 55 5721 6236

Matthew J W KING GGM INA GHQ/HGHQ/HSBC  
Sent by LU A TFSJ ER  
02/04/2007 04:52 a.m.

To  
Graham THOMSON, HBMA, HSBC@HSBC  
cc

Subject  
Re: GROUP AUDIT COMMITTEE - APR07

May I please have a response to the attached today as I need to finalise my  
GAQ papers first thing tomorrow

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1649

Regards,

Matthew King

Matthew J W KING, CCM INA GHQ-HGHQ-HSBC  
CCM IN A GHQ/HGHQ  
Sent by: 11/21/2007 13:19  
28/11/2007 13:19  
Phone No: 799 21176  
+44 (0) 79 799 21176  
Mail Size: 2425

To:  
Graham THOMSON HBMX@HSBC  
cc

Subject:  
Re: GROUP AUDIT COMMITTEE - APR07  
Entity:  
HSBC Holdings plc - HGHQ

Graham,

Thanks,

Could you summarise the main systemic weaknesses in HBMX which you believe remain outstanding. I appreciate these may already have been reported, but presumably some have been addressed. Where do we stand on the rising (I think) incidence of operating losses and credit card frauds?

Regards,

Matthew King

<< >>

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HSBC OCC 8874330

1650

**From:** John F ROOT  
**Sent:** Wed May 17 11:08:33 2006  
**To:** Susan A WRIGHT  
**Cc:** David W J BAGLEY  
**Subject:** Fw: Internal Audit reports  
**Importance:** Normal  
**Attachments:** image\_0.gif; image\_1.gif; image\_2.gif RESPUESTA CONS GAO050118 v-1.doc GAO Compliance 050118.doc; Reply\_INA.doc

Susan,

As you can see from the document attached on the right (the one in English, with a summary of the HBMX Audit findings on AML and CAMP, and AML's responses), the audit points are being strongly rejected by HBMX AML. AML is also alleging errors of procedure, e.g. audit findings that were documented in the final report, but not in the exit interview. Many, if not most, of the recommendations were "rejected" or downgraded in importance by AML, which is certainly a heartfelt, but rather unusual *forma / reaction*, to an audit. Most of us just accept audit recommendations, whether perceived to be "fair" or not, and proceed to implement them.

I have let the dust settle a bit, as AML management clearly feel aggrieved, but closer monitoring is warranted on the specific audit recommendations.

I would be glad to explain the Mexican wrinkles. For example, a RAP is a payroll account, where the account holder is the employer. AML seems to be arguing that monitoring is done at the employer level through the business, rather than at the employee level.

A number of recommendations trouble me, but the one that most sticks out is apparent lack of monitoring of the (relatively few) AML staff in the field. This raises a "red flag" in a place like Mexico, where the drug cartels are very powerful and ubiquitous. As with say, Brazil, progress is usually made by the Federal government, not state and local authorities. It is therefore vital that the centre hold, both with the Federal government and with HBMX AML. To aver, as the audit does, that "we do not really know what our man in the field is doing" is a warning sign, if true. AML, of course vigorously deny this.

The translation is a valiant attempt, but a bit choppy. The original Spanish document reads better.

Regards,

John Root

--- Forwarded by John F ROOT:HGHO:HSBC on 17/05/2006 10:42 ---

**Leopoldo R BARRON@HBMX:HSBC HBMX**  
08/05/2006 20:22 Mail Size: 4607138

**To:** John.F.ROOT@HGHO:HSBC  
**cc:** Ramon.GARCIA@HBMX:HSBC@HSBC  
**Subject:** Internal Audit reports  
**Entity:** HSBC Holdings plc: HGHO

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John,

Please find enclosed a copy of the Internal Audit Report made to HBMX-CMP, and the response sent to INA. Both documents are in Spanish since a translated version was not available at the time, however, I am also including a summarised version of the INA's findings with our responses.

Additionally, The supervision visit carried out by the Mexican Financial authorities has concluded for the MLD department, our exist meeting will take place May 8, 2006. Deriving from the talks, and the feedback itself of the auditing process our outcome will be satisfactory, the only two findings that will be issued are related firstly, to the necessity of implementing a High risk customers questionnaire, which will be covered by the undergoing process to comply with Mexican "UBA" recent requirements, that we had launched throughout the workgroup that serves the purpose, and secondly, it is a requirement of the CNBV that whilst opening a CDA account by a customer is no longer an obligation to contract a loan by domestic regulation, "Krone" must be monitored for AML purposes as well as "Hogan"

A number of recommendation were also issued, however, as in name implies they are not enforceable. We think that if actual results of the audit are as described above, our department has accomplished the necessary improvements to be at a significant level of performance, and could be compared or taken as a leader of the function within the Mexican Financial sector. I will confirm if the "Exit meeting" with the CNBV was as expected from the above comments

Best Regards  
Leopoldo



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HSBC OCC 8874385

## Internal Audit Main Findings to MLD

INA has issued a set of findings from the programmed Audit, we have listed below the most relevant, or those where MLD does not concur with INA:

Ref.	INA Finding	MLD Reply
	<b>High Risk Findings</b>	
4.3.1	The MLD Department does not use CAMP in its entire functionality.	We do not know of any internal requirement, nor regulatory that obligates an area to use an application in its entire functionality, even if it is not totally applicable to the specific needs, additionally, the reports not used are mostly informative, and not operative. The finding was not accepted.
4.3.7	MLD does not have a proper control over the users and privileges of CAMP. Like test users, users from staff not working in the area, etc. Additionally, MLD must establish a process to monitor such users management periodically.	We have argued that the hardware and software requirements to access CAMP is quite different to that of the traditional HSBC user; therefore, even that we accept to have some users that should have been deleted or revoked, it is virtually impossible to access CAMP for areas different to MLD, all mentioned users will be terminated, and the process to monitor such users control has been documented. We do not concur with the Risk level graded.
4.3.10	Two months ago a change to CTR (Currency Transaction Report) report was issued by MLD as a consequence of regulation changes, where an inclusion of Tax identification, date of birth, and the Mexican CURP were required, where IT has developed a semi-automatic process to correct such report, MLD must file an IT requirement to automate the report.	The IT requirement will be presented; however, there will be no substantial change between the semi-automatic procedure established, and the automation of such procedure since virtually it does not embeds any difference to the actual procedure. We do not concur with the Risk Level, the finding was accepted based on the fact that it was graded as low risk.
4.3.11	MLD has IT final user developed applications that do not comply with Group Standards.	We will document our IT routines, in order to hand them to IT, which is a process that is underway, it is important to mention that most of the routines are at the Interpreter level, conforming a workflow.
4.3.12	There has not been carried out a review of all of CAMP's detection parameters by the MLD staff, nor a formal procedure to modify, monitor, or give maintenance to such parameters.	We recognise the need to periodically modify, monitor or give maintenance to such parameters on a yearly basis; however, we consider that due to the recent implementation of the applications by OPSCO a whole review of all parameters is inappropriate. We consider that this should not be a High Risk finding but only a recommendation.

Ref.	Medium Risk Findings	
4.1.1	MLD does not have a training programme in place to properly train staff over CAMP, and MLD matters.	MLD staff is properly trained in compliance with Article 115 of the Financial Institutions Act, and the equivalent Article of the Insurance Institutions Act. As for CAMP, staff was trained by HBUS staff last May05, and since analysts and supervisors use CAMP as an alerts management application, very limited training is required. <b>The finding was not accepted.</b>
4.1.3	There are not formalised agreements with other areas whom supply data to MLD	MLD has formalised an agreement of this type with CIS to 'black list' customers who are reported through out the MLD Committees. MLD basically receives information from PIF, and LGA under non-periodic basis and it depends upon particular cases. As for IT only the CTR Report is received to be transmitted to the authorities. <b>This finding was not included in the Exit Meeting nor in the individual discussions of finding with our staff; therefore, it was not known until the date of release of the Final Report.</b>
4.1.4	MLD upcountry staff does not have a proper working plan, and as well the adequate supervision.	Upcountry staff is located in High Risk areas in terms of MLD, additionally, their functions are reasonably designed, and supervised specially devoted to important Unusual Activity reports and special cases given their experience and profile. <b>The finding was not accepted.</b>
4.1.7	Even that the MLD head did stated that goals have been set, there is no evidence of such plan. There is not a perception of change from the analysts stand point of the new management, since the alerts analysis have not changed. <ul style="list-style-type: none"><li>➢ Lack of supervision by leaders, and managers.</li><li>➢ Nil communication from Sub-directors and the Director</li><li>➢ Lack of access to systems (Cierre diario, Spei, Ordenes de pago etc )</li><li>➢ Work overload.</li></ul>	Perception of change is an abstract concept. The methodological process of alerts analysis has changed dramatically, simplifying the process, thus reducing workloads, and not allowing to have backlogs. Executive leadership is a prerogative of the line of command, this a vague perception issue. All relevant information is analysed through "Hogan", there is not any need to have accesses to applications where transactions are contained in "Hogan". Processes are more efficient, we do not concur with the fact that there are overloads, nowadays analysts are attending strict working hours. <b>The finding was not accepted.</b>
4.2.1	There is no evidence that closed non	We have 3 stages in our workflow to



	reported alerts are supervised.	<p>supervise such alerts, firstly, the work done by the analyst, secondly, the project leader validates the work done by the analyst, which finally, is confirmed or denied by the manager, a trace is left by the hierarchy level accepting the alert</p> <p><b>This finding was not included in the Exit Meeting nor in the individual discussions of finding with our staff; therefore, it was not known until the date of release of the Final Report.</b></p>
4.2.2	Even though strategies have been set in place to help make more efficient the alerts analysis process, the workload remains unsatisfactory	<p>We have established strategies that tend to manage properly our alerts, we do not have excessive workloads in our staff, and our belief is that the finding is a value judgment</p> <p><b>The finding was not accepted.</b></p>
4.2.3	There is not an adequate follow up to the MLD Committee resolutions.	<p>The first element of an MLD Committee is to read and follow up the former session, we accept that in an exceptional number of cases there has not been proper follow up, but in some of those cases there were inaccurate agreements that can not be completed.</p> <p><b>The finding was not accepted.</b></p>
4.2.4	OFAC and World-Check listings are not verified by managers, and supervisors	<p>A periodical process will be established in order to compare our alerts with such listing, including the use of a new list of Latin America SDIs.</p>
4.2.5	Lack of communication between LCOs and subsidiaries related to MLD tools	<p>LCOs from the subsidiaries are invited to the MLD Committees, therefore, their involvement with the subject is high, additionally, accesses to World-Check are to be regulated by OPSCO and CMP, altogether with the implementation of "WOLF"</p>
4.2.6	CAMP does not allow the monitoring of some products such as RAP accounts, Concentrating Accounts, Credit Cards and transactions of remittances companies. MLD does not have a plan to cover said products	<p>CAMP does not monitor RAP accounts, it was decided not to monitor them since the account holder is followed up by the business. As for Credit Cards, there is monitoring when the customer has also a cheque account holder of HSMI. Remittances companies are treated as SCCs, and as such they are currently attended by CIBM, also the payments are limited to non customer thresholds</p> <p>As for concentrating accounts, and specifically the "Casa de Bolea" account issue has not been accepted and is being reported by the MLD Committee setting specific instructions to the business to close the account, and instrument other vehicle for those customers</p> <p>During the Exit Meeting the products that</p>

		were mentioned as not monitored were different to those finally printed in the report.
4.2.7	Despite the fact that "WOLF" has not been implemented yet in HBMX an alternate method to monitor local and international remittances to prevent ML operations has not been established.	MLD monitoring of the transactions is in place throughout CAMP reviewing "HOGAN" a system to monitor local remittances is not prospected, since CAMP is in place for that fact, and the use of WOLF is aimed for OFAC Compliance which is restricted to a list which is not restricted to AML but also to USA enemies, and not to unusual transactions that might perform a ML suspected activity.
4.2.8	To establish throughout the MLD Committee agreements to have a central database of SCCs	We have complied with the compromises to keep a central database with all customers under this category with the business throughout the MLD Committee, we recognise that follow up must be enforced with the business, to enhance this process, and a new database has been purchased to also enhance our current data. The finding was not accepted.
4.2.9	Lack of follow up and build up of managerial reports that allow a proper mean of control regarding policies that should be followed by other areas, specifically in terms of Circulars Banmex014, and Sinter009	Regarding Circular Banmex014 the main responsibility rests in HR, since this circular pursues punishment to colleagues that flunk the MLD evaluation, As for Sinter009, is related to KYC procedures, whereas it was argued that another Circular CMPPLD05603 establishes KYC policies, including schedule visits to their customers by the business. We commented that on our stand point there is an adequate circulation of said policies. The finding was not accepted.
4.2.10	The MLD department does not intervene in the detection, and analysis of MLD operations for some subsidiaries	We are evaluating the acquisition of a application from an outside vendor, who appears to have implemed its system in HSBC UK's Private Banking. However, applications for the Bond Company, and the Insurance Company had been developed that marginally comply, specially for the Bond Company that nes very scarce activity, as for the Insurance Company in general it is monitored throughout "Hogan" since most of their volume is related to Bank-insurance
4.3.2	There are not letters signed by staff with the reception of responsibilities when user identifications are issued within CAMP. There is not an adequate control over privileges of Hogan's users from former colleagues of PFS	The related staff is part of the MLD department, additionally, all staff has signed confidentiality agreements that include all sensitive issues IT norms expresses that the transferring department must ask for cancellation of privileges, and access to colleagues

		departing the area by advising Logical Security. <b>The finding was not accepted</b>
	While there are strategies to make the analysis of CAMP related SAR more efficient, those strategies are not yet sufficiently solvent to make the analyst workloads acceptable.  To evaluate the system parameters to stratify alerts by complexity and to verify that the staff required is proportionate to the tasks required.	We have developed automated strategies and methods to make the analysis of said SARs more efficient. The improvement of the quality of the analysis is not correlated with the increment of the staff crew. Workloads are within medians for HBMX. <b>The finding was not accepted</b>
4.3.3	It was identified that an user in CAMP has System, and Business administration roles, as well as Money Laundering Reporting Officer (MLRO) privileges.	Corrected, the MLRO user has been eliminated and a read only user has been assigned in contrast. As for the System Administration function, and the Business Administration function, there are different functions that guarantee proper segregation. <b>The finding was not accepted</b>
4.3.4	To assure an alternate person for the functions related to CAMP's System Administrator, and the Business Administrator.	Eduardo Alvarez, who is the AML Compliance Officer, will be instructed, and trained to fulfil such tasks as an alternate.
4.3.5	It was identified that the Write Access, No Access, and Read Access roles are not used currently by any user. It is recommended to terminate such roles if there is no use for them.	CAMP's roles are given by default, MLD did not create those profiles, whereas, we do not think it is relevant to terminate them since a probable profile might be required in the future. <b>The finding was not accepted</b>
4.3.6	It was found that some users have two access accounts, and other users that do not belong to the MLD area.	CAMP's new version was released last Oct05 and it does not allow the Administrator to perform such task, it will be requested to the Logical Security area to correct such differences. <b>MLD accepted the finding graded as a low risk one.</b>
4.3.8	MLD is not properly using accesses profiles as established by the application's manual, specially related to Business Investigation Unit (BIU) users.	We explained INA that BIU users do not have capacity to close daily alerts, which is a HBMX specific need due to regulation. We also explained INA that this issue was reported to HBUS that we were not using the BIU users, and only the MLRO for the lack of functionality of the BIUS. <b>The finding was not accepted</b>
4.3.9	There are some limitations to the extent of the analysis of the MLD alerts, since tools along the area not standardised for all analysts.	We do not understand which specific frame obligates that every single analyst has the same tools to analyse the alerts that are assigned. Since, we have differentiated tasks, and in some cases the accesses are given to the whole department, which is the case of Beta93, as well as the accesses to the Branch network journals, we can not

		assign the same tools to every single analyst <b>The finding was not accepted</b>
4.3.13	MLD has not attended properly error logs that were generated during AUG05.	We will notify HBUS of such condition, due to the importance of such Error logs, we consider this finding to be overstated in terms of Risk.
4.3.14	It was detected that the MLD Department uses semi-automatic processes to generated information of the alerts that are presented before the MLD Committees, as well as, the information sent to the CNBYV. Not using for the purpose dual controls.	We have established dual controls along the line of command of the area, from Sub-directors to analysts. Additionally, the file that is transmitted to the CNBYV is a text file that is submitted through their Web Site "SITTI" <b>The finding was not accepted</b>
Ref.	Low Risk Findings	
4.8.1	<p>Insufficient determination of Operational Risk associated with the MLD area.</p> <p>Lack of evidence of the review of all files of customers reported to the authorities.</p> <p>Review the SLA signed with IT regarding response times, inputs, and outputs</p> <p>CAMP implementation documentation is insufficient.</p> <p>Coordinate with IT the automation of the implemented process of cases presented before the MLD Committees</p>	<p>MLD will review properly the Operating Risks not detected.</p> <p>There is not express obligation of signing the file, there is currently an electronic evidence of the analysis.</p> <p>We will review the SLA with IT</p> <p>OPSCO has control over such documentation, and they were delivered to INA during the Audit</p> <p>This is not viable since CAMP can not automate the process, it will have to be done throughout other developed application that would contain all required stages of the Workflow</p>

**Key Issues:**

- The report was contested by MLD including most of the arguments depicted above last November 14, 2005, whereas the Final report was issued by INA on December, 2005, not expressing our arguments to their findings.

- The GASM 'General Audit Standard Manual' states on its "EXIT MEETING" section the following.

**Exit Meetings**

It is audit policy that exit interviews are held with senior management on completion of the audit fieldwork. On a small audit it is expected that all points which will be raised in the final report are discussed. For larger audits, the meeting may be restricted to the key points, but detailed presentations should be made to department heads covering the lower risk issues. Agreement or disagreement with audit recommendations at exit meetings should be documented. Effective use of Summary of Concerns and Recommendations (SCRs) or Interim Progression Documents (IPDs) should reduce the possibility of such disagreements arising at this late stage of the audit.

Auditors should, nevertheless, maintain a healthy dialogue with management throughout the audit advising of the progress of the audit work and of any significant issues as and when they arise.

- INA's report should be submitted to the CNByV as required by this government entity. We recently made the CNByV a presentation of our new procedures and the extent of our capacity to analyze alerts, and in general to manage appropriately AML related issues, which is currently an area of high concern for the authorities. The report as it is written might generate misleading appreciations by the CNByV, and might also create misleading impact from our presentation, which we think was made in view of all enhanced procedures on the department.

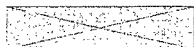
1660

From: Graham THOMSON  
Sent: Tue Oct 28 23:26:05 2008  
To: Matthew J W KING  
Cc: David W J BAILEY; Emilson.ALONSO@hsbc.com.mx; Lewis J P WILSON;  
Alfredo.BOLANOS@hsbc.com.mx  
Subject: Fw: HBMX - Proyecto Restauracion  
Importance: Normal  
Attachments: image\_0.gif; Doc Link.nrm; Minuta junta de cierre ProjRest - ENG.doc

Matthew

I attach for your information the self explanatory correspondence relating to the above, which outlines the results of the recent project audit completed by GAQ.

The attachments that were included in my email to Emilson have been removed as they are in Spanish, although in their place is an English translation of the closing meeting minutes.



I/Lewis will keep you advised of developments

Please let me know if you require any clarification on the foregoing.

Regards

Graham Thomson  
Head of Group Audit Latin America & the Caribbean  
Tel (52) 55 572 1 6236

----- Forwarded by Graham THOMSON/HBMX/HSBC on 28/10/2008 04:52 p.m. -----

Emilson.ALONSO/HBMX/HSBC 28/10/2008 04:48 p.m. To: Graham THOMSON/HBMX/HSBC@HSBC04  
cc: Luis PENA KEIGEL/HBMX/HSBC@HSBC04; John R RENDALL/HBMX/HSBC@HSBC04; Chris R BENTLEY/HBMX/HSBC@HSBC04; Lewis J P WILSON/GAA/AMH/HSBC/HSBC03; "Leonardo ARANA" <Leonardo.ARAMA@hsbc.com.mx>  
Subject: Re: HBMX - Proyecto Restauracion

Graham,

Thank you for the up to date. It is disappointing the result of the audit assessment. I am more concerned as this is not what I was assured by HBMX management in the last HBMX EXCO when the matter was reviewed.

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1661

Looking forward to see the final audit report.

Rds

Emilson

Graham THOMSON

----- Original Message -----

From: Graham THOMSON  
Sent: 10/20/2008 04:25 PM CST  
To: Emilson ALONSO  
Cc: Luis PENA RESEDE; John R RENDALL; Chris R BENTLEY; Lewis J P WILSON  
Subject: HBMX - Proyecto Restauración

Emilson

As requested I attended the recent closing meeting of the GAQ audit of the above project.

The auditors in completing their review of Phase 1 of the Project, graded its control risk as AMBER for reasons stated in the attached agenda. The detailed IPDs, which are also attached and will form the core of the audit report, have been reviewed and agreed by the business units. They had not in their final form been signed off by the project sponsor, John Rendall. Attached is a copy of the closing meeting minutes.

The key issues that were identified in the audit and which are being addressed by management include slow progress with remediating PEPs/SCCs and other high risk customers, with some 40% of the KYC records of PEPs/SCC customer segment as at 29AUG08 (internal deadline) not yet remediated. These accounts are now in the process of closure by HBMX Legal.

John Rendall in responding to the audit conclusion, expressed his frustration at the slow progress achieved by the Project team. He enquired how things could be improved and was advised that perhaps the historical resources assigned to complete the task had been underestimated. This resource issue is one of the High Risk IPDs raised by the auditors.

Separately it has been reported that checks done by CMP on visit reports completed by branch staff, which are a key component in KYC procedures for PEPs and higher risk customers, continue to reveal an unacceptable level of "manufactured" visit reports. The accuracy of these visit reports will be key in remediating the Cayman Island (CI) position as the HBMX CEO has determined that all CI customers should be treated as high risk. This situation was discussed in a further meeting that I held with Luis Pena and John Rendall on Monday, when it was confirmed that management would be applying a zero tolerance policy to offenders.

The scope of the audit did not extend to reviewing CI customer KYC. The KYC for accounts opened for CI customers will be verified centrally and remediated in Phase 2 of Project, despite those customers prior to the CEO's embargo on new business, being able to complete account opening at many of the branches and being subject to the same CNBV requirements as onshore customers. It is anticipated that the KYC for approximately 1,000 customers classified in the CI "red" segment for which files are being

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1662

received centrally, should be remediated by 31OCT08 (an internal deadline).

Currently the business owner and compliance are still discussing with GMO CMP the product parameters that are to be applied to lift the current embargo and relaunch the C) product. It is important that these discussions result in practical product parameters as the C) portfolio is an important source of funds for HSBM and it is hoped the replacement product will be shortly submitted to the new products committee and then relaunched.

I shall forward a copy of the foregoing email with only a copy of the closing meeting minute (in English) to Matthew King and David Bagley. Before doing so, please advise if you have any comments you wish to add.

Please let me know if you require any clarification on the foregoing

Regards

Graham Thomson  
Head of Group Audit Latin America & the Caribbean  
Tel (52) 55 5721 6236

[attachment "Agenda de Cierre Proyecto de Restauración v4.doc" deleted by Emilson ALONSO/HBMX/HSBC]

[attachment "Apéndice 1.xls" deleted by Emilson ALONSO/HBMX/HSBC]

[attachment "IPDs Restauración 4 Totales.doc" deleted by Emilson ALONSO/HBMX/HSBC]

[attachment "Minuta junta de cierre v4.doc" deleted by Emilson ALONSO/HBMX/HSBC]

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## Minutes

Closing Meeting – Review of *Restauración* Project

Date of meeting: 23OCT08  
 Time of meeting: 11:00 hrs.  
 Venue: Room A901 – Audit department  
 Subject: Closing meeting

## Attendees:

Chris Bentley - INA	Gitirja Rosas - Operations
John Rendall - COO	Ramón García - CMP
Graham Thomson - INA	Joel Rios - CMP
Carlos Ramirez - Channels	Ricardo Zamora - IT INA
Gerardo Viguera - OPSCO	Sergio Piña - BR INA
Juan Carlos Valverde - OPSCO	Enrique Carmona - BR INA

Laura Ordoñez - ITA INA

## Agenda:

1. The result of the audit conducted of the *Restauración* project was discussed and agreed. The auditors have assessed the total risk grade of the *Restauración* project as Amber. The auditors identified a number of related processes that have been strengthened, yet still there are risks that have not been mitigated. Key factors that contributed in addition to the risk assessment included:
  - a. In accordance to target dates defined for the project, of the issues that were advised to the CNBV, 2 remained outstanding: the integration of 7,941 SCCs files and the cancellation of accounts for which there is no file integrated after 15 days of opening. In this regard, CMP indicated the CNBV has been kept informed of the progress made, and that no regulatory breaches have been incurred by the bank. They acknowledged, however, there are still issues to be completed internally.
  - b. Gaps were noted in SCCs identification and monitoring processes, since the identification of customers performing high risk activities is primarily based on the control applied by the network, without there being monitoring activities in place to support the identification. CMP indicated PEPs and black listed customers were being detected, that Phase II of the project will include other high risk customers, and that they were aware of the need to have monitoring activities in place whilst system changes were implemented.
  - c. It was considered little progress has been made on files integration for customers with transactional levels above USD 100k, being necessary to take actions to accelerate the process.
  - d. The impact of account cancellation on the business, customers and costs should be analysed against the risks that have been mitigated and accepted, as this will allow having adequate controls. The need to adapt the processes quickly to support the decision-making process was discussed.

- c. It was commented that despite there were strategies in place for historical files integration, these had not been formally approved and, more importantly, no actions had been taken to follow up this issue. CMP argued such situation was due to the fact that regulatory provisions will change shortly. They acknowledged, however, that an approach oriented to comply with new regulations may be implemented/incorporated.
- f. One value added issue that was not included in the scope of the *Restauración* project was the adaptation of processes to make the most of files digitalisation, as this will allow improving the operational efficiency and reducing fraud related losses.
- g. In regards to the project, attendees considered major issues were budgeting for Phase II of the project, and resourcing.
- h. Since USD current and investment accounts located in Grand Cayman were not considered for the *Restauración* project, they were not included in the scope of audit fieldwork. However, it was mentioned such accounts would be considered in Phase II of the project
2. INA presented a summary including the assessment of each of the 7 sub-projects, with particular emphasis on sub-projects 2 and 4, corresponding to Special Categories of Clients, where the risk grade was assessed as Red.

Finally, INA explained main issues were project management, budgeting and resourcing, as well as BAU, which refers to the performance of the processes that were implemented.

JR commented that significant efforts have been made to remediate customer files integration; that it was necessary to take quick decisions and actions, and that progress has been made, considering all this started from attending an "emergency".

SP indicated the background section in the audit report will include the comments made by JR, and the situation that gave rise to this project will be also included.

1666

David Bagley

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Memo  
17 Apr 2004 07:55

From: David H HODGKINSON/DCH MEM/HBME/HSBC

Mail Size: 2093

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David W J BAGLEY et al

To: David W J BAGLEY/MGKZ/HSBC@HSBC  
cc: Marion O ROACH/MGHO/HSBC@HSBC  
Warren G LEAMING/RLA LGA MEM/HBME/HSBC@HSBC  
bcc:

Subject: Re: IRAN - CORRESPONDENT BANKING SERVICES

David

I have been in regular contact with Mukhtar Hussain and his team on this topic which is still open. The current position as briefed to me last week was that we have not yet found a way to handle major USD clearing business, and I am anticipating having to explain this to the Central Bank on my visit to Teheran in early May. I have asked our people to put forward the basis on which they believe this could be undertaken with the lowest level of perceived risk, so that if circumstances change we know our preferred way forward.

Regards

David

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1667

**From:** David W J BAGLEY  
**Sent:** Tue May 04 07:48:01 2004  
**To:** John ALLISON  
**Subject:** Re: IRAN - CORRESPONDENT BANKING SERVICES  
**Importance:** Normal  
**Attachments:** Image\_0.gif, Doc Link.htm

John,

I am reluctant to extend until 30-6 unless there is a clear and agreed solution with a definite and proximate implementation date.

I would be grateful if you would discuss and then update me next week.

If we have to shut this down we will also need to be in a position to advise SKG why the netting approach will not work.

Thanks

----- Forwarded by David W J BAGLEY/HQHQ/HSBC on 04 May 2004 07:48 -----

Memo



**From:** Nigel J WEIR/RM IB MEM/HBME/HSBC      **Tel:** 071 4 5077622  
**File Size:** 10102

David W J BAGLEY et al

**To:** David W J BAGLEY/HQHQ/HSBC@HSBC  
**cc:** David H HODGKINSON/DCH MEM/HBME/HSBC@HSBC  
Mukhtar M HUSSAIN/CEO IB&M HFSM/HBME/HSBC@HSBC  
**bcc:**

**Subject:** Re: IRAN - CORRESPONDENT BANKING SERVICES

David,

David has asked me to respond to the attached as he is out of the office at present.



Redacted Material

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HSBC OCC 8874673

[Redacted]

To this end Gary Boon and I have already had discussions with John Allison and he agreed to speak with Rod Moxley in order to work out a suitable solution which will enable us to continue with the existing payments. At this stage I am not certain of the timeframe needed to arrive at this solution but I should know more when I speak with John, Gary and Rod later this week. As such I should be grateful if you could extend your dispensation until 30/6/04 and if for whatever reason this is unrealistic (e.g. if systems enhancements are required) I will advise you accordingly

From a specific bank relationship perspective and indeed an overall Group Iranian strategy perspective we need to find a satisfactory solution to enable us to continue processing the existing payments and avoid a situation where accounts are closed.

Kind Regards and I hope you are well

Nigel

----- Forwarded by David H HODGKINSON/DCH MEM/HBME/HSBC on 04/22/2004 08:56 AM -----

David W J BAILEY HQHQ To: David H HODGKINSON/DCH MEM/HBME/HSBC cc: War  
19 Apr 2004 16:40 7001 8645:44 MEM/HBME/HSBC@HSBC Subject: IRAN - CORRESPONDENT BANKING SER  
2079 318645 Sent by: Martin O  
ROACH

David,

Thank you for prompt response of 17APR04.

I note the position, and of course appreciate the sensitivities within Iran.

[Redacted] I have sanctioned the continuation of these services pending an early resolution of the way forward, but it is clear from your note that we are some distance away from finalising our thinking such that we can go to HBUS with any proposal with regard to a way forward.

In the circumstances, I feel that there is little option other than for me to recommend to HBEU that the existing activity be discontinued given the risk that we are posing for HBUS, unless the solution under consideration at your end gives us a satisfactory option. Would it be possible for details to be provided to GHQ CMP as soon as possible?

Kind regards

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1669

David Bagley

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HSBC OCC 8874675

1670

**From:** Iain STEWART  
**Sent:** Fri Aug 06 14:07:33 2004  
**To:** Michael F GEOGHEGAN, David H HODGKINSON  
**Subject:** Re: IRANIAN - PAYMENT PROCESSING PROPOSALS  
**Importance:** Normal  
**Attachments:** Doc Link.htm; IRANIAN - PAYMENT PROCESSING PROPOSALS.doc; IRANIAN PAYMENT PROCESSING PROPOSALS.doc

Progress report. This will delay it a bit but we are getting there.

----- Forwarded by Iain STEWART/HBEU/HSBC on 06 Aug 2004 13:59 -----  
David W J BAGLEY/HGHQ/HSBC on 06 Aug 2004 11:37

Memo  
06 Aug 2004 11:37

**From:** David W J BAGLEY/HGHQ/HSBC   Tel: 7991 8643  
44 2079 918643  
**Mail Stop:** 122423  
**Sent by:** Mark O ROACH

**To:** Nigel WHITE/HBEU/HSBC@HSBC  
**cc:** Iain STEWART/HBEU/HSBC@HSBC  
Marilyn N SPEARING/HID PCM/HBEU/HSBC@HSBC  
Alan RAMSAY/HBEU/HSBC@HSBC  
Nigel J WEIR/RM IR MEM/HBME/HSBC@HSBC  
Goeff ARMSTRONG/HBEU/HSBC@HSBC  
Phil BAINES/MDBK/HSBC@HSBC  
Brian W RICHARDS/MDBK/HSBC@HSBC  
Rod MOXLEY/HBEU/HSBC@HSBC  
Tony P COLLINS/HBEU/HSBC@HSBC  
Ajay BHANDOLKAR/PCM MEM/HBME/HSBC@HSBC  
**Copy:** BOON/MGR PCM MEM/HBME/HSBC@HSBC  
Jeremy R WALKER/HBEU/HSBC@HSBC  
Michele CROS/HBEU/HSBC@HSBC

**bcc:**

**Subject:** Re: IRANIAN - PAYMENT PROCESSING PROPOSALS

Nigel

Thank you for your two notes dated respectively 4 and 5 August.

My initial reaction is that the proposals are more robust, and therefore more likely to be acceptable than the original contemplated or proposed. I do however think that we should consider the paper in the following way:-

I would like John Allison to look through the paper, from a practical perspective given his knowledge of both payment processing practices, but also from the perspective of the proposed use of the WOLF system.

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1671

We will also need to make a fresh approach to US lawyers for their confirmation that the proposed approach would be OFAC compliant (as HBUS will look for this confirm) and in order to do so, I suspect that we will need John to take them through the practical issues and technical terms before they will feel sufficiently able to confirm their legal opinion.

Unfortunately John is currently on leave, and does not return to the office until 16AUG04. I will ask him to take these steps forward immediately on his return.

Please let me know if the above is going to cause a problem

Regards

David Bagley

Nigel WHITE/HBEU/HSBC on 05 Aug 2004 07:05

Memo  
05 Aug 2004 07:05

From: Nigel WHITE/HBEU/HSBC Tel: 799 12348  
44 207 99 12348  
Mail Size: 116746

To: David W J BAGLEY/HGHQ/HSBC@HSBC  
cc: Iain STEWART/HBEU/HSBC@HSBC  
Marilyn H SPEARING/HD PCW/HBEU/HSBC@HSBC  
Alan RAMSAY/HBEU/HSBC@HSBC  
Nigel J WEIR/RM IB MEM/HBME/HSBC@HSBC  
Gault ARMSTRONG/HBEU/HSBC@HSBC  
Phil BAINES/MDBK/HSBC@HSBC  
Brian W RICHARDS/MDBK/HSBC@HSBC  
Rod MOXLEY/HBEU/HSBC@HSBC  
Tony P COLLINS/HBEU/HSBC@HSBC  
Ajay BHANDOCCLAR/M PCW MEM/HBME/HSBC@HSBC  
Gary BOON/MGR PCW MEM/HBME/HSBC@HSBC  
Jeremy R WALKER/HBEU/HSBC@HSBC  
Michele CROS/HBEU/HSBC@HSBC  
bcc:

Subject: Re: IRANIAN - PAYMENT PROCESSING PROPOSALS

David

Further to my e mail did yesterday re the above, please see the attached message from Phil Baines.

Phil's point is apposite, and thus we will need to make a change to the proposed letter to the Iranian remitting banks - as defined below.

With kind regards

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1672

Nigel

----- Forwarded by Nigel WHITE/HBEU/HSBC on 05 Aug 2004 07:04 -----  
Phil BAINES/MDBK/HSBC on 04 Aug 2004 18:05

Memo  
04 Aug 2004 18:05

From: Phil BAINES/MDBK/HSBC Tel: 7991 2769  
44 20 7991 2769  
Mail Size: 110562

To: Nigel WHITE/HBEU/HSBC@HSBC  
cc: Malcolm G EASTWOOD/MDBK/HSBC@HSBC  
Valerie ROLLE/HBEU/HSBC@HSBC  
Nigel J WEIR/RM IB MEM/HBME/HSBC@HSBC  
Geoff ARMSTRONG/HBEU/HSBC@HSBC  
Brian W RICHARDS/MDBK/HSBC@HSBC  
Rod MOXLEY/HBEU/HSBC@HSBC  
Tony P COLLINS/HBEU/HSBC@HSBC  
Ajay BHANDOLAR/PCM MEM/HBME/HSBC@HSBC  
Gary BOON/MGR PCM MEM/HBME/HSBC@HSBC  
Jeremy R WALKER/HBEU/HSBC@HSBC  
bcc:

Subject: Re: IRANIAN - PAYMENT PROCESSING PROPOSALS

Nigel

I have spoken with Malcolm re my attached note and specifically the proposal that we cancel any payments that contains a narrative in Field 72. Whilst the payment systems "should" identify and reject any payments with narrative in Field 72 to enable us to return them, we cannot be 100% certain that this will operate perfectly every day. For example, a systems glitch could arise such that a payment of this type could be processed or human error could result in such a payment being processed. If the end result were that the payments was subsequently frozen in the US, the Iranian bank could justifiably claim recourse on us as a consequence of our undertaking to cancel such payments. Accordingly, Malcolm and I have concluded that the safest option is to delete the message in our letter advising that we will cancel payments with narrative in Field 72. Whilst this is providing a reduced client service it ensures that the full onus of responsibility is on the remitting bank and not on HSBC.

We would appreciate you notifying Compliance accordingly. The only amendment required is deletion of the sentence in the proposed letter to the Iranian remitting banks under ii) which reads "Payments which continue to be sent with these instructions will be cancelled and treated as null and void by our payment processing areas."

Many thanks,

Phil

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1673

----- Forwarded by Phil BAINES/MDBK/HSBC on 04 Aug 2004 17:45 -----  
Phil BAINES/MDBK/HSBC on 04 Aug 2004 11:06

Memo  
04 Aug 2004 11:06

From: Phil BAINES/MDBK/HSBC Tel: 7991 2769  
44 20 7991 2769  
Mail Size: 103601

To: Valerie ROLLE/HBEU/HSBC@HSBC  
cc: Nigel J WEIR/RM IB MEM/HBME/HSBC@HSBC  
Nigel WHITE/HBEU/HSBC@HSBC  
Geoff ARMS/TRONG/HBEU/HSBC@HSBC  
Brian W RICHARDS/MDBK/HSBC@HSBC  
Rod MOXLEY/HBEU/HSBC@HSBC  
Tony P COLLINS/HBEU/HSBC@HSBC  
Ajay BHANDOLA/RM FCM MEM/HBME/HSBC@HSBC  
Gary BOON/MGR FCM MEM/HBME/HSBC@HSBC  
Jeremy R WALKER/HBEU/HSBC@HSBC  
bcc:

Subject: Re: IRANIAN - PAYMENT PROCESSING PROPOSALS

Malcolm

I have spoken to Valerie this morning re a few minor amendments to the document.

More importantly, I want to be absolutely certain that we are entirely comfortable with the proposal that we will cancel and return any payment instructions that have "special cautionary instructions" in Field 72 for three reasons:

will our filters always pick this-up? I understood that the WOLF filter will only pick-up reference to Iran, not messages such as "care sanctioned country"  
are we in breach of OFAC regulations in doing so?  
the onus should be on the remitting bank, not ourselves as we state in page 5 of our Processing Proposal Paper (relevant paragraphs attached below). What happens if one of these payments slips through our system and is then frozen?  
- the remitting bank could claim on us for not stopping and returning the payment?

Our preference would be to follow the solution offered in 2). This is because the nature of U-turn payments, (payments involving Iran, which are by order of a third country bank for payment to another third country bank, provided they do not require the US bank to directly credit or debit an Iranian account i.e. payments must not finalise in the US) demand that the US undertakes some manual scrutiny of each item. Any reputational risk would be mitigated by the Iranian customer (a financial institution) taking responsibility for submitting only bona fide U-turn payments and HBEU Wolf

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1674

filter detecting potential terrorist-linked payments.

HBEU will continue to adopt an internal best practice whereby it views and releases payments taking an overview of this traffic using the WOLF and Country Validation Backstop queues but this will purely be for internal monitoring purposes. The overall approach is that the Iranian FI's will monitor their own payments traffic and to ensure that only valid U-turn payments or payments which are permissible under the terms of US legislation are submitted to HBEU. Effectively the risks associated with sequestration would be placed with the Iranian FI rather than HSBC.

Happy to discuss.

Regards

Phil

Valerie ROLLE/HBEU/HSBC on 04 Aug 2004 09:45

Memo  
04 Aug 2004 09:45

From: Valerie ROLLE/HBEU/HSBC Tel: 799 12301  
44 207 991 2300  
Mail Size: 93723

To: Nigel J WETTER/ARM IB MEM/HBME/HSBC@HSBC  
cc: Nigel WHITE/HBEU/HSBC@HSBC  
Geoff ARMSTRONG/HBEU/HSBC@HSBC  
Phil BAINES/MDBK/HSBC@HSBC  
Brian W RICHARDS/MDBK/HSBC@HSBC  
Rod MOXLEY/HBEU/HSBC@HSBC  
Tony P COLLINS/HBEU/HSBC@HSBC  
Ajay BHANDOLAL/ARM PCM MEM/HBME/HSBC@HSBC  
Gary BOON/MGR PCM MEM/HBME/HSBC@HSBC  
Jeremy R WALKER/HBEU/HSBC@HSBC  
bcc:

Subject: IRANIAN - PAYMENT PROCESSING PROPOSALS

Nigel,

For your information.

Regards.

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HSBC OCC 8874707

Malcolm

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1676

**From:** David H HODGKINSON  
**Sent:** Fri May 20 18:54:53 2005  
**To:** Nasser HOMAIPOUR; Mukhtar M HUSSAIN; Jeremy H Barion; Ajay BHANDOOOLA; John BLANTHORNE; Richard J COLE; Michael J HODGES; David W J BAGLEY; Ajay BHANDOOOLA; Christopher G LEWIS  
**Subject:** Iran  
**Importance:** Normal

Gentlemen

At a meeting with the Group Chairman and the Group CEO, it was decided to manage the USD payments and settlements business by transferring USD accounts of Iranian banks historically held with HBEU to HBME and using a third party correspondent in the US for cover and other valid U turn payments. Whilst it is agreed to allow the existing business and commitments with Iran to continue, marketing of new business or extending our current portfolio and activities should be suspended for the time being until the external political situation with Iran has improved.

It is appreciated that maintaining this position will present challenges, but the potential impact of a worsening situation with the international community on our business in the US and elsewhere cannot be ignored. We believe that this approach preserves our ability to respond appropriately as the situation evolves, enhancing our commitment as and when circumstances ease.

With best regards

David

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HSBC OCC 8874714

1677

From: Vivian CLARKE  
Sent: Mon Oct 09 15:41:45 2006  
To: Michael F GEOGHEGAN  
Subject: SKG WOULD LIKE TO DISCUSS THIS E-MAIL PLEASE : "IRAN- U-TURN PAYMENTS" -  
Importance: Normal

Regards, Ext.12666

VC  
**FORWARDED MAIL**

Memo  
09 Oct 2006 15 12

From: David W J BAGLEY/HQHQ/HSBC  
Tel: 7991 8045; +44  
(2079) 20 7991 8646  
Mail Size: 5450"

Sent by: Marion O ROACH

To: Stephen K GREEN et al

To: Stephen K GREEN/HBSB/HSBC/MERIDIAN@HSBC  
Michael F GEOGHEGAN/HQHQ/HSBC@HSBC  
David H HODGKINSON/HQHQ/HSBC@HSBC  
cc:  
bcc:

Subject: IRAN- U-TURN PAYMENTS

Pursuant to GCL050047 'Compliance with Sanctions' Group Offices are permitted to initiate transactions in USD which are compliant with the so-called U-Turn exemptions under the OFAC country sanctions relating to Iran. Given the complexity of the relevant exemptions all such payments are routed via HBME DUB where a specialist unit has been established. This unit carefully scrutinises all such payments and satisfy themselves that those payments are compliant with the relevant exemptions. Given however that the significant regulatory and reputational risks associated with any potential breach of the OFAC sanctions, particularly relating to Iran, those payments are also subject to a subsequent check by HBUS CMP.

There are weekly conversations between HBUS CMP and HBME DUB so as to ensure on an ongoing basis that a consistent and accurate approach is taken to judging whether the exemptions are being properly applied and HBUS CMP have expressed themselves to be satisfied with the process.

Having said this however I believe that the risks associated with these USD U-Turn payments have increased following the actions taken by the US government in withdrawing the U-Turn exemption from

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Bank Saderat. During my recent visit to the US to attend a Wotenberg meeting I was discretely advised of the following by a reliable source:-

Under Secretary Levey (who David Hodgkinson and I met recently) and the more hawkish elements within the Bush administration were in favour of withdrawing the U-Turn exemption from all Iranian banks. This on the basis that, whilst having direct evidence against Bank Saderat particularly in relation to the alleged funding of Hezbollah, they suspected all major Iranian State owned banks of involvement in terrorist funding and WMD procurement.

It appeared that the absence of explicit evidence against banks other than Bank Saderat led to some opposition from the State Department for the withdrawal of the U-Turn exemption against all banks.

Certain US Government bodies have however made it known to a number of US banks that, as WMD related transactions are impossible to detect they would run an unacceptable reputational and regulatory risk were they to continue to process U-Turn transactions. The essence of the statement appears to be that as WMD related transactions would be heavily disguised (where even as a trade transaction documents would in effect be falsified) there is no safe way for a US bank to be involved in even a U-Turn exempt transaction however stringent the scrutiny or monitoring. The clear implication made was that being found to be involved in a WMD related transaction, even if wholly innocently, would result in significant and severe action being taken against such a bank.

There were very strong indications that a number of US banks were therefore considering withdrawing from all U-Turn related activity. If this happens those continuing in this market are likely to have an increased concentration.

Although I am satisfied that we have put appropriate controls in place to manage the U-Turn transactions, I am concerned that there are now increased risks in continuing to be involved in U-Turn USD payments which would justify our reconsidering our approach. I do recognise that the significance that lightening our policy to withdraw from U-Turn permitted transactions would have in terms of our Middle Eastern and Iranian business.

I would be grateful for your views.

David Bagley



1679

From: Matthew J W KING  
Sent: Fri Apr 20 10:21:51 2007  
To: Michael F GEOGHEGAN  
Cc: David W J BAGLEY  
Subject: Re: Managerial Letter: HBXX [REDACTED]  
[REDACTED]  
Importance: Normal  
Attachments: Image\_0.gif [REDACTED]

Mike,

[REDACTED]

I am told the Mexican authorities are taking a relatively benign attitude to our involvement with this customer, which is fortunate because the review has revealed a number of weaknesses. A series of inaccurate, and possibly fabricated, visit reports seem to have been filed by the business which resisted any reporting of suspicions a number of times. For its part, the Moneylaundering Department failed to act as a proper check and balance. I have suggested a thorough review of processes within the Moneylaundering Department and of the Moneylaundering Committee to ensure they are robust. We did file a report with the authorities in 2004 which has probably been our saving grace.

There are also a number of personnel decisions to be taken.

I have not heard the businesses reaction to the report, though it was commissioned by Paul Thurston and there was a meeting yesterday to discuss it.

Regards,

Matthew

[REDACTED]

Redacted Material

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HSBC OCC 8874762

Report No. GAO 070086

**GENERAL & TRANSACTIONAL BANKING AUDIT  
HRMX – MONEY LAUNDERING DETERRENCE  
GROUP AUDIT MEXICO  
DECEMBER 2007**

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HSBC OCC 8874803

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**1 EXECUTIVE SUMMARY****1.1 Background**

In Mexico, financial institutions are required to comply with fiscal authority (SCHF) provisions to deter, detect and report criminal-fund transactions. Likewise, HBMX is required to comply with Group regulations defined in the Compliance Officer Handbook (COH), containing supplementary guidelines to local regulations.

The Direction of Money Laundering Deterrence (DPLD) reports to Ramón García Gibson, Head of HBMX Compliance, who in turn, reports to John Reudall, HBMX COO. The DPLD is under the responsibility of Leopoldo Rodríguez Barroso.

The areas involved in the process (business lines) are responsible for applying AML processes defined and issued by DPLD on:

- KYC
- Files integration
- Proper input of customers' information in the system.
- Validation of alerts sent by the DPLD and effective response thereto.

Due to the foregoing, this review was oriented to review DPLD operations, yet it covered a number of areas involved in the detection of ML activities and compliance with governing laws and regulations. Therefore, this was a themed audit on Money Laundering Deterrence (MLD).

Simultaneously to the performance of this review, a follow-up over the issues raised from the referred audit was conducted upon request of the authority through regulatory return 141-1/867804/2007. The major issues derived from said review are described in section 4 hereof.

**1.2 Audit Objectives**

The objectives of the audit were to assess and report on:

- to assess and report on the appropriateness, efficiency and effectiveness of the internal control environment and the susceptibility of that environment, on a sample basis, to frauds/failure in internal controls or breaches in authority
- the reliability and integrity of financial and other operating matters.
- the appropriateness and adequacy of procedures in place to ensure compliance with local, national and international laws and regulations.
- compliance with Group and local policies and procedures.
- the design, implementation and effectiveness of ethics related objectives, programmes and activities.
- the evaluation and protection of assets.

**1.3 Audit Scope**

The scope of audit fieldwork entailed, inter alia, a review of:

- the reliability, functionality and deployment of source information from the CAMP system.
- the reliability of CAMP generated alerts (peer groups calibration)
- the efficiency in the media monitoring process (articles in the papers) and the process to keep blacklists updated.
- monitoring of transactional volumes of customer credit receivables.

- the quality of the analysis conducted over CAMP alerted accounts.
- the follow-up given over customer accounts reported and alerted, in accordance with CAMP generated reports.
- identification and monitoring of high risk and politically exposed clients.
- departmental structure, attention capacity and analysis of CAMP alerts, as well as other media.
- locally managed information backups.
- controls in place over customer files integration.
- actions taken for Group staff training and degree of compliance with internal and external policies.
- configuration of system control parameters in line with regulatory compliance.
- identification, monitoring, analysis and follow-up of CAMP alerted customer accounts by way of CAATs.
- review of a sample of alerts to ensure quality of analysis and justification for the cases that were decided not to be reported.
- follow-up of issues and recommendations made at the previous audit conducted of Compliance (only AML related issues).
- configuration of access security to strengthen adequate approval, segregation of duties and data confidentiality.

The MLD audit was conducted by Francisco Barriga (Team Leader), Carlos Magaña, Silvia S. González (AIC), Lizbeth Galicia, María Ojeda, Elsa Cruz, of Group Audit Mexico (GAQ), as well as Ricardo Zamora, Jorge E. González and Blanca Molina of Group IT Audit Mexico from 03SEP07 through 08OCT07.

Previous audits related to this theme are listed below:

- Report reference GAQ 050118 dated DEC05 of audit conducted of Executive Direction of Compliance, which covered the DPLD, when its control risk environment was assessed as Below Standard.
- In SEP07 GAQ conducted a review of the implementation status of recommendations made by CNBV in regulatory return No. 141-1/867804/2007 relative to the review conducted of DPLD in JUL07.
- Report GAQ 070066 Special Review of DDA and CDA Accounts dated JUN07. The objective of this special review was to conduct a comprehensive assessment of the process of account (DDA and CDA) opening / completion of account file documentation, application of KYC procedures and related controls in order to comply with Group and local regulations.
- Special review of the [REDACTED] case (report reference GAQ 070036 dated APR07)
- Report reference GAQ 070085 PFS Strategic Control Unit.

Even though the audit report reference GAQ 050118 corresponding to the audit conducted of the Executive Direction of Compliance assessed their control risk environment as Below Standard, as this was a themed audit, the scope is different for both audits. The scope differs from previous audits to a great extent, and consequently this is considered a first time themed audit of Money Laundering Deterrence.

#### 1.4 Conclusion

The auditors have assessed the overall Control risk of the Money Laundering Deterrence theme as **Below Standard**.

#### **Redacted Material**

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Even though progress has been made to resolve existing high risk issues, these remain unresolved. Key factors that contributed in addition to the risk assessment included:

**Compliance Governance Structure** The auditors identified the need to review the current governance structure of this function, in order to assess the creation of a committee in HBMX, with the main purpose of defining and approving HBMX policies and procedures, and defining the guidelines that should be followed by the Comités de Comunicación y Control (Anti-money laundering committees (CCC)) in line with Group policies. Further, the auditors identified areas of opportunity to improve the structures, roles and responsibilities of the various CCCs, which may contribute to have better governance on MLD related activities.

**Regulatory compliance**

**1.- Quality and completeness of customer file documentation.** Based on the results of this review, the auditors concluded that despite the actions taken to remediate the non-compliance with minimum regulatory requirements for file integration, it has not been possible to fully rectify the delays to regularise the files already identified as per CNBV UBA regulatory return (1.8m) and to make necessary amendments to processes and controls in order to prevent this issue from relapsing.

In MAY07 it was sought an extension to the CNBV to rectify the integration of the totality of customer files. However, the regulator was advised an 86% progress had been made in terms of file integration and completeness, which may be questionable as such figure was obtained from an undependable source of information (ACDO).

**2.- Know your customer - KYC.** Branches of KYC policies and regulations were identified as a result of the lack of supervision and independent controls of the business areas which may allow detecting breaches incurred.

**3.- Regulatory returns.** As at the date of the audit, there was a delay to report to the authority a total of 4,890 accounts that reported unusual transactions that took place between APR and AUG07, thereby breaching the regulations. The foregoing was mainly due to the failure to promptly respond to the increase in the cases due to changes in the criteria as to whether the cases that should be tabled before the committee. It should be noted this situation was advised verbally to the authority, yet this is not sufficient grounds for exempting the institution from being sanctioned.

**Training on MLD** Based on audit findings, the auditors concluded the training strategy should be reviewed, as it was noted the staff of Branches reviewed were not sufficiently knowledgeable on the policies and regulations applicable in terms of deterrence and detection of money laundering activities. Additionally, the auditors noted inconsistencies in the information tabled at the CCC, in terms of the number of staff in the payroll, which exceeds by 16% those reported by HBMX Training & Development. The above situation may evidence the training coverage does not necessarily reach the totality of employees.

**HDMI CCC.** The auditors noted Senior Management's little attendance to committee meetings, delays in decision making regarding account cancellation, and delayed sanctions of cases to be reported to the CNBV, among other areas of improvement.

**Systems administration and operation** The auditors noted breaches of Group system security standards. A number of instances identified are described below.

There was inadequate user administration in the CAMP system, which may lead to misuse of the information stored therein. This same issue was raised in the previous audit report Ref. GAQ 050118 dated DEC05, section 4.3.7.

There is a high reliance on one single person to perform key activities, without actions being taken to train other staff that may perform such duties in the event of a contingency. The processes that may be at risk in terms of their continuity, in the case the person accountable is absent are as follows: Parameterisation, CAMP and WOLF systems user administration, administration of the MLD module in the SFCIF system. This issue takes further relevance as that same person developed the Workflow application that is used to analyse the warnings that may be reported to the authorities.

To date a partial monitoring is applied over transfers by way of using WOLF. During JUL07 and AUG07, WOLF generated 7,217 warnings, of which 858 cases (12%) were not reviewed, posing a potential risk that criminal transactions may not be identified which may have an adverse reputational effect on the Institution. This situation has prevailed since one year ago to date, without there being any dispensation from not reviewing the totality of cases warned, as a result of insufficient Operations staffing.

The auditors identified 1 repeat recommendation and 11 partial repeat recommendations from previous audits.

Miscellaneous low risk recommendations (MLR) were advised directly to audited managements during fieldwork for their implementation and, therefore, no response thereof is required.

The auditors wish to thank the management and staff of all areas involved in Money Laundering Deterrence for their assistance and cooperation during the course of the audit.



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**GROUP AUDIT MEXICO  
AUDIT REPORT SUMMARY SCHEDULE  
GRQ REPORTABLE AUDITS**

Name of Audit	HBMX - MONEY LAUNDERING DETERRENCE (MLD)			Region: Mexico
Business or Customer Group	Control Support High	Audit Committee	HBMX	
	Date	Inherent Risk	Control Risk	Overall Risk
<b>This Audit</b>	DEC07	High	Below Standard	High
<b>Last Audit</b>	N/A	N/A	N/A	N/A
<b>Nature of Business</b> The areas involved in the process (business lines) are responsible for applying MLD processes defined and issued by Local MLD Department on: KYC (Know your Customer), file integration, proper input of customers' information in the system, validation of alerts sent by the DPLD and effective response thereto. Due to the foregoing, this review was oriented to review DPLD operations, yet it covered a number of areas involved in the detection of ML activities and compliance with governing laws and regulations.				
<b>Conclusion of Audit</b> Main control weaknesses identified during the audit were as follows:  <b>KYC</b> - Regulatory breaches in KYC issues such as the large number of incomplete client files and the inadequate process of SCC identification and monitoring across the network. - HBMX has been given an extension by the Regulator from May 07 to May 08 to ensure that a portion of the client files (known as the UBA project-about 1.8m customers) are completed. Due to our concerns with the reliability of the system used to measure this process is unclear on exactly where the bank is in relation to being able to meet this deadline. - As at May 07 HBMX had advised the Regulator we were at 80% whereas all audit samples both in this audit and the regular branch audits completed over the year give a much lower percentage. The latter number is hard to extrapolate from a sample basis but is as low as 40% of file integration, meaning the job is hard to reach 100% in 6 months is very challenging. - The UBA number excludes the almost 6 million other clients the Group has in Mexico which are subject to HSBC's own MLD policies, where sampling also gives a similar low number of complete files. As this problem had been identified some months ago the COO was appointed to oversee and coordinate a task force to manage this matter, further details appear in the report.  <b>Delays in reporting</b> - Delays in reporting unusual transactions to the Regulator due to increased number of cases to be sanctioned by the AML Committee and slow decision-making in the process.  <b>Systems and Tools</b> - Lack of sufficient understanding of the IT processes and tools necessary to enhance MLD activities and capacity as evidenced by the lack of a reliable system to track client files integration, inadequate ability to screen black lists and inadequate monitoring SCC/PEP's etc.  <b>Training</b> - We also noted the need to re-assess the overall approach to MLD training as a result of failures regularly identified in branch audits, and the need to upgrade several of the IT systems in use to ensure better control over both Regulatory and Group policies and procedures.  To ensure that there is one overall integral approach to resolve the issues, in view of the number and in many cases seriousness of the weaknesses identified, we would recommend the creation of an Oversight body, possibly a HBMX Money Laundering Committee, to implement both a short and longer term plan to ensure that the issues raised in this report can be fully addressed. This body will need to have sufficient empowerment and proactivity to drive through some of the measures needed to comply with both local and Group policies and procedures, especially in the time periods involved.  <b>Response from Management</b> The first response to the audit is due on 17 JANU8				

From: Luis PENA KEGEL  
Sent: Wed Nov 26 23:24:43 2008  
To: Emilson ALONSO  
Cc: John P Carr; lars.reiding@hsbc.com.mx; Lewis J P WILSON; Michael F GEOGHEGAN  
Subject: Re: Visit to CNBV - Findings and Required Actions  
Importance: Normal

Sure will do, regards, Luis

---

Emilson ALONSO--26/11/2008 05:06:58 p.m.--Dear Luis,

From: Emilson ALONSO/HBXM/HSBC  
To: lpa@hsbc.com.mx  
Cc: Michael F GEOGHEGAN, John P Carr/HBXM/HSBC@HSBC04, Lewis J P WILSON/HBXM/HSBC@HSBC04,  
lars.reiding@hsbc.com.mx  
Date: 26/11/2008 05:06 p.m.  
Subject: Visit to CNBV - Findings and Required Actions

Dear Luis,

Following the Group CEO's visit to Guillermo Babatz, president of CNBV, I would like you to prepare an action plan in order to address the additional issues related to money laundering, export of cash USD to the USA, via the branch network and about the delinquency in credit cards. This action plan should encompass the following areas of work:

**Money Laundering/Export of US**

- Identification the volumes and the type of clientele that is currently using HBXM branch network to make cash USD deposits for remittances to USA.
- Immediate elimination of this kind of service in our branches. Corporate clients that require such service should be approved by you on a very exceptional basis.
- Identify the branches where this kind of a activity is more frequent/higher volumes in order to take the necessary administrative actions to eliminate potential money laundering problems ( inclusive with the immediate closure of some branches ).

**Credit Cards**

- In addition to the actions already in progress related to credit analytics ( application scores ) and collections, it is paramount a greater effort to show the CNBV the actions that have already been taken in order to renegotiate delinquent contracts on a more favorable terms with our clients ( restructuring ).

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I kindly ask you a report with the actions to be taken and a weekly tracking report on the achievements.

rd  
Emilson

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1691

From: Luis PENA KECEL  
Sent: Thu Nov 27 09:41:13 2008  
To: Emilson ALONSO  
Cc: Michael F. GEOGHEGAN  
Subject: Re: Fw: Money Laundering  
Importance: Normal

The two immediate actions we are taking are:  
Starting December 1, We will no longer buy or sell dollars in cash at ANY branch (customers or non customers). We will, as an alternative, offer travelers cheques to customers only. Also customers can withdraw dollars at HSBC ATMs located at airports or from any ATM in the world with their debit card.  
Starting January 1, We will no longer accept deposits of cash dollars to any dollar account at any branch.

We are quantifying the impact of lost revenues. On the flipside, we will save the operating cost of transporting and exporting dollar bills.  
This should take care of the problem.  
Regards, Luis

---

Emilson ALONSO--26/11/2008 06:34:09 p.m.--FYI.----- Original Message -----

From: Emilson ALONSO@HBMX/HSBC  
To: "Luis Peña" <lpe@hsbc.com.mx>  
Date: 26/11/2008 06:34 p.m.  
Subject: Fw: Money Laundering

FYI.

---

Michael F. GEOGHEGAN

----- Original Message -----  
From: Michael F. GEOGHEGAN  
Sent: 11/26/2008 11:21 PM GMT  
To: Emilson ALONSO  
Subject: Money Laundering  
Emilson

It occurs to me:

We should stop any Dollar remittances or accept any Dollar payments unless they are done via a

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customer's account

We should stop shipping Dollars

We should bench mark HBMX CAMP and other search engine systems with HBUS (they have some very sensitive behaviour monitors) and see whether we are finding as many suspicious transactions as we should be

Look forward to hearing your ideas in due course

Mike

\*\*\*\*\*  
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Registered in England number 017987  
\*\*\*\*\*

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From: Emilson ALONSO  
Sent: Fri Nov 26 17:04:19 2008  
To: michael.f.geoghagan  
Cc: "Luis Peña"; "Matthew J W KING"; "David W J BAGLEY"  
Subject: Fw: Final draft for Mike's letter  
Importance: Normal

Michael,

Please find below the reply to your comments.  
I just want to assure you that we will properly with the A/D ratio concern in order to manage it within the limits.

Regards

Emilson

Luis PENA KEGEL

----- Original Message -----

From: Luis PENA KEGEL  
Sent: 11/26/2008 08:27 AM CST  
To: Emilson ALONSO  
Subject: Fw: Final draft for Mike's letter

Some responses and next steps:

1. I would not mention we are stopping dollar note exports as we may have some residual amounts from ATMs for example. It is going to be minimal but not eliminated.
2. The zero tolerance policy is now being enacted and word is spreading out.
3. In January (I would definitely not mention this in the letter to CNBV) we are closing two branches and firing all the staff as exemplary measures. We are choosing the branches these days: branches with atypical transactions for amounts or type.
4. The next challenge is communication. We are formulating a plan with several stakeholders: staff, authorities, media and opinion leaders and customers (in branch). We need to make sure we communicate a proper message: to staff and authorities it is centered on control and zero tolerance. To media and customers however, we must make sure that money laundering and control are NOT the issue (even though somebody may pick that up). We are thinking of messages like personal security and modern and electronic media as opposed to dollar notes (travelers cheques, Visa Travel money which we will put together and ATMs).
5. Last but not least, I will address the issue of funding. After all, Cayman and Mexican dollar accounts provide us with US\$2.6 billion of cheap funding. We are likely to lose a big portion of this if we tell customers we no longer receive dollar notes. We have to provide an alternative to our customers for this: Miami accounts may be an alternative but we will have to talk to HBUS of how we get this cheap funding back to Mexico to lend. Otherwise, there will be a massive negative impact to our A/D ratio.

Regards, Luis

----- Forwarded by Luis PENA KEGEL:IDMX@HSBC on 26/11/2008 08:19 a.m. -----

From: Michael F GEORGE/GAN/HQ/HQ/HSBC@HSBC  
 To: Emilson ALONSO/HBMX/HSBC@HSBC04  
 Cc: "David W J BAGLEY" <davidbagley@hsbc.com>, Adam WILSON/HBEU/HSBC@HSBC,  
 <Lewis.J.P.WILSON@hsbc.com.mex>, "Luís Peña" <lpi@hsbc.com.mex>, "Matthew J W KING"  
 <mattthewking@hsbc.com>, Luis PENA KEDEL/HBMX/HSBC@HSBC04  
 Date: 28/11/2006 05:20 a.m.  
 Subject: Re: Fw: Final draft for Mike's letter

Dear Emilson

Not mentioned in the letter but discussed between us is the issue about cash transport movements to USA by HSBC, do we not want to say we are stopping this as well?

Also, whilst it does not need to go in the letter I hope it is clear to everybody in HBMX, that as we did in HBR, all staff should be made aware that if there are persistent breaches of KYC in a particular branch, the branch will be closed and all staff dismissed regardless of how much business we will lose on account of it.

Finally I assume everybody (that is required to) has in their Balanced Score Card the need to implement CAMP to the maximum- including the closing of all accounts that have two or more suspicious transactions highlighted.

I believe we all know that KYC is going to be an ongoing challenge but if past experiences in Brazil are a measure, if you demonstrate zero tolerance of lapses in implementing KFC then the operations standards of the whole business improves at the same time.

What we are doing in Mexico needs to be copied everywhere else in the region.

Many thanks

Mike

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 \*\*\*\*\*

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1695

**From:** Paul A THURSTON  
**Sent:** Fri Jun 29 01:39:55 2007  
**To:** David W J BAGLEY  
**Cc:** John R RENDALL  
**Subject:** Re: Visit Report  
**Importance:** Normal

David,

Thanks for your report - this is very helpful and constructive.

John will be developing an action plan to address the points raised, embracing other actions and initiatives that are already under way, and we will share that with you when completed.

I agree with your comment that we need to review the role and resources in the Compliance function. Between the three of us, Sandy's view of Ramon and the quality of the compliance team is not as positive as the one expressed in your report, and in my short time here, I have come to see why. For all Ramon's strengths, I have equally seen weaknesses in addressing key issues, and in business understanding, and in my view the jury is out on his ability to do all that we need in HBMX, let alone try to oversee other countries in the region. I think this is something that we should review between the three of us in a few month's time, when we see what progress is being made.

Thanks again for the report, and for the support you are providing to the team here.

Regards

Paul

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1696

From: John F ROOT  
Sent: Fri Jul 06 10:30:11 2007  
To: Matthew J W KING  
Subject: Fw: Visit Report  
Importance: Normal  
Attachments: SUMMARY OF COMPLIANCE ISSUES - Mexico.doc

As discussed.

----- Forwarded by John F ROOT/HGHQ/HSBC on 06/07/2007 10:38 -----

David W J BAGEY/HGHQ/HSBC  
HGHQ  
Sent by: Manon O ROACH  
27/06/2007 16:25  
Phone No. 7991 8645  
+44 (0)79 20 7991 8645  
Mail Stop: 44054

To  
Paul A THURSTON/HBMX/HSBC@HSBC  
cc  
John R RENDALL/HBMX/HSBC@HSBC, Graham THOMSON/HBMX/HSBC@HSBC, Chris R  
BENTLEY/HBMX/HSBC@HSBC, Ramon GARCIA/HBMX/HSBC@HSBC, Warren G  
LEAMING/HGHQ/HSBC@HSBC, John F ROOT/HGHQ/HSBC@HSBC  
Subject  
Visit Report  
Entity  
HSBC Holdings plc - HGHQ

Paul

I attach a summary of the key issues, and my linked observations or  
recommendations following the visit to Mexico. I would stress that visits of  
this nature are not equivalent to a formal Compliance review.

Having said this there do appear to be a number of issues to be resolved,  
particularly those relating to accurate ongoing account opening, prompt  
effective and complete remediation in accordance with CNBV requirements for  
existing accounts, and completion of the recommended enhancements to the  
working of the MLD committee. With regard to this latter point there also  
needs to be some consistency of view as to the scope of that committee's  
activity.

There also seems to be a need to address the concerns in a number of areas  
expressed by CNBV, even if we do not necessarily conclude that those concerns  
are fully justified or supported by the facts. It is clearly important that  
we get CNBV to a point where they are satisfied that there is no underlying

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problem or, where there is, the appropriate steps are being taken to address those issues.

Finally I do think that we will need on an ongoing basis to consider the nature and extent of the resources currently available in CMP. The need to review these resources seems to me to be particularly acute in relation to the regional support that will clearly need to be given by Ramon's team to the Latin American offices he is required to oversee functionally, and also within CBM where I suspect we are already stretched given the apparent growth that has already, or is intended to take place in this area which appears to be growth of both volume and complexity.

With regard to the regional role I will shortly provide Graham Macmurray with a note detailing the various steps that were discussed and considered at a meeting of all the ACOs those jurisdictions inherited as part of the Hanshin acquisition. Whilst this was a very positive meeting, it is clear that there is a significant regional oversight role for Ramon's team if we are to ensure that Compliance processes within those offices are to be brought in line with Group policy requirements.

I will of course be very happy to discuss any of my conclusions or thoughts with you or any of the team. We will continue to liaise with Ramon to provide as much support and help from GHQ CMP as possible. I would suggest that it would be sensible to allow some time to elapse before we, as GHQ CMP, undertake the formal Compliance review that is required by the Compliance Officers Handbook (our FIM), perhaps delaying this until 4Q07 or 1Q08 to allow time for further steps to be taken, and the ACP 08 process being allowed to consider what resourcing levels are appropriate and required and can be agreed.

Regards David Bugley

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## SUMMARY OF COMPLIANCE ISSUES - MEXICO

## 1. Anti-Money Laundering (AML)

CNBV regulation requires that HBMX carry out a retrospective re-identification programme so as to ensure that ID and KYC records for all customers accord with the stated requirements. These requirements anticipate that this should be prioritised on a risk-based basis. HBMX have already recognised that they will not be able to meet the timeframes stipulated by CNBV and have sought an extension of time. Even if this extension is granted this issue raises a number of matters which I think need specific resolution and/or decisions at senior business level.

- There appeared to be differing opinions as to how many accounts were affected, how many accounts were outstanding and therefore no real tracking of the progress being made. I have suggested to Ramon (who has already provided a detailed breakdown to me) that there is a need to establish an agreed method for reporting how many accounts are involved and how many have been remediated against agreed risk categories. This would then allow progress to be followed by management and CMP. Given the significance of this matter consideration should be given to the regular reporting to the equivalents of ExCo and to the audit committee and the establishment of a project team to oversee and co-ordinate what appears to be a major undertaking.
- I was concerned that there appeared to be some weaknesses in relation to the opening of new accounts. HMBX currently reports a failure rate of 7%. Whilst this exceeds the Group tolerance level of 3%, given the nature of the jurisdiction a 7% failure rate while high would not be a cause for real concern. There is however real doubt as to whether this figure is accurate as it appeared that account opening staff are able to indicate that supporting documentation is held when this may not be the case. This needs to be investigated as I am not convinced at this stage that any great reliance can be placed on the 7% figure. If we are opening new accounts badly it will only add to the remediation exercise required by CNBV, and if this is in fact substantially in excess of 30% standard Group policy requires that remedial action be taken. Accurate and complete account opening is a key AML control, particularly in emerging markets. Serious consideration should be given as to whether either the remediation exercise and/or account opening should be handled separately by a control resource.
- Both the remediation exercise and new account opening appear to largely take place at branch level. I wonder if we can realistically expect that branches can or will be able to address these activities given their focus on sales and customer service. Processes like account opening are often centralised across the Group.
- There appeared to be some confusion as to the stated aims and purpose of the MLD Committee. From a regulatory position I believe the Committee reviews potential SARs pre-filing and confirms decisions as to whether accounts

should be closed. If the Committee is to undertake a wider role than the Terms of Reference and the list of attendees may need to be reviewed. If the Committee is to address more structural AML issues then more senior business representation would need to be included if it is to be an effective decision-making body. At very least there appeared to be a need for a consistent understanding of the committee's role. Further it did not appear that all of the changes recommended as required consequent to the Unimed issue had been acted upon. This should be seen as a priority given the significant issues raised.

- Leopoldo Barroso appeared to indicate that he sees his time in his current role as finite. If this is to be the case then a clear succession plan will be required.
- As has been the experience elsewhere in the Group the CAMP monitoring system produces significant numbers of 'false' alerts. This is a feature of all AML monitoring systems. Having said this, steps are being taken across the Group to seek to minimise this, and I suggest that Ramon and his team liaise with GHQ CMP (John Allison) as well as continuing the dialogue with the US IT team so as to ensure we take advantage of best practice across the Group.

## 2. THE COMPLIANCE FUNCTION

Overall I saw much that was positive particularly the quality of the senior team members. The feedback given from business heads was generally favourable, although I did not meet all business heads. I do however have some observations, where the points made can be considered as part of the ongoing development of the function:-

- Overall I think that the team is lightly resourced, particularly given that Ramon now has compliance responsibility for a number of Group operations across Latin America. The oversight of these offices is likely to involve substantial effort.
- There appeared to be some areas where the structure of the function may need to change as it develops so as to more clearly align itself with business units.
- Particularly the CIBM team includes a small team of people devoted to managing regulatory examinations and follow-up. This however covers all examinations, not just those that relate to CIBM. I have no issue with a central team for this purpose, but there may as a result be a distorted view of how much resource is in fact CIBM-facing. In practice there appeared to be one full time Compliance Officer, in addition to the time spent on CIBM matters by Jorge Enriquez, which in view of our ambitions and the increasing complexity of the transactions being undertaken seems likely to be insufficient. There is already an intention for Jorge to spend some time in London to consider research procedures. I think this should be extended by at least a further week to allow Jorge to meet with the CIBM CMP specialists. It was clear that CMP are already supporting two innovative transactions for the Mexico Market and would clearly benefit from support from the more experienced team in London.

- I would normally recommend that key members of the Compliance team should attend the Group Compliance and AML training courses. Given logistics, the need to also cover Banistmo Compliance Officers and language issues I will explore whether we can support local delivery of one-off courses perhaps using John Koot.
- Careful consideration will need to be given to the resource implications of the regional role that has been assumed by Ramon. This should take account of any required headcount, but also the need for travel to complete reviews and co-ordinate the activities of the regional ACOs. I would suggest that the 2008 AOP provides an obvious opportunity.

### 3 MEETING WITH CNBV

I met with Eduardo Alcalá and Angelica Prieto at CNBV. This was an extremely cordial meeting and CNBV were overall extremely positive about the bank and the improvements they had seen since HBMX joined the Group. Having said this CNBV had a fairly lengthy list of issues they wanted to discuss with me. These included:-


- **Outsourcing** – As you may be aware there is a new CNBV regulation that requires that all outsourcing arrangements (new and existing) must either be approved by or notified to CNBV. For existing arrangements there appeared to be a deadline of year-end. CNBV did not seem to be opposed to outsourcing but equally were concerned to ensure that even where processes were outsourced to other parts of the Group HBMX would be able to continue to function properly (here adequate contingency arrangements either within HBMX or the service provider may be key); that customer confidentiality and data security is protected and that CNBV would be able to make examination visits to the service provider.

As there is a year-end deadline it is important that all relevant arrangements be identified and discussed with CNBV as soon as possible. Whilst CMP have been able to identify a significant number of relevant services I think that there may need to be involvement on business and operational level to make sure all outsourced services are considered.

- **Basle II** – CNBV expressed a willingness to consider Group internal credit models, but also appeared sceptical that such standard models could be sufficiently flexible to address local conditions.
- **AML** – CNBV specifically mentioned the need to re-identify existing customers, acknowledging that HBMX had requested an extension of time.
- **Fraud** – CNBV raised concerns with regard to recent fraud experience in relation to one particular packaged product. CNBV indicated that their concerns also covered the impact that high fraud losses might have on customer satisfaction and the bank's reputation.

- Branch Security – CNBV mentioned that physical security of branches was something which they were interested in.
- Systems failure – CNBV described HBMX as having earned a yellow card in relation to a recent failure of our banking system, which I believe related to a failure by systems on back-up provided by a third party. This failure under-scored their interest in outsourcing arrangements.
- Credit Cards – CNBV indicated that they had some questions about the rapid growth in our card base. I believe there will be, or may already have been a meeting with CNBV to discuss their concerns. CNBV were however approaching this issue both from a prudential and a responsible lending perspective.
- Responsiveness – CNBV were very complimentary about their interaction with Ramon's team. They did however indicate that on occasions there was an unacceptable delay in providing requested information. When I discussed this with Ramon it appeared that it does sometimes take areas a little while to provide information to CMP for relaying to CNBV. The fact that CNBV raised this specifically suggests that a reminder should go out to business and support areas, but also that CMP should escalate any delay to the relevant business or functional head.
- Ombudsman complaints – CNBV expressed a concern that HBMX's complaint levels were high. What was unclear was whether this was in absolute or relative terms, but perhaps reflected what appeared to be a general concern that our rapid growth has put pressure on fraud, credit and operational controls.

#### 4. GENERAL COMPLIANCE ISSUES

- Fines – There are some areas of activity, with differing regulators that appear to impose significant numbers of fines for technical and on the fact of it minor procedural breaches. Whilst individual fines are small the sums are significant in aggregate. It did not appear that these breaches and the fines imposed necessarily have the potential to damage our relationship with the regulatory bodies in question. As the failings appear to relate to poor adherence to procedures (rather than an absence of procedures) the underlying causes seem to relate to operational integrity. Those tracking operational losses generally may find it helpful to have these fines reported regularly so that where justified root causes can be addressed.
- It appeared that Ramon was finding the regular contact with the reconfigured team to GHQ CMP helpful. I would encourage Ramon to continue to look for support, not just expect oversight, from GHQ CMP.
- KPMG assessed the strength of our Compliance (generally not just the function) as on a par with our peers but behind Scotia Bank and Cit.
- 

FINANCIAL COMPLIANCE AND REGULATORY SUMMARY by UCP/IAN.L 12/04 - Jksson.doc

Page 4

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To this end it may be useful if we with GHQ CMP provide them with some updates about Latin America periodically so as to generally educate them as to some of the issues and challenges. I will discuss this with Warren

- In liaison with Ramon's team and GPB we have commenced the requested review of the permitted activities from outside including Private Banking in Mexico and other jurisdictions in Latin America.

PS:\XX-4\LEGAL\CMP\2011\GHQ\SAC\SUBMITTER\1 OF CONSULANCE ISSUES - Memo.doc 4 of 7

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1704

From: Warren G LEAMING  
Sent: Thu May 24 16:59:25 2007  
To: David W J BAGLEY  
Subject: He advices that his own Compliance team are advising him that such cross-border activities should cease.-HBMX  
Importance: Normal

I meet with Paul Thurston briefly yesterday morning. He had two significant compliance issues that he wanted to discuss. He mentioned [REDACTED] which he believes is now being managed through but the focus of his visit was cross-border marketing into Mexico.

Because Mexico's tax scheme is relatively penal (worldwide income) there is a high demand for off-shore products. The local regulations requires that you cannot solicit or mass market non Mexican products in Mexico and all products sold must be registered in Mexico. He is concerned that there is a large number of staff from other Group entities who visit, and sell non Mexican registered offshore products from HBMX premises, principally Private Banking and PFS from the American Premier Centre in Miami. Apparently this has been previously discussed however, a business exception was made to allow visits from the American Premier Centre in the interest of joining up across the Group. He is however, concerned about what controls/ rules that are in place to manage this cross-border activity and to what the degree is there compliance with such rules.

He advices that his own Compliance team are advising him that such cross-border activities should cease. Effectively in order to be comfortable with continuing this business exception he would like to have a better understanding of what the risks are and what controls are in place to manage such risks.

He has requested that a Compliance review take place in order to give him a balanced independent view of the risk. He would prefer that the review be conducted by an independent compliance function which would also be able to visit the American Premier Centre in Miami to review the files in order to gain some comfort as to what products are being sold and the level of compliance with the agreed arrangements.

My initial thoughts are:-

1. We need to be sensitive to potential politics between Mexico and the US. There is a yearly published Group policy that North America will be looking to migrating Customers from south of its borders in order to grow its business, we need to be a little careful that it is not Compliance that is dictating a non joined up approach.

Conversely Paul argued the compliance card, i.e. there are many competing and conflicting Mexican regulators who impose significant fines as a matter of Revenue raising and he is also conscious of the potential impact of sanctions on his banking licence. When I spoke to Ramon today he confirmed that all competitors do it and that no one has been fined to date.

2. We would need to closely liaise and discuss with North American Compliance. It may be that they can assist with some elements/all of the review although I suspect that this may not be seen as independent.

3. I briefly discussed with Paul that the fact that it appears to us and all the Compliance and Audit teams may not necessarily be working as closely as they should. He responded that the support functions generally in the business are not as aligned as they should be that is the reason why he has appointed John Randall as a new COO to assist them with becoming more aligned. In his view Graham is rightly concerned that there are not appropriate controls within the AML function itself as evidenced by [REDACTED]

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1705

where he believes that Compliance were as much to fault as PFS in not having escalation procedures. I have been thinking about having a chat with Graham myself and wonder if we should do this prior to your visit.

Lets discuss tomorrow if you get time, have a good flight back.

Regards.

Warren

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**Actions taken since 18FEB**

A Structure and Resourcing

1. Completed planned termination of Head of MLD. About to make offer to experienced Mexican professional
2. Appointed full time project manager
3. Created comprehensive project structure
4. Have had hands-on support from Group Head of Compliance.

B Camp Alerts

1. Implemented new rules for heightened scrutiny of USD-depositing customers
2. Started review of 312 customers with large USD deposits since 01JAN08

C Digitalisation and Centralisation

1. A delayed systems upgrade is now in place
2. Operations processes have been reviewed by Audit and Global Head of Compliance and have been determined to be robust with adequate controls

D Quality Assurance on KYC

1. we have double and triple-checked that there are no gaps between regulations, branch procedures and Operation procedures,
2. we have completed first week's work with new process of quality checking within Compliance
3. enhanced sign-off processes for KYC and new account processes were implemented wef 01MAR08

— = Redacted by the Permanent  
Subcommittee on Investigations

E. CNBV letters

- 1 all UIF (and similar high priority) letters are being dealt with completely in-house
- 2 we have created a team of four experienced Compliance officers to manage these cases to support improvements in both speed and quality of response
- 3 we have investigated all of the 35 case presented to DSF on 22FEB08. Updated responses on these cases will be delivered via Compliance [REDACTED]. It has, though, confirmed that we can achieve improvements in speed and quality of responses.
- 4 We have established a weekly meeting with CNBV to review performance wrt high priority cases. First meeting took place Thu28FEB08
- 5 We have opened a direct channel between UIF and our Security team to supplement existing processes.

F. Tracking CNRV Audit responses

- 1 Internal policy has been reviewed and updated
- 2 We have created a specific responsibility for this process within Compliance

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### Rectification Programme – 12 major projects in 6 categories

1. KYC
  - Centralisation of control of KYC for all new accounts
  - New process for control of site visits
  - Remediation of old files, in risk priority
  - Transaction profile rectification, storage and monitoring
2. PEPs
  - Centralised review of all PEP files
  - Revise process for checking and approval of new accounts
  - Formal annual PEP review process
3. Alerts Process
  - Re-engineer and strengthen the Alert reporting processes
4. Information Requests
  - 6 Sigma end to end review of process
5. USD Banknotes
  - Review of USD intensive customers
  - Analysis of transaction patterns through branches
6. Transaction process
  - Re-engineer branch transaction processing and records



1709

**From:** John ALLISON  
**Sent:** Wed Jun 13 11:36:00 2007  
**To:** Clive BISSETT  
**Subject:** Fw: GROUP MESSAGING GATEWAY FOR LAM - CLEAR CHOICE REPORT  
**Importance:** Normal  
**Attachments:** Doc Link.htm

Clive

Any thoughts on how to deal with these countries?

Regards

John

----- Forwarded by John ALLISON/HGHQ/HSBC on 13/06/2007 11:36 -----

**Neelesh HEREDIA/HBMX/HSBC HBMX**  
11/06/2007 16:02 Mail Size: 26167

**To:** John ALLISON/HGHQ/HSBC@HSBC  
**cc:** Clive BISSETT/HBEU/HSBC@HSBC,  
Tomas.davidovich@hsbc.com.mx, Jon H  
CURL/HBEU/HSBC@HSBC

**Subject:** Fw: GROUP MESSAGING GATEWAY FOR LAM - CLEAR  
**Choice Report**  
**Entity:** HSBC Holdings plc - HGHQ

John,

We have not engaged with CI and Nassau as we have no leadership responsibility for this geography. I trust they will deal direct with IT, PCM, et al and look after themselves.

Regards,

----- Forwarded by Neelesh HEREDIA/HBMX/HSBC on 11/06/2007 09:59 a.m. -----

**Sandy Flockhart/HBMX/HSBC 01/06/2007 06:34**  
p.m

**To:** Neelesh HEREDIA/HBMX/HSBC@HSBC  
**cc:** Alan BEATTIE/HBAR/HSBC@HSBC, Antonio M  
LOSADA/HBAR/HSBC@HSBC, Arturo  
RIVERA/HBMX/HSBC@HSBC, Clive  
BISSETT/HBEU/HSBC@HSBC, David W J  
BAGLEY/HGHQ/HSBC@HSBC, Eduardo Palacios  
Katusan/HBMX/HSBC@HSBC, Emerson  
ALONSO/HBBR/HSBC@HSBC, Gary M  
PHILLIPS/HBMX/HSBC@HSBC, Graham  
MACNAUGHTON/HBMX/HSBC@HSBC, Jan  
PARK/HBBR/HSBC@HSBC, John  
ALLISON/HGHQ/HSBC@HSBC, John R  
RENDALL/HBMX/HSBC@HSBC, Jon H  
CURL/HBEU/HSBC@HSBC, Luis

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1710

EDUARDO/HBBR/HSBC@HSBC, Luis M  
MARTINEZ/HBAR/HSBC@HSBC, Luis  
SIMIONE/HBBR/HSBC@HSBC, Marian  
JEFFERY/HBEU/HSBC@HSBC, Paul A  
THURSTON/HBMX/HSBC@HSBC, Ramon  
GARCIA/HBMX/HSBC@HSBC, Tomas  
DAVIDOVICH/HBMX/HSBC@HSBC

Subject: Re: GROUP MESSAGING GATEWAY FOR LAM - CLEAR  
Choice Report

Neelsh,

As this is the most cost effective solution you have my approval to proceed as proposed.

Regards,

Sandy

Alexander A. Flockhart  
President & Group Managing Director  
Latin America and the Caribbean  
Paseo de la Reforma 347  
Oficina 23 Piso 32  
Col. Cuauhtemoc  
06500 Mexico, D.F.  
Tel: 52-55-5721-3914

Neelsh HEREDIA/HBMX/HSBC

Neelsh HEREDIA/HBMX/HSBC 05/31/2007  
05:59 PM

To: Sandy Flockhart, Gary M PHILLIPS/HBMX/HSBC@HSBC,  
Eduardo Palacios Kahuam/HBMX/HSBC@HSBC, David W.J  
DAGLEY/HBAR/HSBC@HSBC, Ramon Garcia, Jose  
PARK/HBBR/HSBC@HSBC, Graham Macnaughton, Luis  
EDUARDO/HBBR/HSBC@HSBC, Alan  
BEATTIE/HBAR/HSBC@HSBC, John R  
RENDALL/HBMX/HSBC@HSBC

cc: Paul A THURSTON/HBMX/HSBC@HSBC, Emilton  
ALONSO/HBBR/HSBC@HSBC, Antonio M  
LOSACA/HBAR/HSBC@HSBC, Tomas  
DAVIDOVICH/HBMX/HSBC@HSBC, Clive  
BISSETT/HBEU/HSBC@HSBC, John H  
ALLISON/HGHQ/HSBC@HSBC, Jon H  
CURR/HBEU/HSBC@HSBC, Marian  
JEFFERY/HBEU/HSBC@HSBC, Arturo  
RIVERA/HBMX/HSBC@HSBC, Luis M

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1711

MARTINEZ/HBAR/HSBC@HSBC, Luiz  
SIMONE/HBBR/HSBC@HSBC  
Subject: GROUP MESSAGING GATEWAY FOR LAM - CLEAR CHOICE  
Report

All,

As you are aware, we have been assessing the most viable and Group policy compliant Group Messaging Gateway (GMG) for future processing of LAM payments. Attached is the final version of the Clear Choice (CC) and to which I request your approval to proceed.

For ease of reference, I advise that the CC report recommends migration of all LAM non US Based SWIFT addresses to the UKGMG.

The CC was collectively put together by: IT, PCM and CMP in the UK and IT, CMP, PCM in LAM, representatives from HBBR, HBAR and OPSCO (for HBMX, LAM International and CC sponsorship). My thanks to all participants.

Post approval, priority next steps include:

Definition of: Project sponsor, Project Coordinators for LAM and the UK from Business and IT, In-country Business and IT representation and supporting LAM and UK Project teams. *Action: Davidovich.*  
Preparation and approval of a Project Terms of Reference. *Action: Project Coordinators in LAM and UK.*  
Advice to all LAM countries of CC decision. *Action: Heredia.*  
Progress with HBEU IT the need for spanish speaking support during LAM's working hours at the SYDGC. *Action: Heredia with Phillips.*  
Identify and agree Pilot site. *Action: Heredia with Macnaughton*

Follow on actions will include: prioritised list of countries to be migrated, roll-out plan and timelines, project plans per country, SLAs between countries and the SYDGC, formalisation of the migration of Keys and Access rights, demise of SWIFT Alliance etc.

Please address any queries arising to me.

Regards,

Neelesh

[attachment "Clear Choice - Non US SWIFT Address GMG Migration - FINAL.doc" deleted by Neelesh HEREDIA/HBMX/HSBC]

David.

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1712

The contact should be Neelesh Heredia but Graham Macnaughton Head of international and Eduardo Palacios Head of PCM should be copied in all correspondence.

Regards,

Sandy

Alexander A. Flockhart  
President & Group Managing Director  
Latin America and the Caribbean  
Pasco de la Reforma 347  
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Col. Cuauhtemoc  
06500 Mexico, D.F.  
Tel: 52-55-5721-3914

David W. J. BAGLEY/HQH/HSBC

David W. J. BAGLEY/HQH/HSBC Sent by: To: Sandy Flockhart/HBMX/HSBC@HSBC  
Marion O ROACH 22/03/2007 11:11 a.m. cc:  
Subject: GROUP MESSAGING  
of

Sandy

I refer to your e-mail of 14th March

Clive Bisset, Global Project Manager, GTB has been nominated to assist with the preparation of a Clear Choices document. Could I suggest therefore that someone be nominated for LATM to liaise closely with Clive which will ensure that a proper and complete consideration will be given, including to the capacity issues.

I am aware from my contact with CMP in Brazil that they were giving some consideration to giving up certain payments activity given the challenges of passing that activity through the US. We have indicated that any final decision should be deferred in this regard pending a proper consideration as to whether the payments messaging can be migrated elsewhere thus allowing us to preserve as much activity and business as possible. There may also need to be a conversation at some stage with Paul Lawrence if it is necessary to persuade HBUS to continue with payment messaging pending any migration. I will however advise further if this proves to be the case.

At my and I will ask one of my team, John Allison, to support Clive. I look forward to receiving details of your nominated contact whereupon I will ask Clive to make appropriate contact and commence the necessary work.

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1713

I am grateful for your assistance.

Regards

David Bagley

Sandy Flockhart

----- Original Message -----

From: Sandy Flockhart  
Sent: 03/14/2007 12:45 PM  
To: David R J BAGLEY  
Cc: David Leighton; Neellesh HEREDIA; Paul A THORSTON; Graham MACNAUGHTON  
Subject: Re: Group Messaging

David,

We are similarly keen to ensure that payments continue to operate smoothly, whilst being completely compliant with Group requirements, and to this end would not be averse in principle to re-routing payments traffic via Sheffield, rather than as present, via the USA.

Whilst clearly this would need to be fully evaluated, not least in respect of the cost savings that would presumably accrue, as well as the ability to meet specific Latin American requirements (time zone, language etc), we would want to ensure that all Latin American countries met the most stringent requirements, possibly by centralising all payments through a Payments Services Centre such as the one we recently commissioned in Mexico. One component of this might be to ensure that we used precisely the same algorithms and screening parameters as are used by the US, but this too would be part of the abovementioned evaluation.

Clearly a decision will need to be taken soon as we are in the process of defining the migration of <sup>12061, 2005, 133</sup> which, until your communication was received were going to be routinely routed through the United States in the usual way. However, you mention there may be capacity issues in the UK, and of course these would need to be resolved without disproportionate cost implications for LATAM. It would therefore be helpful if you would advise the name of a contact with whom we could discuss various points of detail prior to reaching a final decision, and with who we could work with afterwards to convert if such was decided to be the way forward.

I look forward to receiving your thoughts on the above.

Regards,

Sandy

Alexander A. Flockhart

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President & Group Managing Director  
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06500 Mexico, D.F.  
Tel: 52-55-5721-3914

David W J BAGLEY/HGHO/HSBC

David W J BAGLEY/HGHO/HSBC Sent by: To: Sandy Flockhart/HBMX/HSBC@HSBC  
Marion O ROACH 11/03/2007 09:08 a.m. cc  
Subject: Group Messaging  
ct

Sandy

With apologies for the length of the note set out below, I need to raise an issue with you which relates to payment messaging for large, if not all, parts of Latin America. This is an issue that has been around for some time, but probably now needs a strategic high-level decision given the potential, commercial and cost consequences. The key issues are as follows:-

You will of course be aware of the increased significance of compliance with the US sanctions promulgated by OFAC. This has led to the Group reinforcing and reiterating a requirement for all Group offices to comply with OFAC in relation to transactions denominated in USD regardless of their place of incorporation or operation. This policy is well-established, and appears to be adhered to very closely by Group companies.

Obviously our operations in the US are obliged to comply with the requirements of OFAC in all currencies, not just USD. This obviously reflects the fact of either their US incorporation, or the fact that they were operating within the US. Within the US however there is an increased focus upon effective compliance with the requirements OFAC on the part of both OFAC itself but also our banking regulators

At present, cross-border payments, regardless of currency, initiated by most, if not all of our operations in Latin America pass through the payment gateway operated by HBUS in the US. The increased focus upon OFAC compliance has led us to consider various situations where transactions pass through the US, but are not initiated by and do not involve our Group companies in the US. They are, in effect, merely a service provider.

This also applies to certain of our internet offerings where servers were located in the US for all sorts of technical reasons (e.g. hsb.com and hsb.net) but are in effect owned or operated by US companies.

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This clearly has the potential for adverse commercial consequences, in that transactions in currencies other than USD involving countries or entities covered by US sanctions would be caught even though overall they were permitted by Group policy by reason of their non-USD denomination. For this reason, we are in the process of relocating the .net and .com services, and made a conscious decision to develop a stand-alone WHIRL system server in the UK where the original proposal was to host all Group credit card transactions through servers located in the US.

Obviously the significance of the above is that where payments are processed through the New York gateway on behalf of Latin American operations then HBLUS, taking a cautious approach justified by the current regulatory environment, will need to filter all transactions regardless of currency and reject those transactions where they would breach OFAC regardless of currency. This would clearly be disadvantageous from Latin America's perspective, and equally I suspect the logistics of having to locally pre-screen all cross-border payments in all currencies would be commercially and operationally challenging for our operations in Latin America.

My own view is that commercially you would find the introduction of filtering by our US colleagues unattractive commercially, and I do remember the problems that a local US hotel chain got into when refusing access to certain Cuban visitors. If my assumption here is correct then on the assumption that you will want to carry out as many transactions permitted by Group policy as possible the most viable option and way forward would seem to be to relocate your payment processing to a different Group Messaging (GMG) gateway. This however would need your support and the generation of an appropriate business case and clear choices proposal. Any such proposal would need to take account of likely impacts upon operational support, time zones, performance and cost. We have informally explored the possibility of relocating Latin American flows to the UK GMG, but this centre has experienced some capacity issues.

Whilst we have lived with the current position for some time, it is fair to say that now that our US colleagues are on notice they feel extremely uncomfortable in allowing the position to continue indefinitely. In essence, we will either have to have a pass and timeline for a relocation of the payment messages or will need to turn the filtering on.

I thought it important to canvas this issue with you first, but recognise that you will probably want to nominate one of your team to take matters forward. Similarly, we will provide as much assistance as we can here in GHQ CMP, having developed some understanding and knowledge of the issues posed by OFAC, and possible solutions and approaches to resolve those challenges.

Regards

David Bagley

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*MINUTE OF LAM REGIONAL AUDIT COMMITTEE JULY 27<sup>th</sup> 2007*

**HSBC LATIN AMERICA & THE CARIBBEAN.**

**REGIONAL AUDIT COMMITTEE MEETING MINUTES**  
**27<sup>th</sup> JULY 2007**

The Audit Committee meeting was held in México City on 27<sup>th</sup>, July 2007 in the board room of Grupo Financiero HSBC, on the thirty second floor of the building located at Paseo de la Reforma No. 347 and by video conference linked with London, Sao Paulo and Curitiba.

Present: Brian Robertson (BR) (as Chairman)  
David Bagley (DB)  
Matthew King (MK)  
Paul Thurston (PT)  
Emilson Alonso (EA)  
Graham Thomson (GT)  
Mark Gunton (MG) (part of the meeting only)  
Ramon Garcia (RG) (part of the meeting only)  
Jae Park (JP)  
Osvaldo Grossi (OG)  
Victor Jimenez (VJ)  
Rae Scanlon (RS) – KPMG

Secretary: Octavio Contreras (OC)

**1. MINUTES OF THE PREVIOUS MEETING**

The minutes of the previous meeting held on 27<sup>th</sup> April 2007 were tabled for approval.

There being no comments or objections, the minutes were approved by unanimous vote of the Committee.

**2. MATTERS ARISING**

[REDACTED]

**3. INTERVIEW WITH THE REGIONAL HEAD OF GROUP AUDIT**

GT presented his report, which was based on the consolidation of reports for the 2Q07 submitted to the Argentina, Brazil, Mexico and Panama Audit Committees. He commented as follows:

The audit assessments of control risks completed during the quarter recorded 40 satisfactory control risks from 55 reports issued, representing a reduction to 73% of audits completed compared to 81% for the previous quarter.

GT mentioned the Outstanding high risk recommendations show an increasing position for the

Redacted Material

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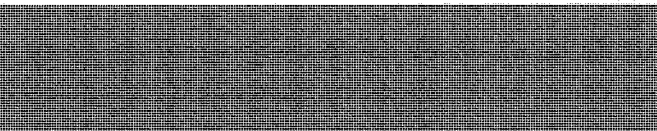
HSBC OCC 8875086

*MINUTE OF LAM REGIONAL AUDIT COMMITTEE JULY 27<sup>th</sup> 2007*

quarter. This increase is due to the inclusion of high risk open recommendation from IT installation audits in Banistmo.

GT explained that Regional CEOs now take disciplinary action should a manager record 2 consecutive Below Standard control risk assessments or record significant repeat recommendations

GT commented on the key risks faced by regional and country management, the more important being as follows:



41 The gaps that existed in compliance with the Group Standards in the "Business Practices"



42 Customer Account documentation - Notwithstanding that 9.1 MP reported 99% of HBMX electronic customer records met with regulatory requirements, GT highlighted the high level of exceptions and variance between the paper and electronic records that existed in HBMX as evidenced by GAQ audit findings. This would require a large rectification effort to be completed if the Bank was to meet the regulatory deadline for compliance of MAY08. GT also stated that the branch staff were not sufficiently knowledgeable about classification and identification of SCC (Special Customers categories) and further the failures by HBMX Anti-Money Laundry Committee to follow up instructions about customer accounts that should be cancelled. PT mentioned that an escalation process to senior management is in process of being introduced to resolve these issues.

**Action Point:** GT was asked to update the committee at the next meeting on progress made in the restructuring of the AML committee and progress status on achieving with the Mexico account documentation requirements.

GT provided a verbal update that there were inadequate management and system controls over the monitoring and reactivation in HBMI of unclaimed balance accounts fails as at 31MAR07 HBMX reported 61,096 unclaimed balances amounting to USD 116.5m.

GT tabled the minutes of Group Audit Committees for Argentina, Brazil, Mexico and Panama.

The Chairman thanked GT for his report.

**4. INTERVIEW WITH THE REGIONAL CHIEF RISK OFFICER**

MG presented his report.

MINUTE OF LAM REGIONAL AUDIT COMMITTEE JULY 27<sup>th</sup> 2007

MG updated the Committee on the status of LAM Risk Governance including the Risk Management Committee, the Risk Limits and Exposure Reporting ( Market and Operational Risk), and Policies.

He reported the problems faced by the loss of experienced personnel and difficulties in finding suitable replacements. He stated the LAM Risk and Watch List and Top of Mind issues were in Mexico – credit cards, SME / SE, in Panama – CMB Real estate lending, Colombia – Personal Lending (credito al instante).

MG presented statistics as at APR07 for the Latin America Portfolio.

The Chairman thanked MG for his attendance, who then left the meeting.

5. INTERVIEW WITH THE HEADS OF COMPLIANCEa. Mexico, Central America and Peru.

RG was invited to join the meeting and present his report.

RG commented that Head of Group Compliance DB visited Mexico and Panama from 11 to 14 JUN07. Actions points were listed for consideration and implementation in due course.

He updated the Committee on i) Inspection and Regulatory visits and ii) Fines;

RG explained that due to problems with ASSIST (the AML system in use in Banistmo countries) there has been a delay with the issuance of systematic SAR in some jurisdictions. Experian, the software provider is assisting with a solution, but in the interim manual monitoring processes have been not detected unusual operations that merited SAR submissions.

In response to a committee query, RG advised that the business approach to accounts maintained by Cuban nationals in LAM was to request the accounts to be denominated in a currency other than USD, and where dual nationality existed (e.g. Panama) the customer should use the alternate nationality.

In connection with the point raised by the Head of Audit regarding compliance with the new Mexican account documentation requirements, RG explained the measures being taken by HBMX including the centralised management and control of imaged documents. HBMX COO was coordinating the project which was commencing with a pilot program being carried out in 94 HBMX branches in the Metropolitan area. CNBV has granted a 1-year extension to MAY08 for HBMX to regularise customer identification files for account opened or contracts signed before MAY04.

Weaknesses were found in files integration in the Central America region, Panama, Costa Rica, Nicaragua and Honduras and mentioned that remediation plans have been implemented.

b. South America

Redacted Material

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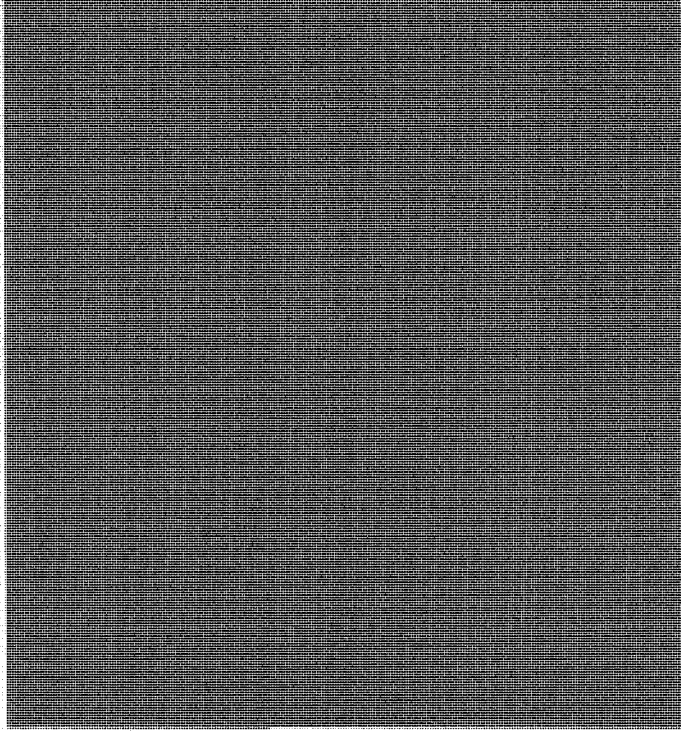
HSBC OCC 8875088



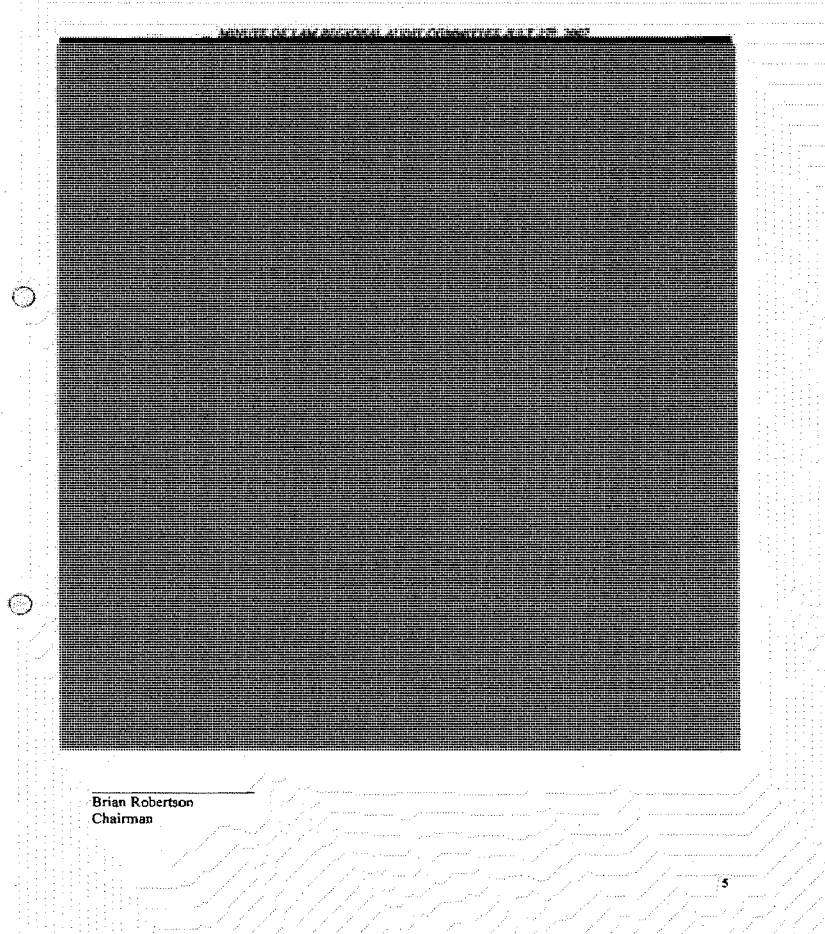
MINUTE OF LAM REGIONAL AUDIT COMMITTEE JULY 27<sup>th</sup> 2007

Then JP presented his report and commented on the following:

Argentina: a) the effort to solve documentation problems with CIBM customers and PFS payrolls accounts continues; b) Some errors detected in the AML database to the regulator will be fixed by July 07.



**Redacted Material**  
**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8875089**



**Redacted Material**  
**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8875090**



CNBV  
David W J BAGLEY Id: Paul A THURSTON  
Sent by: Martin D ROACH 10/15/2008 12:47 AM  
Cc: Richard E T BENNETT, Chris R BENTLEY, Ramon GARCIA, Matthew J W KING, Ramon G J LEAMING, John R RENDALL, John F ADOT, Graham THOMSON

History This message has been forwarded.

Paul

I have, as promised, followed up with FSA who have now held a conversation with CNBV. I believe the CNBV side of the call was led by Eduardo Gomez but FSA were a little vague as to precisely who was on the call at the other end.

The essence of the call as reported to me however is as follows:-

- The version of events given by CNBV accords with the version I had provided to FSA.
- I suspect CNBV sought to justify their actions in terms of existing concerns that prompted by the additional and new concerns in relation to AML, account opening and FIU related procedures.
- CNBV appeared to confirm that what prompted the action on their part were the concerns raised by FIU and that there were new concerns both as far as we were concerned but also so far as CNBV were concerned.
- CNBV confirmed that they were satisfied with the reaction and steps we have taken although will watch implementation closely.
- There was a clear suggestion that provided we implemented appropriately, no further action was likely.
- I would suggest that Ramon find an opportunity to first check that the above accords with CNBV's view of the call. I have made it clear to FSA that we as GMO CMP will continue to work closely with you in HEMX and that there is suitable oversight monitoring and tracking at Group level.

For the time being, I think this concludes the dialogue between FSA and CNBV but I will make sure that as part of my routine meetings with FSA, I periodically update them.

Regards

David Bagley

From: Tamara KHAN  
Sent: Fri Jun 18 18:08:19 2000  
To: Susan A WRIGHT  
Subject: Re: Memo: Significant Exception 2Q00-04  
Importance: Normal  
Attachments: image\_0.gif; image\_1.gif

Susan

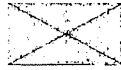
I agree.

I do not believe [redacted] position is defensible if queried, and there is therefore a real risk of reputational damage. I would have thought there is an alternative way of handling this business which does not cause [redacted] to be accused of sharp practice. If [redacted] management is not prepared to drop the practice, you will need to advise our representatives on the Board so they can raise it at a Board meeting. We do not, of course, control [redacted] and we have to be sensitive to this in how we pursue the point.

Regards,

Matthew J W King

[Susan A WRIGHT@HSBC](mailto:Susan.A.WRIGHT@HSBC)



Susan A WRIGHT@HSBC  
14/06/2000 14:33  
To: Matthew KING@HEM  
cc:

Subject: Memo: Significant Exception 2Q00-04

Strictly Private and Confidential

Matthew,

Some weeks ago Bob Cooper advised me that when processing wire transfers [redacted] standard

**Redacted Material**

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HSBC OCC 8875191

procedure has been to replace automatically the name of the remitter with that of [REDACTED]. We advised them that this was contrary to SWIFT guidelines (drawn up to address FATF concerns re money laundering via wire transfers) which require that the full details (names and addresses) of remitters and beneficiaries are included. We have now been advised that they have accepted our recommendation and will cease this practice as soon as certain systems changes have been made.

However this is subject to one serious exception - for US\$ payments that are OFAC sensitive [REDACTED] will continue to arrange wire transfers on a bank to bank basis so that the names of the remitter and beneficiary are omitted, advising the beneficiary bank separately of the beneficiary details.

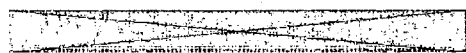
From a Group perspective I consider the continuation of this practice to be unacceptable and as a deliberate and calculated method to avoid the US OFAC sanctions has the potential to raise serious regulatory concerns and embarrass the Group.

I understand that Ron Shaw is aware of the above proposals and should be contacted before this issue is escalated further.

Could we please discuss.

Regards Susan

Forwarded by Susan A WRIGHT/HQ/HNBC on 14/06/2000 14:07



Memo  
09 Jun 2000 17:02

To: Susan A WRIGHT

To: Susan A WRIGHT/HQ/HNBC@HSBC  
cc:  
From: Bob J COOPER/HQ/HNBC 700 50082; 44 20 7260 0082  
Subject: Significant Exception 2000-04

Further to my initial report, [REDACTED] have now confirmed the following:

By the end of June, the practice of automatically replacing a remitter's name with that of [REDACTED] will cease.

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HSBC OCC 8875192

However, for payments that are identified as being OFAC sensitive they will follow a different procedure.

In these circumstances, for US\$ payments, [REDACTED] will arrange cover for the payment using MT202/203 remittances. These are bank to bank payments and no underlying remitter / beneficiary details are required. They simply facilitate the movement of funds to / from nostro / vostro accounts between banks.

[REDACTED] will then separately send an MT 100 message (not payment) to the underlying beneficiary bank. Within this message, full details of the remitter and beneficiary will be quoted. In this way a payment, in US\$ can be made for an individual or company on the OFAC list, without the name being 'detected' by the OFAC filters that all US banks would apply.

John Trench estimates that anything between 20-30% of [REDACTED]'s business would fall into this category. We need to remember that one of [REDACTED]'s shareholders is also an OFAC listed bank!

I have spoken to Jim and separately asked [REDACTED], London branch for comment. [REDACTED] advise that they do not take any action regarding OFAC listings.

The [REDACTED] issue is a difficult one and I cannot see any easy alternative to that proposed by John Trench.

**Redacted Material**

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HSBC OCC 8875193

**From:** Rod MOXLEY  
**Sent:** Thu Nov 27 17:27:12 2003  
**To:** Susan A WRIGHT  
**Cc:** John E ROOT; John ALLISON; John R WILKINSON; Nigel J WEIR; Gary BOON; Malcolm G EASTWOOD; Jeremy R WALKER; Tony P COLLINS  
**Subject:** Draft Iranian - USD Payment Procedures  
**Importance:** Normal  
**Attachments:** image\_0.gif; image\_1.gif; WOLF IRANIAN USD PROCEDURE.doc

Susan,

This is draft copy of procedure regarding Iranian U-turn payments.

You will be aware from emails earlier today, that I am awaiting clarification from Gary Boon on a small number of issues which may mean that minor amendments will require to be made.

I assume that this document will receive the approval of External Counsel in due course, along with our previous note regarding Payment messages/instructions received. For your information, RMS will arrange to communicate to EPS Livingston any procedural changes which may impact on their operation.

If you have any queries, please contact me.

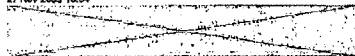
Regards

Rod

— Forwarded by Rod MOXLEY/HBEU/HSBC on 27 Nov 2003 17:13 —

Memo

27 Nov 2003 18:54



**From:** Tony P COLLINS/HBEU/HSBC

Tel: 780 95503  
44 20 7260 8503  
Mail Size: 56839

**To:** Rod MOXLEY et al

**To:** Rod MOXLEY/HBEU/HSBC@HSBC  
Jeremy R WALKER/HBEU/HSBC@HSBC  
**cc:** Janette KING/HBEU/HSBC@HSBC

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HSBC OCC 8875225

1726

bcc:

Subject: Draft Iranian - USD Payment Procedures

Rod,

As requested, please find attached the draft Iranian - USD Payment Procedures as discussed earlier today.



Regards

Tony

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HSBC OCC 8875226



1727

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HSBC OCC 8875227

**PROJECT WOLF**  
**PROCEDURE FOR HANDLING**  
**IRANIAN USD PAYMENTS**

**INTRODUCTION**

USD payments effected by Iranian Banks are covered by Legislation provided by the United States Treasury Department, Office of Foreign Assets Control (OFAC). These US Economic Sanctions deal with a wide variety of subjects such as Iranian Transaction Regulations, Import/Export, Travel and Flights.

It is essential that our financial dealings with Iran do not contravene or "side step" current US Legislation. Therefore, every effort must be made to ensure that payments effected by HSBC are paid in accordance with US Sanctions.

**AREAS OF RESPONSIBILITY**

It is the duty of the sending party, be it another bank or a customer of HSBC to be aware of any restrictions, limitations, laws or sanctions which may effect their payment. HSBC therefore, can take no responsibility for any loss, resulting from the intervention of government bodies or Central Banks applying local controls.

With this in mind, every effort must still be made to ensure that payments effected through HSBC do not contravene US Legislation in order to protect the Banks Reputation and that of our customer.

**U-TURN PAYMENTS**

Current OFAC Sanctions preclude any payment sent to or from an Iranian account entering or exiting the US if said funds are to credit or debit an account with a US Institution.

The relevant wording provided by the OFAC Sanction on Iran is as follows:

"US depository institutions may handle "U-Turn" transactions (cover payments involving Iran that are by order of a third country bank for payment to another third country bank) provided they do not directly credit or debit an Iranian account."

An example would be Bank Melli Tehran sending an MT103 requesting we effect a USD payment via the US to Overseas-Chinese Banking Corporation Singapore. This payment does not debit or finally credit an account in the US, and is therefore deemed a legal and appropriate payment.

Further examples are available at the end of this procedure.

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HSBC OCC 8875228

**RECEIPT ONTO WOLF OF AN IRANIAN USD PAYMENT**

On receipt of either an incoming or outgoing Iranian USD payment to the Wolf Queue, the following steps should be undertaken.

1. Ensure that the instruction received complies with current US Sanctions concerning "U-Turn" payments to and from Iran.
2. Check that there is no request in field 72 "Bank to Bank Details" instructing HSBC to amend or delete any payment information. On receipt of such an example, the payment must be declined and the customer advised that:  
  
"We are unable to act upon conditional payment instructions, which require HSBC to amend or delete payment details."  
  
Under no circumstances, should ANY field within a payment order be amended to remove the name of a Sanctioned country or town.
3. Confirm and investigate any listed potential hit using World-Check.
4. Release the payment if it meets the above mentioned criteria.

**EXAMPLE 1**

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HSBC OCC 8875229

Bank Mellat Tehran send an MT103 requesting \$850 to be sent to [REDACTED] account with Overseas Chinese Banking Corp, Singapore via their account with JP Morgan Chase NY.

Explanation	Format
Sender	MELLITRTH
Message type	103
Receiver	MIDLGB22
Message text	
Sender's reference	20:GWERTY
Bank operation code	23B:GRED
Value date/currency/interbank settled amount	32A:000326USD850.
Ordering customer	
Intermediary institution (1)	56A:CHASUS33
Account with institution	
Beneficiary customer	
Remittance information	70:APRIL 2000 EXPENSES
Details of charges	71A:SHA

MPS generates the following MT103 message to HBUS (no cover MT202 because incoming instruction had a SWIFT instruction in field 56).

Explanation	Format
Sender	MIDLGB22
Message type	103
Receiver	ZHWDUS33
Message text	
Sender's reference	20:TX21062502777777
Bank operation code	23B:GRED
Value date/currency/interbank settled amount	32A:000526USD850.
Ordering customer	
Ordering institution	52D:BANK MELLAT, TEHRAN
Intermediary institution (1)	56A:CHASUS33
Account with institution	
Beneficiary customer	
Remittance information	70:APRIL 2000 EXPENSES
Details of charges	71A:SHA

**EXAMPLE 2**

Bank Mellat Tehran send an MT103 requesting \$850 to be sent to [REDACTED] account with

Redacted Material  
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Overseas Chinese Banking Corp, Singapore.

Explanation	Format
Sender	MELLIIRTH
Message type	103
Receiver	MIDLGB22
Message text	
Sender's reference	:20:QWERTY
Bank operation code	:23B:CREB
Value date/currency/interbank settled amount	:32A:000526USD850,
Ordering customer	
Account with institution	
Beneficiary customer	
Remittance information	:70:APRIL 2000 EXPENSES
Details of charges	:71A:SHA

MPS generates the following MT103 message directly to the beneficiary bank (assuming we have BIC authentication) advising them that funds are available with their correspondent (JP Morgan Chase NY).

Explanation	Format
Sender	MIDLGB22
Message type	103
Receiver	OCBC93BG
Message text	
Sender's reference	:20:4X2108292777777
Bank operation code	:23B:CREB
Value date/currency/interbank settled amount	:32A:000526USD850,
Ordering customer	
Ordering institution	:520:BANK MELLI, TERRAN
Receiver's Correspondent	:24A:CHASUS33
Beneficiary customer	
Remittance information	:70:APRIL 2000 EXPENSES
Details of charges	:71A:SHA

MT202 COVER INSTRUCTION

\*Please note MPS doesn't include the ordering bank on the outgoing message.

Redacted Material

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HSBC OCC 8875231

Explanation	Format
Sender	MIDLGB22
Message type	202
Receiver	MRMDS33
Message Text	
Transaction reference number	:20:7C210825G2777777
Value date/currency code/amount	:32A:980527USD850
Account With Institution	:57A:CHASUS33
Beneficiary institution	
Bank to Bank Details	

**EXAMPLE 3**

Bank Melli Tehran instructs us to pay \$500,000 to [REDACTED] via their New York Office

Explanation	Format
Sender	MELITRTH
Message type	202
Receiver	MIDLGB22
Message Text	
Transaction reference number	:20:QWERTY
Related reference	:21:FX 1234
Value date/currency code/amount	:32A:980527USD500000,00
Account With Institution	
Beneficiary institution	

MPS generates the following message to HBUS.

Explanation	Format
Sender	MIDLGB22
Message type	202
Receiver	MRMDS33
Message Text	
Transaction reference number	:20:4X210828G2777777
Related reference (1)	:21:FX 1234
Value date/currency code/amount	:32A:980527USD500000,00
Ordering Institution	:52A:MELITRTH
Account With Institution	
Beneficiary institution	

Redacted Material

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HSBC OCC 8875232

1733

From: SUSAN A WRIGHT/HGHQ/HSBC  
Sent: 7/25/2007 2:33:03 AM  
To: ANNE LIDDY/HBUS/HSBC  
CC: JOHN ALLISON/HGHQ/HSBC/HSBC  
Subject: Re: Fw: Conversion of Clients to Serial Payment Method

Anne,

No, it didn't get to me (wrong email address).

There have been a limited number of dispensations granted to HSBC's own customers - John is the keeper of the dispensations and so will provide you with more detail. (John please copy me in).

Regards Susan

Anne Liddy/HBUS/HSBC  
HBUS  
25/07/2007 02:59  
Mail Size: 5251

To  
Susan A WRIGHT/HGHQ/HSBC/HSBC  
cc  
Subject  
Fw: Conversion of Clients to Serial Payment Method  
Entity  
HSBC Holdings plc - HGHQ

Susan, not sure if this got to you or not.

----- Forwarded by Anne Liddy/HBUS/HSBC on 07/24/2007 09:58 PM -----

Anne Liddy/HBUS/HSBC  
07/18/2007 04:57 PM

To  
Susan Wright  
cc  
Subject  
Conversion of Clients to Serial Payment Method

Susan, I was told today that David Bagley "issued a dispensation" regarding the requirement that we induce our clients to move from cover payment to the fully disclosed serial method. I know that there was some general discussion regarding the fact that we were having a difficult time getting our Group offices to switch (mainly due to systems issues) to this method that it seemed as though we needed to provide more time for our clients to convert as well. But I do not recall that a dispensation was issued in this regard. Do you have the background on this? Thanks.

HSBC OCC 0384172

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HSBC OCC 8875256

From: John F ROOT  
Sent: Fri Sep 12 15:14:17 2008  
To: Adrian CRISTIANI  
Cc: David W J BAGLEY; Warren G LEAMING; Susan A WRIGHT  
Subject: Fw: Cayman Accounts  
Importance: Normal  
Attachments: image 0.gif; Doc Link.htm

Adrian,

At Warren Learning's request, below please find a recent breakdown of the USD Cayman accounts at HBMX (i.e. held by a branch of HBMX with a "Category B" offshore Cayman license but no physical presence or client documentation in Cayman).

The HBMX "Restoration" project chaired by John Rendall, HBMX COO, is endeavouring to regularise these accounts on a risk-basis. Account opening documentation is generally poor or non-existent and there is a lot of work to do. Money-laundering risk is consequently high.

Regards,

John Root

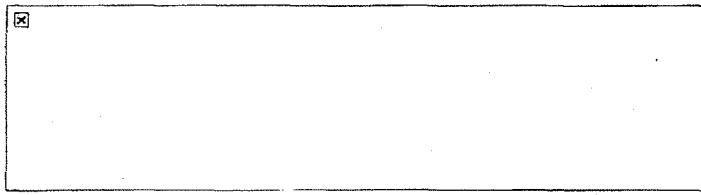
— Forwarded by John F ROOT/GMO/HSBC on 12/09/2008 15:05 —

Ramon  
GARCIA/HBMX/HSBC@HSBC04 To: John F ROOT/GMO/HSBC@HSBC  
Sep 12 2008 15:04 Mail Size: cc: Maria SALAZAR/HBMX/HSBC@HSBC04  
37281 Subject: Re: Cayman Accounts  
Entity

John,

Please find attached information requested. Regards, Ramon

**CAYMAN ACCOUNTS**



Customers were classified in emergency lights considering their transactional behaviour as follows:

RED SSC status, black lists and customers with one or more reports to the authority (SARs) were



considered.  
YELLOW Customers alerted by CAMP system without SARs  
WHITE Customers with no coincidences in the two previous ranges.

---

John F. ROOT/GMO/HSBC@HSBC

John F  
ROOT/GMO/HSBC@HSBC To Ramon GARCIA/HBMX/HSBC@HSBC04  
11/09/2008 06:51 a.m. cc  
Subject: Cayman Accounts

Ramon,

Could you please send me figures for the Cayman Accounts? How many? Total? SARs filed? CD? Etc. Etc.

Regards,

John

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1736

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HSBC OCC 8875464

PRODUCT	TOTAL	BALANCES OF	ACCOUNTS	BALANCES OF	CUSTOMERS	ACCOUNTS	CUSTOMERS
COA	27,238	\$1,652,240,721.81	2,741	\$20,618,722.53	2,63%		3.84%
DDA	33,548	\$43,505,547.14	2,081	\$10,455,545.59	4.05%		3.35%
	61,586	\$2,095,746,268.95	57,262	\$1,707,930,000.81	83.31%		82.89%
			61,586	\$2,095,746,268.95			
STATUS							
REF	1,314		2,741		2.63%		
UNREF	2,027		2,081		4.05%		
SWIFT	48,254		57,262		83.31%		
GRAND-TOTAL	51,595		61,586				

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HSBC OCC 8875465

1738

From: Ken C MATHESON  
Sent: 19/06/2010 10:46 GMT  
To: David W J BAGLEY  
Subject: Fw: RMM action point  
David

Pyl, I should have an initial draft on Monday which we can review. Do you want me to work with Susan?

Ken

-----  
HSBC Holdings plc  
Registered Office: 8 Canada Square, London E14 5HQ, United Kingdom  
Registered in England number 617987  
-----

Ken HARVEY

----- Original Message -----  
From: Ken HARVEY  
Sent: 18/06/2010 12:44 GMT  
To: Ken C MATHESON; John F Carr/BBNK/HSBC/HSBC04  
Subject: Fw: RMM action point  
Ken

Can you prepare the attached. Plz send draft for my review

Thx

Michael C ANDERSON

----- Original Message -----  
From: Michael C ANDERSON  
Sent: 05/18/2010 05:26 PM GMT  
To: Ken HARVEY  
Cc: Andrew ZISSELL  
Subject: RMM action point  
Ken

The minutes of the last RMM included the following action point:

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53.2 Compliance Report

Douglas Flint presented the report which drew particular attention to the following:

53.2.1 Mexico : As previously reported, during the implementation in HSBC Bank Panama of the Group's anti-money laundering transaction monitoring system (CAMP), it was discovered that certain transaction types were not being captured and therefore were not being monitored, prompting a review of the CAMP installation in Mexico which was linked to the same banking system. After investigation, it was discovered that HSBC Bank Mexico's CAMP system had not been fully updated since installation in 2005. This failure to monitor certain transactions in Mexico may lead to regulatory action. **ACTION** – M C Anderson to request Ken Harvey to provide a background paper on the matter.

I would be grateful if you would please arrange for provision of the requested background paper. As the July RMM is near, our timing is such that papers are needed by 25 June.

I am happy to answer any questions if you have any.

Regards  
Mike

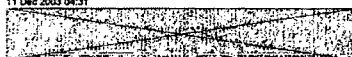
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.      HSBC OCC 8875493

1740

From: Susan A WRIGHT  
Sent: Thu Dec 11 09:13:54 2003  
To: David W J BAGLEY  
Subject: Re: IRAN EXAMPLES  
Importance: Normal  
Attachments: image\_0.gif; image\_1.gif; Doc Link.htm

----- Forwarded by Susan A WRIGHT/HGHQ/HSBC on 11 Dec 2003 09:13 -----

Memo  
11 Dec 2003 04:31



From: Nigel J WEIR/RM IS MEM/HBME/HSBC  
Tel: 971 4 5077622  
Mail Size: 10438

Susan A WRIGHT et al

To: Susan A WRIGHT/HGHQ/HSBC@HSBC  
cc: Geoff ARMSTRONG/HBEU/HSBC@HSBC  
Quentin R AYLWARD/MDBK/HSBC@HSBC  
Brian W RICHARDS/MDBK/HSBC@HSBC  
Rod MOXLEY/HBEU/HSBC@HSBC  
Gary BOON/MGR PCM MEM/HBME/HSBC@HSBC  
John F ROOT/HGHQ/HSBC@HSBC  
John ALLISON/HGHQ/HSBC@HSBC  
Malcolm G EASTWOOD/MDBK/HSBC@HSBC  
John R WILKINSON/HBEU/HSBC@HSBC  
Jeremy R WALKER/HBEU/HSBC@HSBC  
Tony P COLLINS/HBEU/HSBC@HSBC

Subject: Re: IRAN EXAMPLES

Susan,

At our meeting on 30OCT03 we agreed that we should obtain legal counsel opinion on our preferred standard MT103 & cover payment method before reverting to HBUS with our final accompi. We seem to have deviated from this proposed plan.

I believe that the HBUS proposals you are referring to recommend the serial method which is not our preferred solution. I hope this is not the case as I seem to remember it involved manual processing and potentially additional headcount in HBUS.

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I am also concerned that the deadline of 31/12 is approaching rapidly and we are not in a position to advise our proposed changes to our customers. I therefore suggest an extension to this deadline.

Kind Regards

Nigel

10Dec2003

Memo



To: Rod MOXLEY/HBEU/HSBC@HSBC et al

To: Rod MOXLEY/HBEU/HSBC@HSBC  
Gary BOON/MGR PCM MEM/HBEU/HSBC@HSBC  
Nigel J WEIR/RM ID MEM/HBEU/HSBC@HSBC  
John F ROOT/HGHQ/HSBC@HSBC  
John ALLISON/HGHQ/HSBC@HSBC  
Malcolm G EASTWOOD/MSK/HSBC@HSBC  
John R WILKINSON/HBEU/HSBC@HSBC  
Jeremy R WALKER/HBEU/HSBC@HSBC  
Tony P COLLINS/HBEU/HSBC@HSBC

cc:

From: Susan A WRIGHT Tel: 7692 5554/44 2079 925554

Our Ref: Your Ref:

Subject: Re: IRAN EXAMPLES

I am writing to update you on the current situation with regard to our proposals re the processing of Iranian U Turn payments, following discussions with Carolyn Wind, Head of Compliance for HBUS.

Before proceeding with our agreed plan to approach outside counsel for a legal opinion with regard to our proposals and draft procedures I contacted Carolyn and asked whether HBUS would in fact be prepared to proceed on this basis. Carolyn has discussed the situation with Paul Lee, Head of Legal and Compliance in HBUS. Some time ago (summer of 2001, i.e. prior to September 11th) this issue was discussed at length between HBUS Compliance, Tom Crocker of Alston and Bird, HBUS Delaware Payments Back Office and HBEU.



Redacted Material

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Whilst we will of course still need to agree procedures for Payments within HBEU I have asked Carolyn to forward the HBUS proposals for consideration by all interested parties and will circulate these as soon as they are received.

Regards Susan Wright

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1743

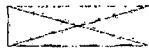
From: John F ROOT  
Sent: Tue Aug 10 15:40:37 2004  
To: David W J BAGLEY; Richard E T BENNETT; Sandy Flockhart; Ramon GARCIA; Matthew J W KING;  
David Leighton; Susan A WRIGHT  
Subject: HBMX JUL04 Visit Report  
Importance: Normal  
Attachments: image\_0.gif; HBMX JUL04 Visit Report.doc

Attached please find my HBMX JUL04 Visit Report.

I would be glad to answer any questions or comments which you may have.

Kind regards,

John Root



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1744

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**HBMX JUL04 GHO CMP VISIT REPORT**

**1. SUMMARY**

Senior management has made significant progress in introducing Group Compliance Policy and Standards in HBMX. The head of the Compliance department, Ramon Garcia Gibson, has set the foundation for an effective Compliance function.

HBMX controls are much improved from the situation that existed 12-18 months ago. However, Treasury back-office operations are a source of major regulatory concern, as is accurate and timely reporting to the regulators. The introduction of the Summit programme for derivatives is of vital importance, as is the hiring of a Summit expert.

There is some evidence that a focus on increasing PFS sales may be placing strain on HBMX's ability to ensure Compliance with Group Core Business Principles, Group Key Business Values, or the Group Compliance Policy.

Three caveats are in order. First, the Mexican environment for financial services is increasingly challenging. Senior management is fully aware of the risks and is working hard to mitigate them.

The reviewer wishes to thank management for its cooperation in the preparation of this report.

**2. REGULATORS**

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[REDACTED]

CNBV officials, for example, state that some

[REDACTED]

[REDACTED]

#### B. CNBV

Patricio Bustamante, one of the five commissioners of the CNBV (Comision Nacional Bancaria y de Valores), states, "In the business area [of HBMX], the resources have arrived. In the area of controls, the resources have not arrived."

The CNBV gave us a "fact sheet" in English with the following "main concerns" listed below in pertinent part:

##### Operational Risk

- **Anti-money laundering processes** - Although improvements have been seen, some concerns remain regarding deficiencies in process (no system for unusual operations detection and a poor identification of public figures and high risk customers) and over control of Panama's branch operations.
- **Systems Migration & Auditability [sic]** - Security controls and auditability concerns due to migration of credit card operations and derivatives processing systems (WHIRL & Summit).
- **Comptroller Functions Need to be Fully Implemented** - Although control is exercised along most processes [sic], full implementation of controls are [sic] expected.
- **Control in Fiduciary Operations** - Control of legal risk of trusts needs to be verified.
- **Fraud Prevention Policies** - High level of customer complaints point to possible weakness in fraud prevention policies implementation.
- **Technology in Treasury & Risk Monitoring** - Manual interfaces in treasury operations and risk monitoring have led HSBC to exceed internal and regulatory limits, like PVBP ("Present Value Basis Point" is a measure of interest rate sensitivity) and the central bank liquidity coefficient requirement in USD.
- **DRPs still in implementation** - Disaster Recovery Plans are still in implementation process; business continuity has to be secured.

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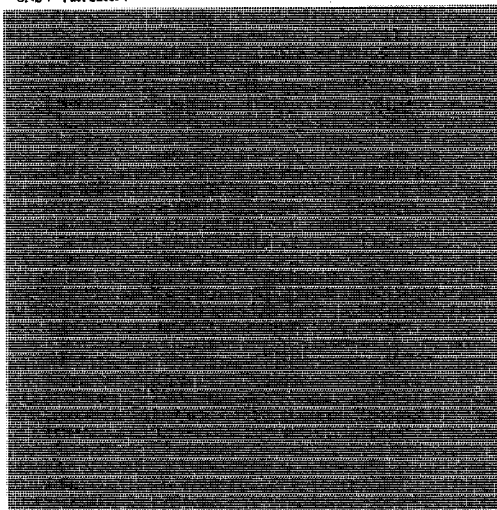
HSBC OCC 8875568

With regard to the money-laundering concerns cited above, senior management at HBMX is surprised that CNBV should have expressed concern over Panama's control of money laundering, as a presentation had been given to all regulators which included a segment explaining in detail how the Panamanian operations were subject to US scrutiny (which is generally held to be tighter than Mexico's).

In a wide-ranging discussion, CNBV regulators commented that any outsourcing must be able to be audited from Mexico. They do not want outsourcing to jurisdictions with strong banking secrecy.

Other important CNBV comments are reflected in this report, notably in Section 5 on "Fiduciario (Trusts)", Section 8 on "Staffing", and Section 11 on "Panama".

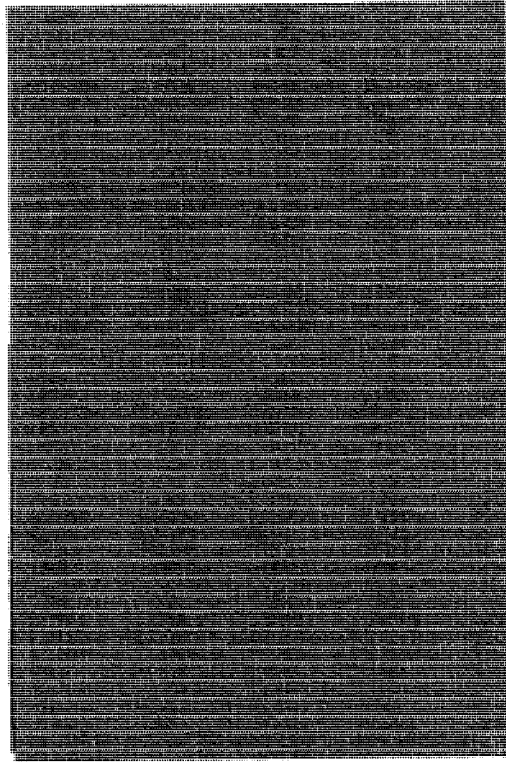
**Recommendation:** HBMX CMP should, in consultation with senior management, develop a programme of specific recommendations to address the concerns in the CNBV "Fact Sheet".



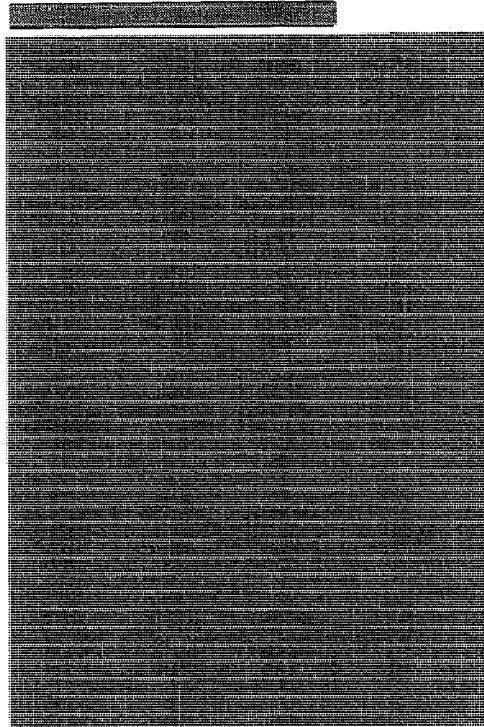
**Redacted Material**

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HSBC OCC 8875569



**Redacted Material**  
**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8875570**



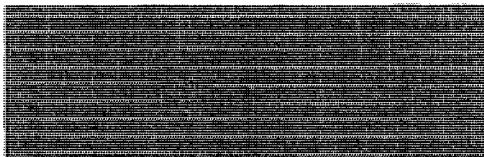
**Redacted Material**  
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8875571



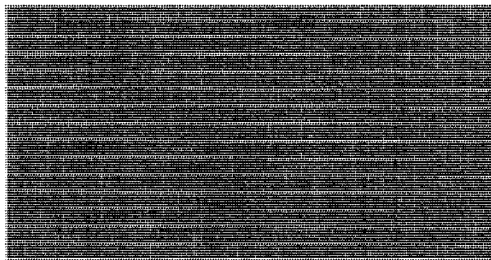
4. CHARITABLE TRUSTS

A. STANDARD CONTRACT

The new standard account contract is an 11-page document that is practically illegible because the print is minuscule.



B. CROSS-SELLING



5. FIDUCIARIO (TRUSTS)

The Trusts department is struggling to improve the poor condition of its files. Notwithstanding a senior manager's optimism ("Most of them, KYC is okay" and "Most deficiencies are not related to KYC"), by far the greatest problem is missing KYC documentation.

Of a total of 15,434 trusts, only 6,868 (44%) have completed documentation. 2,955 (20%) of trusts have no documentation at all. 74% of all missing documentation is

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HSBC OCC 8875572



## KYC-related.

Recent KYC regulations are more stringent. The Trusts department is discussing with the CNBV whether for trusts pre-dating the new rules a notarised public deed will continue to be sufficient (i.e., a sworn statement by a notary public that he has seen the original identification documents).

The Trusts department has budgeted the equivalent of USD 1.5 million for an outside law firm to review the files. Around 8,000 files have been reviewed to date.

A target date of 28OCT05 has been set for obtaining all missing documentation. Management has agreed that the efforts to bring the documentation into order will be prioritised on the basis of risk (i.e., recent active trusts will be cleaned up before old dormant ones).

Patricio Bustamante, one of the five commissioners of the CNBV, urged HBMX to renew its efforts to clean up the files. He indicated that CNBV would not welcome bland assurances of compliance that were not based on fact.

HBMX CMP should continue to monitor periodically progress in this department. A forthcoming audit makes more specific recommendations, which are not repeated here.

## 6. FIANZAS (GUARANTEES)

The "fianzas" area is "troubled", according to a senior manager. As with insurance, the products are sold through third-party agents. "All the relationships were bad and all of them were cut." "The area is rebuilding."

*Recommendation:* HBMX CMP to investigate this area and send a report to senior management and GHQ CMP with specific recommendations.

## 7. REMITTANCES FROM THE UNITED STATES

Around USD 16 billion arrive from the United States each year, mostly through the branch network. Money laundering risk is mitigated by several factors: (1) remittances are generally small (USD200-300), according to two senior managers; (2) due diligence appears to be adequate on the AML procedures of US third-party money services businesses; and (3) CAMF Retail, a software programme to detect suspicious transactions, is scheduled to be installed in the branch network in NOV04.

*Recommendation:* HBMX CMP should sample periodically remittances from the United States to determine if, in fact, remittances are generally small and in the ordinary course of business.

## 8. STAFFING

Senior CNBV regulators were quite upset with the former AML director, who they believe had "lied" to them about the adequacy of the bank's AML systems. ("She had signed and confirmed [sic] that the AML procedures were adequate.") They indicated clearly that had this person not been fired, HBMX would have been "penalized".

Unfortunately, the person's deputy also performed poorly, according to a number of senior HBMX managers. However, HR objected to the dismissal of this person, alleging that employment law in Mexico requires a solid "paper trail" of professional incompetence. In this person's case, the paper trail was apparently unsatisfactory. The matter is still under investigation, and the person has been transferred to another area, but there remains a certain amount of frustration with the dismissal process.

Carlos Rochin, the current AML director, appears to be both competent and diligent.

*Recommendation:* HBMX HR and/or LGA to summarise in writing the procedures for firing staff (including senior management) with or without cause.

#### 9. HEADCOUNT

Approximately 1800 PFS employees have not been properly accounted for and are presumed "missing". Richard Healy, an HBMX IT auditor, is investigating. He has almost finished his analysis (250 cases remain), and no cases of fraud have been found.

*Recommendation:* HBMX CMP should file an Exception Report if any evidence of fraud surfaces from the above-referenced investigation.

#### 10. US SARBANES-OXLEY ACT

According to senior management, HBMX is "looking into the evaluation of adequate resources for Sarbanes-Oxley (the recent U.S. statute which enhances corporate governance requirements)." "We are scoping the quantity and quality of resources required to fulfil Sarbox."

*Recommendation:* HBMX CMP should report periodically to senior management and GHQ CMP on efforts to recruit staff to address Sarbanes-Oxley requirements.

#### 11. PANAMA

CNBV regulators expressed some slight concern that the new HBMX acquisition of the business in Panama might lead to "regulatory arbitrage". They do not want Panama to be used as an offshore centre for Mexican clients. The example given was one where credit norms would be relaxed for a Mexican client borrowing through a structure in Panama, when the client would not have qualified for a loan directly in Mexico.

The regulators reminded us to consolidate Panamanian operations using Mexican GAAP.

*Recommendation:* Ramon Garcia Gibson, head of HBMX CMP, should inform in

writing the CEO HBPA (with copy to the ACO) of the above concerns.

12. LOGGING OF REGULATORY VISITS

GHQ Audit notes persistent problems with HBMX CMP reporting of regulatory inspections, and the responses thereto.

A new system to improve the tracking of regulatory visits should be in place by 31AUG04.

Some confusion had arisen over the need to translate all reports for GHQ Audit. It has been agreed that a summary of key issues in English is sufficient.

13. ANNUAL CONFIRMATION PROCESS

The Annual Confirmation process (to GHQ Audit) needs to be improved to ensure that the most up-to-date status reports are included in the returns.

The process, which now is entirely manual, should be improved with the introduction of a new monitoring system by 31AUG04.

14. CONCLUSION

The most important issue is the immediate improvement of back-office controls in Treasury, and most particularly the early introduction of the Summit programme to monitor derivatives positions, and the concomitant hiring of a Summit expert.

John Rous  
Senior Manager,  
Group Compliance  
10AUG04

1754

From: Ramon GARCIA  
Sent: Mon Dec 15 19:23:53 2008  
To: Warren G LEAMING; Susan A WRIGHT; John F ROOT  
Cc: David W J BAGLEY  
Subject: Anti Money Laundering: Shock plan - Update 081215  
Importance: Normal

Below please find weekly report on the subject. Regards. Ramon

--- Forwarded by Ramon GARCIA/HBMX/HSBC on 15/12/2008 01:32 p.m. ---

Eduardo MESSMACHER/HBMX/HSBC 15/12/2008 01:18 p.m. To: Ramon GARCIA/HBMX/HSBC@HSBC04, Lorenzo RAMIREZ/HBMX/HSBC@HSBC04, Luis ALVAREZ TRILLO/HBMX/HSBC@HSBC04, Gerardo VICUJERAS/HBMX/HSBC@HSBC04, Ignacio VERA/HBMX/HSBC@HSBC04, John R RENDALL/HBMX/HSBC@HSBC04, Lars REIDING/HBMX/HSBC@HSBC04, Roy CAPLE/HBMX/HSBC@HSBC04, Leonerko ARANA/HBMX/HSBC@HSBC04  
cc  
Subject: Anti Money Laundering: Shock plan - Update 081215  
of

Based on our Dec11 meeting

DECISIONS TO-DATE

Starting January 1, HSBC branches in Mexico will be "Dollar Free":  
We will no longer buy or sell dollars in cash at RMT branch (customers or non customers). We will, as an alternative, offer travelers cheques to customers only. Also customers can withdraw dollars at HSBC ATMs located at Airports (starting Jan 15) or from any ATM in the world with their debit card.  
-We will no longer accept deposits of cash dollars to any account at any branch (dollars or pesos)

On January 31, 2009: All accounts of the restoration project to be properly documented. Otherwise the closure process of these accounts will begin

Before January 1, 2009: At least 4 branches will be closed as disciplinary actions. In January, some branches (10-20) will have all the staff dismissed based on suspicious activity

All accounts of Casa de Cambio or similar (including employees of Casas de Cambio) will be closed. Roy will review the list provided by Compliance to start the closure process. "Remesadoras" will be kept

The metric to be included in the ESC will be: Number of accounts with two or more SAR. The intention is that when accounts reach 2 SAR are

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close immediately. Compliance will track this information monthly and will provide the information for the BSC.

International clients of HSBC will be given the same treatment as domestic clients, provided proper identification is possible

Metals transactions will also be eliminated

Starting January 2009 the group will also focus on MXP transactions

<The following are directives of MG>

All staff should be made aware that if there are persistent breaches of KYC in a particular branch, the branch will be closed and all staff dismissed regardless of how much business we will lose on account of it.

Everybody (that is required to) has in their Balanced Score Card the need to implement CAME to the maximum- including the closing of all accounts that have two or more suspicious transactions highlighted.

<Directives from EA>

Benchmark HBMX against HBBR, HBUS, HBEU and HBAP in terms of volume of suspicious transactions - Ramon - TBD

TO DO ITEMS TO IMPLEMENT THE PROGRAM.

Sundry:

- Send Emilson and Luis the benchmark of HBMX against HBBR, HBUS, HBEU and HBAP in terms of volume of suspicious transactions - Ramon - TBD
- Visa Pre-paid Card - Leonardo - January 15
- Follow-up of closure of accounts of casas de cambio (or similar) - Ramón - December 31
- Communication strategy for high risk locations (e.g. Cd. Juarez) - Roy
- Security hotline for employees having to implement the program - John

For the January 1 deadline

- Monitoring process for USD kept by the branches - Luis Alvarez
- Visa travel card: February 15 - Lorenzo
- Debit card for accounts in USD - January 15 - Lorenzo
- Closure of branches: 22 and 24 of december; requires managing safeboxes

For the January 31 deadline [closure of improperly documented accounts]

- Propose long term solution for CMB - Gerardo - TBD
- Audit of CMB files - Ramón - January 15
- Freeze of accounts improperly documented to comply with commitment with authority (Based on BR)

TO DO ITEMS TO TRACK THE PROGRAM.

- Weekly tracking report on the achievements of milestones - Gerardo - Weekly, by Friday
- Weekly tracking report of USD exported - Luis Alvarez - Weekly by Friday

1756

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HSBC OCC 8875788

1757

From: Warren G LEAMING  
Sent: Tue Dec 16 11:39:18 2008  
To: Catherine BUSSERY  
Subject: Fw: Anti Money Laundering; Shock plan - Update 081215  
Importance: Normal  
Attachments: Doc Link.htm

FYI

Regards,

Warren Leaming  
DEPUTY HEAD OF COMPLIANCE-GMO CMP | HSBC HOLDINGS PLC HSBH  
8 Canada Square, Canary Wharf, London, E14 5HQ, United Kingdom

Phone 020 7991 6207  
Fax 020 7961 4719  
Email [warrenleaming@hsbc.com](mailto:warrenleaming@hsbc.com)

----- Forwarded by Warren G LEAMING/GMO/HSBC on 16/12/2008 11:39 -----

Warren G LEAMING/GMO/HSBC Dec 16 2008 To: Ramon GARCIA/HBMX/HSBC@HSBC04  
11:31 Phone no. 799 16207 cc: Susan A WRIGHT/HGHQ/HSBC  
44 0 207 9916207 Mail Size: 13513 Subject: Re: Anti Money Laundering; Shock plan - Update 081215  
Entity

Ramon,

Thank you for your update. I know that Susan has commented on the SAR's analysis. My thoughts are:

I note that it is intended to freeze accounts improperly documented to comply with the commitment to the authority.

I understand that you have spoken to Ramon about my visit report and that items will be actioned. The most important ones appear to me to be:

- a) the status of the backlog and
- b) if strict enforcement of GDP25 resulting in the closure of accounts after two SARs is to be enforced as part of the shock plan, we will need to ensure that SARs are only lodged once we have the appropriate suspicion and not just because the deadline has been breached.

I note that there is to be a focus on completing the remediation programme by the 31st January. Given that the Cayman accounts and CMB accounts have barely started this seems to be overly ambitious. Am

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1758

I correct in assuming that a large number of staff have been dedicated to this role. If so are they staffed from Compliance or from the business as your resources seem stretched already.

Happy to discuss.

Regards

Warren

Ramon GARCIA---15/12/2008 19:23:53---Below please find weekly report on the subject. Regards, Ramon ----- Forwarded by Ramon GARCIA/HBMX/HSBC on 15/12/2008 01:33 p.

Ramon GARCIA/HBMX/HSBC@HSBC04 Dec 15 2008 10:23 Mail Size: 8944 To: Warren G LEAMING/GMO/HSBC@HSBC, Susan A WRIGHT/HGHQ/HSBC@HSBC, John F ROOT/GMO/HSBC@HSBC  
cc: David W J BAGLEY/GMO/HSBC@HSBC  
Subject: Anti Money Laundering: Shock plan - Update 081215  
Entity

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--- Forwarded by Ramon GARCIA/HBMX/HSBC on 15/12/2008 01:33 p.m. ---

Eduardo MESSMACHER/HBMX/HSBC 15/12/2008 01:18 p.m. To: Ramon GARCIA/HBMX/HSBC@HSBC04, Lorenzo RAMIREZ/HBMX/HSBC@HSBC04, Luis ALVAREZ TRILLO/HBMX/HSBC@HSBC04, Gerardo VIGUERAS/HBMX/HSBC@HSBC04, Ignacio VERA/HBMX/HSBC@HSBC04, John R RENDALL/HBMX/HSBC@HSBC04, Lars REIDING/HBMX/HSBC@HSBC04, Roy CAPLE/HBMX/HSBC@HSBC04, Leonardo ARANA/HBMX/HSBC@HSBC04  
cc:  
Subject: Anti Money Laundering: Shock plan - Update 081215  
Entity

Based on our Dec11 meeting

DECISIONS TO-DATE

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 -We will no longer buy or sell dollars in cash at ANY branch (customers or non customers). We will, as an alternative, offer travelers cheques to customers only. Also customers can withdraw dollars at HSBC ATMs located at airports (starting Jan 15) or from any ATM in the world with their debit card.  
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<Directives from EA>

Benchmark MEMX against HBBR, HBUS, HBEU and HBAP in terms of volume of suspicious transactions - Ramon - TBD

TO DO ITEMS TO IMPLEMENT THE PROGRAM.

Sundry:

- Send Emilson and Luis the benchmark of MEMX against HBBR, HBUS, HBEU and HBAP in terms of volume of suspicious transactions - Ramon - TBD
- Visa Pre-paid Card - Leonardo - January 15
- Follow-up of closure of accounts of casas de cambio (or similar) - Ramon - December 31
- Communication strategy for high risk locations (e.g. Cd. Juarez) - Roy
- Security hotline for employees having to implement the program - John

1760

For the January 1 deadline

- Monitoring process for USD kept by the branches - Luis Alvarez
- Visa travel card: February 15 - Lorenzo
- Debit card for accounts in USD - January 15 - Lorenzo
- Closure of branches: 22 and 24 of december; requires managing safeboxes

For the January 31 deadline (closure of improperly documented accounts)

- Propose long term solution for CMS - Gerardo - TBD
- Audit of CMS files - Ramón - January 15
- Freeze of accounts improperly documented to comply with commitment with authority (Based on BR)

TO DO ITEMS TO TRACK THE PROGRAM.

- Weekly tracking report on the achievements of milestones - Gerardo - Weekly, by Friday
- Weekly tracking report of USD exported - Luis Álvarez - Weekly by Friday

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1761

**From:** Warren G LEAMING  
**Sent:** Fri Oct 24 13:42:57 2008  
**To:** David W J BAGLEY  
**Subject:** Fw: Fw: HBMX - CAYMAN ACCOUNTS  
**Importance:** Normal  
**Attachments:** image\_0.gif; Doe Link.htm

FYI, as discussed

Regards,

**Warren Leaming**  
DEPUTY HEAD OF COMPLIANCE-GMO CMP | HSBC HOLDINGS PLC HSBH  
8 Canada Square, Canary Wharf London, E14 5HQ, United Kingdom

Phone 020 7991 8207  
Fax 020 7991 4719  
Email [warrenleaming@hsbc.com](mailto:warrenleaming@hsbc.com)

----- Forwarded by Warren G LEAMING/GMO/HSBC on 24/10/2008 13:42 -----

<b>Warren G LEAMING/GMO/HSBC</b> Oct 23 2008 10:58 Phone no. 769 16207 44 0 207 9916207 Mail Size: 78779	<b>To:</b> Ramon GARCIA/HBMX/HSBC@HSBC04 <b>cc:</b> Susan A WRIGHT/HGHQ/HSBC <b>Subject:</b> Fw: Fw: HBMX - CAYMAN ACCOUNTS <b>ct</b> Entity
--	--

Ramon

We are corresponding separately in respect of re-launching the Cayman USD account product but could you please update us where we are on the remediation and whether John received a response from Luis?

Many thanks

**Warren Leaming**  
DEPUTY HEAD OF COMPLIANCE-GMO CMP | HSBC HOLDINGS PLC HSBH  
8 Canada Square, Canary Wharf London, E14 5HQ, United Kingdom

Phone 020 7991 8207  
Fax 020 7991 4719  
Email [warrenleaming@hsbc.com](mailto:warrenleaming@hsbc.com)

----- Forwarded by Warren G LEAMING/GMO/HSBC on 23/10/2008 10:54 -----

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1762

Adrian CRISTIANI/GMO/HSBC Oct 10 2008 15:46 Mail Size: 2923 To: Warren G LEAMING/GMO/HSBC@HSBC  
cc  
Subject: Re: RV: Fw: HBMX - CAYMAN ACCOUNTS  
Entity

Warren,

Thanks. I will follow up with the business and come back to you.

Best,

Adrian

\*\*\*\*\*

HSBC Bank plc  
Registered Office: 8 Canada Square, London E14 5HQ  
Registered in England - Number 14259  
Authorised and regulated by the Financial Services Authority

\*\*\*\*\*

Warren G LEAMING

----- Original Message -----

From: Warren G LEAMING  
Sent: 10/10/2008 16:39 GMT  
To: Adrian CRISTIANI  
Subject: Fw: RV: Fw: HBMX - CAYMAN ACCOUNTS

Adrian

From the attached it appears that

1. the remediation is not progressing to plan
2. the new product details are still with the business to determine the final form that it will take.

We will forward to you a response from the business when we receive it but at this stage there is little else that we can do. Very happy to discuss.

Regards,

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**Warren Leaming**  
DEPUTY HEAD OF COMPLIANCE-GMO CMP | HSBC HOLDINGS PLC HSBH  
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Phone 020 7991 6207  
Fax 020 7991 4719  
Email [warrenleaming@hsbc.com](mailto:warrenleaming@hsbc.com)

----- Forwarded by Warren G LEAMING/GMO/HSBC on 10/10/2008 15:36

Ramon GARCIA/HBMX/HSBC@HSBC04 Oct 10 2008 15:30 Mail Size: 16284 To: "Warren G LEAMING" <warrenleaming@hsbc.com>  
cc:  
Subject: Fw: HBMX - CAYMAN ACCOUNTS  
ct  
Entity

Warren, Adrian's proposal on not accepting cash has been sent it to the business as an instruction, I will follow up due compliance to it. On remediation's topic, below please find self-explanatory mail sent to Paiza by Rendall, I expect to have a response from CEO today, I will send also today to business and product the instruction stating that if the product is re-launched all existing accounts have to be frozen and remediated as and when transactions occur.

Regards,

Ramon

John R RENDALL

----- Mensaje original -----

De: John R RENDALL  
Enviado: 10/09/2008 07:52 PM CET  
Para: Luis PENA KEGEL  
CC: Leonardo ARANA; Ramon GARCIA; Gerardo VIGUERAS  
Asunto: Fw: HBMX CAYMAN ACCOUNTS

Luis

I have become concerned about the plans for the way forward here:-

there appears to have been very limited progress with the enhanced KYC process  
our current enhanced KYC process is very onerous (c. 100 questions) and, given that staff are continuing

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to do vary badly on site visit reports, I am not optimistic about the likely quality of work going forward as our PLD regime becomes better joined-up we need to be careful about the risks of failures wrt Caiman processes leading to "good" customers getting classified as high risk, prompting closures etc.

Leonardo and RAnon share these concerns.

We have worked with the product team and GMO to establish revised criteria for opening new accounts - there is still more work to do on these, especially wrt agreeing limits on volumes of cash deposits.

Once we have determined a final set of cash limits rules and processes for new accounts, we will apply to old as well. I have asked CMP to work with product on whether we can safely shorten our PEPS/SCCs enhanced KYC to create a more manageable and specific process for this product category.

Finally, wrt the existing customer base, a lot of work has been done to analyse the risk profiles of the account holders. We have asked the Divisional Directors to focus on the highest risk cases - 1,314 customers (2.6%) and then the highish risk cases 2,027 cases (4.1%). The good news is that 47k (93%) are viewed as low risk. We have also deduplicated each category against the Restauracion processes - to avoid doing the same processes twice over.

If we want to achieve the best balance between customer service and risk-based PLD, I believe that we need to change the plan as follows:-

implement an agreed set of new product parameters and apply the transactionality rules to the existing stock too - nb will be manual at first  
 implement a more streamlined "enhanced KYC", have it countersigned, checked in Operations and tested by sampled checks (as we are doing with site visit reports)  
 drop the enhanced kyc for existing low risk customers to allow all our efforts to be focused on the higher risk cases

While the last point sounds like a significant change, with the revised product specifications and the enhanced transactional monitoring that we now have, I believe it is a balanced and more risk-aware proposal.

If you believe this is a viable solution to the concerns expressed earlier, I would suggest that we work with GMO CMP and with LAM Audit to get their feedback and input before formally proposing as a revised plan. As we still have a month and a half to go before our deadline, I think that it is an opportune time to propose a revised plan.

I also feel that the new product should go through the New Products Committee process.

We will continue to work on the items mentioned above. Also please be reassured that as far as everyone across the bank is concerned today, the plan is unchanged. Would welcome your thoughts.

John

----- Forwarded by John R RENDALL/HBMX/HSBC on 08/10/2008 06:08 p.m. -----

Luis PENA KEDEL/HBMX/HSBC 31/07/2008 To: Emilson ALONSO/HBMX/HSBC@HSBC, David W J

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1765

11:43 a.m.

BAGLEY/GMO/HSBC@HSBC  
cc John R RENDALL/HBMX/HSBC@HSBC, Marion O  
ROACH/HGHQ/HSBC@HSBC, Matthew J W KING/GGM INA  
GHQ/HGHQ/HSBC@HSBC, Michael F  
GEOGHEGAN/HGHQ/HSBC@HSBC, Richard E T  
BENNETT/HSBH/HSBC@HSBC, Andy GENTH/HBMX/HSBC@HSBC,  
Graham THOMSON/HBMX/HSBC@HSBC, Leonardo  
ARANA/HRAMX/HSBC@HSBC  
Subject: Re: HBMX - CAYMAN ACCOUNTS  
at

These type of DDA Cayman accounts were being opened, offered and advertised in Mexico (the bank was fined for this recently). Mexican law prohibits Mexican banks to offer dollar denominated deposits to Mexicans, with the exception of residents in border zones. Starting this last Monday, we have cancelled this service. We will establish a process of enhanced due diligence KYC for the 35,000 customers holding USD\$400 million in DDA deposits in Cayman. We will divide these accounts amongst the 8 Divisional Directors. They KYC process will be coordinated by Compliance and will end by December 1 according. After this date we will cancel all the accounts that we were not able to complete files on and will send cashiers checks to all the respective customers. For the future, Mexicans who wish to open a dollar denominated account will undergo a referencing process, in which the accounts will be promoted and opened by the bank's staff in a proper offshore book as we do in our Premier offering. We have an additional challenge because Cayman also holds CDs of Mexican customers. The amount there is USD\$1.1 billion from 59,546 customers. We will follow the same enhanced KYC procedures, with the same December 1 deadline. Unfortunately we will likely lose some deposits as we do not expect the KYC process to succeed 100%, but we will offset a significant control and regulatory risk.  
Regards,  
Luis Pena

David W J BAGLEY--31/07/2008 10:34:58 a.m.--Richard We have been in discussions with HBMX CMP with regard to certain potentially suspicious transactions identified by rout

-from: David W J BAGLEY/GMO/HSBC  
To: Richard E T BENNETT/HSBH/HSBC@HSBC  
Cc: Michael F GEOGHEGAN/HGHQ/HSBC@HSBC, Emilson ALONSO/HBMX/HSBC@HSBC, Matthew J W KING/GGM INA GHQ/HGHQ/HSBC@HSBC, John R RENDALL/HBMX/HSBC@HSBC, Luis PENA KEGEL/HBMX/HSBC@HSBC  
Date: 31/07/2008 10:34 a.m.  
Subject: HBMX - CAYMAN ACCOUNTS

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Richard

We have been in discussions with HBMX CMP with regard to certain potentially suspicious transactions identified by routine transaction monitoring. This initial report has widened into a more general issue as detailed below. Whilst we continue to follow up with HBMX, I think it is appropriate to provide an initial report as follows:

I am awaiting further details of the suspicious activity identified, but in brief it appears that our CAMP monitoring system identified significant USD remittances being made by a number of customers to a US company alleged to have been involved in the supply of aircraft to drugs cartels. Appropriate reports have been filed and have apparently enabled the authorities to identify significant related activity passing through other banks. This led to a review of the way in which HBMX operates USD-denominated accounts through its Cayman branch.

HBMX holds a Category B banking licence in Cayman which allows them to provide banking services anywhere other than to Cayman residents.

The licence, inherited from Bital, allows HBMX to provide USD-denominated services to persons domiciled in Mexico. Mexican regulation apparently prohibits Individual Mexicans (i.e. non-corporate) to hold USD-denominated deposit accounts in Mexico. The branch currently holds USD400m and 35,000 accounts. There is no physical presence in Cayman and effectively front and back office services are provided on the ground in Mexico. Although HBMX were recently fined USD50,000, for the inappropriate promotion of these services in Mexico. I am advised that CNBV are aware of the existence of the accounts and services and have raised no concerns. HBMX are however sensibly reviewing the position. I have also asked CMP to review whether there are any similar operations in LATAM.

There continues to be a real focus on the level of USD-denominated activity in Mexico by CNBV and other bodies, and the extent of HBMX's activity in this area. This account base has to therefore be seen as high-risk from an AML and reputational perspective. Apparently an audit carried out in 2006 of the Cayman branch activities was rated as below standard and identified significant KYC weaknesses. It will be important to ensure that these accounts will be covered by the various account remediation processes underway in HBMX, and as a priority area. As a precaution HBMX have issued instructions that no new accounts be opened pending a review of these activities. We are also checking whether any similar activities exist in LATAM.

I will report further in due course, but thought it important to provide preliminary reports.

Regards

David Bagley

Warren G LEAMING/OMO/HSBC Oct 08 2008 To: Ramon GARCIA/HBMX/HSBC@HSBC04  
 15:17 Phone no. 799 16207 cc: John F ROOT/OMO/HSBC@HSBC, Susan A WRIGHT/HQ/HQ/HSBC  
 44 0 267 9916207 Mail Size: 615543 Subject: Fw: HBMX Cayman Strategy  
 of Entity

Ramon

Adrian Cristani, Head of Wealth Management globally has asked whether the final product proposition

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has been amended following the comments set out in my attached note. For the record he also opposes accepting cash deposits to such accounts. He is keen to ensure that business in Mexico take account of compliance concerns but that the new product be launched soon.

Is there any chance that you can respond or call me today?

Many thanks,

Warren Leaming  
DEPUTY HEAD OF COMPLIANCE-GMO CMP | HSBC HOLDINGS PLC HSBH  
8 Canada Square, Canary Wharf, London, E14 6HQ, United Kingdom

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----- Forwarded by Warren G LEAMING/GMO/HSBC on 08/10/2008 15:12 -----

Warren G LEAMING/GMO/HSBC Oct 03 2008 To Ramon GARCIA/HBMX/HSBC@HSBC04  
17:35 Phone no. 799 18207 cc David W J BAGLEY/GMO/HSBC@HSBC, John F  
44 0 207 9916207 Mail Size: 612064 ROOY/GMO/HSBC@HSBC, Susan A WRIGHT/HQ/HQ/HSBC@HSBC,  
Adrian CRISTIANI/GMO/HSBC@HSBC  
Subject Re: HEMX Cayman Strategy  
Entity

Ramon,

Further to our discussion last night, thank you for the updated Cayman Strategy.

I also had a discussion with Adrian Cristiani this morning as to progress in both remediation of existing accounts and proposed strategy going forward and undertook to provide him with both a summary of our position and an update of progress (which the attached Strategy will provide).

For this reason I attach a copy of recent correspondence that I have had with yourself and John Rendall ??? of our advice.

Subject to any comments that Susan may wish to make (she is out of the office today but returns on Monday) it appears to me:

The proposed strategy would still allow individuals to deposit cash up to \$10,000 and for corporates to deposit cash up to \$100,000. Our advice as stated in my memo of 26 September to Maria Salazar, is that no cash deposits should be accepted to such accounts.

Would you please clarify that all existing customers will be validated against a blacklist which would include all OFAC lists and Worldcheck if you use this in Mexico.

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You will recall that Susan would like to review the enhanced KYC questionnaire. For Corporate customers we should complete KYC on the underlying beneficiaries and accounts should also be screened against Vloff.

In respect of the remediation exercise we would expect that all red and amber accounts are frozen to prevent any transactions on those accounts until the enhanced KYC is completed.

I am happy to discuss if you have any questions

Regards,

Warren

Ramon GARCIA---03/10/2008 14:31:37---Please find attached English translation to a document with our Cayman Strategy. I hope this information gives you more light o

Ramon GARCIA/HBMX/HSBC@HSBC04 Oct 03 2008 14:31 Mail Size: 551333 To: Warren G LEAMING/GMO/HSBC@HSBC, Susan A WRIGHT/HGHQ/HSBC@HSBC, John F ROOT/GMO/HSBC@HSBC  
cc: David W J BAGLEY/GMO/HSBC@HSBC  
Subject: HBMX Cayman Strategy  
Entity

Please find attached English translation to a document with our Cayman Strategy. I hope this information gives you more light on where we are on this topic. Regards, Ramon

[attachment "Grand Cayman Strategy Update 3.ppt" deleted by Adrian CRISTIANI/GMO/HSBC]

John

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Point taken, wasn't thinking of the central Restauration doc record keeping.

Reasoning is that they are regulated by separate regulators and accounts are for different countries and need to be able to show that they are not American accounts. If it is the same bank within a country, and the



Regards

Warren

\*\*\*\*\*

HSBC Holdings plc  
Registered Office: 8 Canada Square, London E14 5HQ, United Kingdom  
Registered in England number 617987

\*\*\*\*\*

John R RENDALL

----- Original Message -----

From: John R RENDALL  
Sent: 26/09/2008 1:46 CDT  
To: Warren G LEAMING  
Subject: Re: Cayman Accounts

what is reason for keeping kyc documents separate ? My concern is that we will end up doing this nady for good existing customers that are already well identified and trigger consequential account closure problems. Everything that we have been working towards with Restauration is for us to identify customers properly once.

John

Warren G LEAMING/GMO/HSBC@HSBC

Warren G LEAMING/GMO/HSBC@HSBC To Maria SALAZAR/HMX/HSBC@HSBC04

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1770

28/09/2008 10:00 a.m.

cc: John F ROOT/GMO/HSBC@HSBC, John R  
RENDALL/HBMX/HSBC@HSBC04, Ramon  
GARCIA/HBMX/HSBC@HSBC, Susan A WRIGHT/HGHQ/HSBC@HSBC,  
Warren G LEAMING/GMO/HSBC@HSBC, David W J  
BAGLEY/HGHQ/HSBC@HSBC  
Subject: Re: Cayman Accounts

Maria,

In response to your proposals we note:

Not only should the information from the HBMX accounts and Cayman Branch accounts be separated but in addition it should be made clear that the account opening KYC documentation should be also held separately. You should confirm whether there is any Cayman legal requirement for it to be held in Cayman or arrangements made for it to be made available to the Cayman authorities. I understand that John Root has been giving advice in this area so that if you have not received any advice from Cayman may be able to assist.

Susan would be keen to review the enhanced KYC questionnaires.

We assume that the validation of prospective customers against blacklist would include all OFAC lists. Could you please advise what the blacklists include.

It is our recommendation that no cash deposits should be accepted to such accounts.

We agree that accounts should only be opened for existing HBMX customers who have held accounts for six months.

I would be happy to discuss further.

Regards,

Warren

Maria SALAZAR -- 18/09/2008 20:40:58 -- Warren and Susan. In order to continue opening USD Cayman accounts as requested by product area, we would be grateful if you c

Maria SALAZAR/HBMX/HSBC@HSBC04 Sep 18 2008 20:40 Mail Size: 3416  
To: Warren G LEAMING/GMO/HSBC@HSBC, Susan A WRIGHT/HGHQ/HSBC@HSBC  
cc: John F ROOT/GMO/HSBC@HSBC, John R RENDALL/HBMX/HSBC@HSBC04, Ramon GARCIA/HBMX/HSBC@HSBC

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Subject: Cayman Accounts  
Entity:

Warren and Susan,

In order to continue opening USD Cayman accounts as requested by product area, we would be grateful if you could give us an opinion on the action plan implemented in HBMX regarding these accounts.

The main issues regarding these accounts are the following:

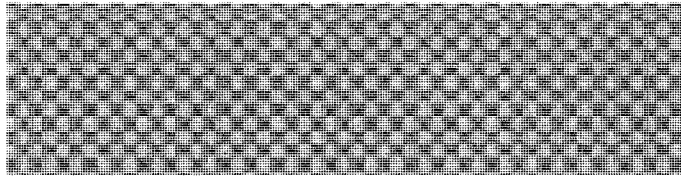
Mexican regulations set out that USD accounts can be opened only in border zones. In order to offer USD account across the country, HBMX opened a branch located in Gran Cayman in 1980.

In JUL08 CAMP monitoring system identified significant USD remittances made by a number of customers to a US company allegedly involved in supplying aircrafts to drugs cartels. SARs have been filed with the authorities.

On 28 JUL 08 the opening of USD DDAs and CDAs located in Cayman was suspended and a review of the process followed by HBMX to operate USD accounts through its Cayman branch was commenced.

On 31 JUL 08 HBMX CEO instructed that all customers with USD accounts located in Cayman branch should have a complete identification file and an enhanced KYC by 01 DEC 08. The customers were classified in order to establish priorities to complete these actions considering customers' transactional activity as follows:

**CAYMAN ACCOUNTS**



The information was obtained through DWH

Customers were classified according to traffic lights considering their transactional activity as follows:

- RED SSC status, blacklisted people and customers with one or more reports to the authority (SARs).
- AMBER Customers alerted by CAMP system without SARs
- WHITE Customers who are not included in the two above categories.

Legal and Compliance areas have issued an opinion as follows:



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product area in order to continue offering these accounts, they will be implemented in two stages:

- All new customers should fill in an enhanced KYC Questionnaire; in case the RM does not complete the KYC timely, the account will be cancelled.
- Validation of prospect customers against blacklists.
- Cayman accounts can be opened only by customers with 6-month old MXN Account.
- Individuals can open only one account in USD either in Cayman branch or in HBMX.
- A maximum cash deposit amount was set as follows:  
USD 10,000 for individuals  
USD 100,000 for companies
- A commission for cash deposits will be paid by customers.

We expect the above information is useful for you to give an opinion, so that product area can continue offering these accounts.

Thank you in advance and regards.

**María del Consuelo Salazar**  
Subdirector Compliance | HSBC México, S.A.  
Paseo de la Reforma 347, Piso 5, Col. Cuauhtémoc, México D.F., C.P. 06500

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Phone: (5255) 57 21 50 42  
Fax: (5255) 57 21 57 58  
Email: [María.SALAZAR@hsbc.com.mx](mailto:María.SALAZAR@hsbc.com.mx)

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Compliances FAQ's\_GCL 070049Sanctions against Iran

Q1	Does the GCL apply to Iran nationals residing outside of Iran, in respect of their bank accounts outside Iran?
A	No. Only in respect of payments made to Iran which should be in accordance with the GCL.
Q2	Can we continue to have Iran residents as customers?
A	Yes. We are not encouraging taking on new customers, however, so long as we are comfortable with the KYC and comply with GCL in the respect of payments in and out of Iran there is no requirement to close non-USD accounts. All USD accounts for Iranian Residents must be closed as soon as possible subject to the local provisions relating to giving of notice.
Q3	Where a subsidiary of an Iranian Bank is based and registered overseas (outside Iran) would restrictions apply to that entity?
A	Yes. The restrictions apply to all subsidiaries of Iranian Banks.
Q4	Does the GCL apply to International Banks that have branches in Iran?
A	Yes. It applies to all Banks operating outside Iran.
Q5	If a non-trade customer wants to send or receive non-USD to or from Iran can they do so?
A	They can do so as long as it is not USD, however, it will of course become very difficult to do so as we will not maintain any relationships direct with Iran Banks and any such payments will need to be directed to or received from other Banks who have correspondent relationships with Iranian Banks.  There should be no trade transactions in accordance with the trade guidelines available on the GHQ CMP Intranet. Only trade transactions for which our customer has a licence or are under the control account as set out in the Compliance Guidance on the Group Compliance Intranet will be permitted. Following 30NOV07 when all SWIFT BKE's are closed payments can be sent to or received from Iran for customers via a third party bank however, such payments will be caught by Wolf filters and will be investigated to ensure that the Relationship Managers are comfortable that they are not trade transactions for good that can be categorised as dual use.
Q6	Will we be closing the HSBC Iran representative office?
A	No. The representative office in Iran will continue to operate in order to maintain a line of communication with Banki Markazi (Iran's Central Bank) and to support the Group's existing business.
Q7	What is the Trade Control Account?

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A	The only exception to the prohibition of trade with Iran is for existing customers exporting food, medicine or goods for which a specific governmental licence has been issued. A control facility has been established to continue to support this humanitarian trade through GTS, if it is thought a customer falls within this very limited exception the Relationship Manager should contact their Regional CMP and Regional HTV.
Q8	The GCL refers to all serial payments being used for all payments from Iranian Banks until the BKE's are closed. What happens when we are advised that is not possible to make such MT103 payments?
A	If exceptionally an Iranian bank approaches us for dispensation to continue using MT202's for bank to bank payments and provides good reasons for doing so (e.g. systems constraints) we will consider these requests on merit. Such requests should be directed to the relevant FIG team. We have already had two requests from Saderat Bank plc and Persia International Bank requesting dispensation for their business with HSBC bank Plc and these have been granted.
Q9	Does the GCL apply to paper transactions i.e. drafts and cheques to and from Iran?
A	Absolutely, business must ensure that there are measures in place to monitor such transactions.
Q10	Does the GCL apply or restrict trade payments to or from customers under existing legal obligations?
A	No, so long as such payments are not for dual purpose use and there is a legal obligation (as distinct from a request) to make the payments that may have been made.
Q11	What does new business mean in the GCL?
A	New business relates to new relations and new accounts, wire transfers are permitted in accordance with the guidance i.e. for individuals for non-dual purpose goods but not for trade unless its through the control account.
Q12	Can we continue to be part of local clearing systems of which Iran may be members?
A	You may continue to be part of local clearing systems (non-USD) as long as payments are not for dual use goods.
Q13	We are advised that the implementation of the GCL 070049 in our country could be discriminatory, what is the Banks position?
A	Whilst we would never endorse a breach of a local law in general the GCL applies to Iranian entities in Iran and not in local countries so the GCL may well not breach local law in local countries. The GCL reflects Group policy on a Global basis and as such we need to achieve as much consistency as possible and to reflect the rest of the Group in not applying the sanctions. Dispensation will only be granted where implementing the GCL would cause a specific breach of law.

<< ALTOPAITE >>

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Q14	Does the closures of accounts and SWIFT arrangements mentioned in GCL 670049 also apply to branches and subsidiaries of Iranian Banks located in cities outside Iran. Do these measures also extend to branches and subsidiaries of foreign banks operating within Iran?
A	Yes

<<AUTO PAGE>>

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Project and Export Finance

Iranian portfolio

6<sup>th</sup> February 2006

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### Iranian portfolio

PEF has provided facilities to a number of Export Credit Agency ("ECA") supported loan to Iranian Banks

- PEF has 10 Export Credit Agency ("ECA") supported loans to various Iranian banks; including Tejarat, Melli and [REDACTED]
- HSBC's lending equates to USD239 million of which USD9.8 million is uncovered exposure.
- Loans were medium terms and have between 7-9 years until maturity. Loans all being repaid on time.
- PEF has a very close relationship with the [REDACTED] of Iran (CIB name) and has provided in excess of 20 loans to this entity.
- The facilities are supported by each of the major ECAs, with the longest maturities up to 10 years.

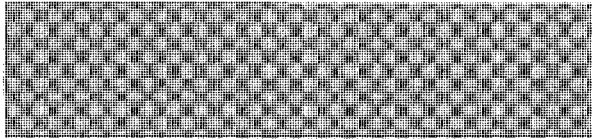
PEF has also a significant portfolio of loans outstanding to NPC....



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### Loans to Iranian banks

PEF has provided a number of ECA supported loan to Iranian Banks

- Bank Tejarat:
  - 1 direct loan provided by HBEU
  - 4 sub-participations (3 HBEU and 1 HBME) in loans provided by other international banks.
    - USD1.53 million in total (USD6.3 million of exposure)
  - USD and EUR.
- Bank Melli:
  - 1 sub-participation in a loan provided by another international bank (through HBFR).
    - USD7.7 million (USD0.4 million of exposure)
- 

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### Loans to Iranian banks

Other interaction with Iranian banks.

- Bank Saderat plc (UK) had taken a USD denominated sub-participation in one of our loan facilities. Bank Saderat has been removed from this facility following the extension of the OFAC sanctions.
- Bank Saderat plc still retains a EUR denominated sub-participation in one of our loans.
- Bank Melli plc (UK) still retains a EUR denominated participation and a EUR denominated sub-participation in two loans provide by PEF.
- No other issues with Saderat or Sepah to report.
- Significant issues will arise if the US takes further action against Melli, ██████████ or Tejarat.

HSBC 

## Loans to National Petrochemical Company

PEF has a large portfolio of loans outstanding to NPC

- PEF has arranged and booked in excess of 20 individual loans for [REDACTED] with the support of each of the major ECAs.
- The loans are booked in a number of Group entities (ie London, Tokyo, Madrid, Paris, Seoul and Dubai).
- Loans are provide in USD, EUR, GBP and JPY.
- Maximum maturities on some facilities are in excess of 10 years.
- Loans provided directly to NPC on a "clean risk" or on a "structured finance" basis.

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HSBC 

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## NPC – Structured financings

PEF is legally obligated to manage a series of escrow accounts owned by the NPC

- The “structured financings” that HSBC has arranged operate in the following manner:
- PEF London or Trinkaus (Germany) hold a series of escrow accounts in the name of [REDACTED]
- [REDACTED]
- [REDACTED]

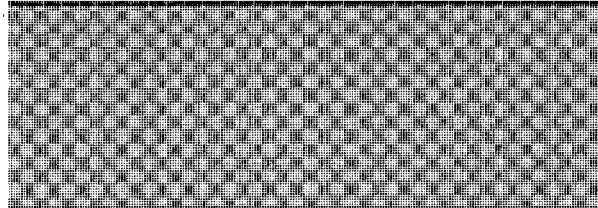


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### Iranian payments

The portfolio of loans gives rise to a number of payments that need to be made or received by HSBC

1. Disbursements under the existing loans:
  - PEF is required to make payments under the loan facilities to the international contractors constructing the underlying projects.
  - Funds in USD, EUR, GBP and JPY.
  - Payment: Funds transferred from HSBC Telepath suspense account to the international contractors.





Redacted Material  
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### Iranian payments

PEF and Trinkaus are legally obligated to make a series of payments in relation to the "Structured Financings"

- 4. The administration of the escrow accounts that PEF London and Trinkaus hold for [REDACTED] give rise to situation where we are required to make a number of payments:

Escrow accounts are held in USD, EUR and JPY.

- Funds are paid into the accounts by international petrochemical off takers (USD, EUR and JPY).
- PEF London and Trinkaus are required to transfer balances between difference sub-accounts at certain times during the year. These are internal transfers.

We are sometimes required to convert balances from EUR to USD (and vice versa).

The escrows are debited twice a year to make repayments of debt service. Funds are transferred from the escrows to PEF / Trinkaus' clearing accounts and payments are then made to syndicate members.

Surplus funds in the accounts are returned to [REDACTED]. The accounts are debited, funds transferred to our clearing accounts and then disbursed to [REDACTED] nominated bank accounts.

From: Warren G LEAMING  
Sent: Wed May 30 11:40:11 2007  
To: John F ROOT  
Subject: Fw: Desktop survey - AML practices in HBCR  
Importance: Normal  
Attachments: Image\_0.gif; Image\_1.gif; Image\_2.gif; Image\_3.gif; Doc Link.htm; Action Plan NOV06.doc; MLD MAY07.doc; ReportBusinessLinks.doc; Situation MLD.xls

John

You do not appear to have been copied on this. You may wish to try to get a copy of the document that was attached to Graham T's note and which has been deleted

We can discuss when you have digested it

Thanks

**Warren Leaming**  
DEPUTY HEAD OF COMPLIANCE-HQHQ CAMP  
6 Canada Square, Canary Wharf, London, E14 5HQ, United Kingdom

Phone 020 7991 6207  
Fax 020 7991 4719  
Email [warren.leaming@hsbc.com](mailto:warren.leaming@hsbc.com)

----- Forwarded by Warren G LEAMING/HGHOHSBC on 30/05/2007 11:38 -----

Ramon GARCIA/HBMX/HSBC HBMX 29/05/2007 23:51 Mail Size: 1304719 To: Graham THOMSON/HBMX/HSBC@HSBC  
cc: Graham MACHAUGH/TI CN/HBMX/HSBC@HSBC, Alan GRIEVEN/SPAH/HSBC@HSBC, [expresser@benisimo.com](mailto:expresser@benisimo.com), [ok.ncan@banex.com](mailto:ok.ncan@banex.com), [paul.stickland@bancoabg.com](mailto:paul.stickland@bancoabg.com), [peter.de\\_montfort@bancoaal.com](mailto:peter.de_montfort@bancoaal.com), Warren G LEAMING/HGHOHSBC@HSBC, Gerardo VELASCO/HBMX/HSBC@HSBC, Laura YESIN/HBMX/HSBC@HSBC  
Subject: Re: Desktop survey - AML practices in HBCR  
Entity: HSBC Holdings plc - HGHO

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Graham T.  
These issues have already approached by Compliance. We have elaborated an Action Plan

for the implementation of Group standards in the region. The Plan was explained to ACOs in January and the deadlines to comply with its requirements have already been provided, that is why Costa Rica has answered you that the COH gap analysis will be ready by June.

On the other hand, we have complete a review on MLD controls in the region, in this document you will be able to observe which monitoring systems exist, if an automatic report is submitted to the Regulator, the status of MLD Committees and OFAC monitoring. We are also planning to perform reviews over the advance in the Action Plan implementation and a functional compliance review must be carried out to all ACOs by 1Q08.

The relationship in the region with North Korea, Cuba and Myanmar is explained in this report.

I would strongly recommend to the COOs to provide fully support on ACOs in their duty to implement the Action Plan, which we consider it covers the most important compliance issues that must be in place. We granted 2007 to achieve the Action Plan goals, however, we are subject to systems developments in the region to achieve total integration. As an example, CAMP, Group MLD system will not be in place during 2007 since HOGAN system must be in place first. We are currently using Bankisto systems (ASSIST and

MONITOR) this preliminary file contains some other details over MLD controls

Regards,

Ramon

Graham THOMSON/HBMX/HSBC

Graham THOMSON/HBMX/HSBC 28/05/2007  
07:54 p.m.

To: "Duncan, David" <duncan@banex.com>  
cc: Ramon GARCIA@hsbc.com.mx@HSBC  
Subject: Re: Desktop survey - AML practices in HBCR

David

many thanks for the response and thanks for closing the gap on OFAC application to IRMs and CRMs. I am surprised that this had not been picked up earlier by HBMX/HBPA CMP.

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Once my analysis of the detailed reply has been completed, I shall revert in the event I require any further clarification.

Regards

Graham Thomson  
Head of Group Audit Latin America & the Caribbean  
Tel (52) 55 5721 8238

"Duncan, David" <dduncan@hsbc.com>

"Duncan, David" <dduncan@hsbc.com>  
28/05/2007 06:52 p.m.

To: <Graham.THOMSON@hsbc.com.mx>  
cc: [Redacted]  
Subject: Desktop survey - AML practices in HBCR  
ot

Graham,

I attach a word file with the responses to your survey questions. They are in Spanish but presumably this is not a problem for you.

By way of additional commentary :

Point 1: the decision to change the reporting parameters to cumulative USD 25k per month was at my suggestion and ratified by the Compliance committee meeting on 10/5/07

Point 7: whilst no alerts were raised to the Superintendent in 1Q07, one case was sent in April 07.

Point 12: the Cuban customers were already part of an investigation following enquiry from HBMX/HBPA.

We identified 156 accounts but in all but 32 cases the customers were now naturalised according to our records and were not transacting business with prohibited countries. We believe it probable that the majority of the 32 cases will fall into a similar situation but as yet we do not have the documentary proof which our Legal dept is seeking from the Immigration authorities.

Point 13: there is a significant gap here with HSBC standards in that neither inward nor outward remittances have been subject to an OFAC analysis in the manner required i.e. even the monthly process which is run could miss prohibited activity. I have instructed our Compliance Officer to liaise with our International (forex) area to introduce appropriate measures as soon as possible and confirm to me by 30/6/07 at the latest that HBCR is fully compliant.

Please revert if you need further clarification.

Regards

DSD

De: [Redacted]  
Enviado el: lunes, 28 de mayo de 2007 17:26

Redacted Material  
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1787

Para: Duncan, David  
Asunto: Informe para Graham Thompson  
Don David: Adjunto el documento con las observaciones señaladas, saludos  
<<Graham Thomson.doc>> [attachment "Graham Thomson.doc" deleted by Ramon  
GARCIA/HBMX/HSBC]

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1788

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INFORMATION REQUESTED IN CONNECTION WITH: (NORTH KOREA,  
CUBA, AND MYANMAR)

I. Description of the past and current business activities contributing to revenues from the country, together with a description of the businesses and contacts contributing to these revenues. This should include, but not be limited to, details of the entities and projects to which you have provided financing.

**HBMX - Mexico**

We were notified that there are relationships with Cuban and North Korean customers. MLD requested the cancellation of their accounts, and followed up all the process until such accounts denominated in USD were cancelled. As of today, we have found 108 North Korean customers with balances of USD1.13Mn and 1,368 Cuban customers with balances in the amount of USD10.21Mn. Please note that the principal is denominated in MXP.

Please find below an updated list of relationships with Cuban and North Korean citizens:

**Total number of customers by jurisdiction, (figures in USD)**

JURISDICTION	Customer Type /currency	No. Customers	No. Accounts	USD Balances
North Korea		108	174	3,119,168.26
	MXP	92	137	697,604.34
	Both MXP and USD	7	28	2,374,988.17
	USD	9	9	46,507.25
Cuba		1368	2468	10,215,770.14
	MXP	1284	2249	8,900,194.29
	Both MXP and USD	61	194	966,656.77
	USD	23	25	348,919.07
<b>Total</b>		<b>1,476</b>	<b>2,642</b>	<b>13,334,970.40</b>

Balances as of 11MAY07

Note: the above figures have been sent to business units so that they will verify the nationality of the above relationships, and so as to confirm their migratory status since we have detected that some of them have been naturalised as Mexican citizens.

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— = Redacted by the Permanent  
Subcommittee on Investigations



**HBPA - Panama**

HSBC Bank Panama S.A. does not have relationships with customers of the aforementioned nationalities.

Banistmo Panama has the following relationships with Cuban nationals who reside in Panama:

Deposit Accounts with balances of USD 183K  
Credit Cards with balances of USD 39K  
Mortgages in the amount of USD 245K

The accounts of Cuban nationals are expected to be cancelled on 30JUN07.

Credit Cards of Banistmo Panama that are authorized to process transactions in Cuba are expected to be cancelled on 30JUL07.

**HBPE - Peru**

HBPE does not have any relationships either with the above jurisdictions, banks nor governments.

**HBCO - Colombia**

There is one relationship with [REDACTED] but its main transactions are related to [REDACTED] but it does not have loans with the bank. (They neither make transfers to Cuba nor receive remittances. Their deposits are denominated in local currency). There is an account denominated in local currency with a balance of [REDACTED]

**HBHN - Honduras**

There is one business relationship with [REDACTED]. They maintain a savings account denominated in USD that was opened on 24-Dec-02 with a balance as of 21MAY in the amount of USD93K. The transactions executed by them are cash deposits, cash withdrawals that are exchanged into local currency for [REDACTED]

In addition, there is one commercial relationship with 44 Cuban nationals with the following balances:

Accounts denominated in USD: USD 211K  
Accounts denominated in local currency (Lempiras): USD 23K

**HBCR - Costa Rica**

There is one commercial relationship with 32 Cuban customers who have different savings and debit accounts denominated in USD with balances of USD11.6K and credit cards with balances in the amount of USD 5.5K.

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**BBSV - El Salvador**

There is one relationship with a Cuban national (A savings account denominated in local currency -Colón salvadoreño- with a balance of 1 SD23.12.)

**HBN1 - Nicaragua**

Nicaragua does not execute / has not executed transactions with Cuban, North Korean, or Myanmar nationals / entities.

**Bahamas**

Bahamas reports that it does not have any relationships with Cuban nationals.

**II. Any new developments or future anticipated business activities related to, or contacts with, the countries listed.**

For the entire region, all necessary arrangements have been made to cancel all business relationships with the above jurisdictions, either in relation to accounts denominated in USD or commercial relationships with such jurisdictions. There are not new business relationships to be opened with the above jurisdictions.

**III. A description of direct or indirect contacts with the governments of the named countries and with individuals or entities affiliated with or controlled by those governments, and the uses made by those parties of funds received in the related transactions.**

For the entire region, formal relationships maintained with such jurisdictions are with the embassies, as shown in section I hereof.

**IV. Quantification for each of 2003, 2004, 2005 and 2006 of:**

- (a) revenues from the country;
- (b) profitability of the country (please advise any significant estimates used in allocating costs); and
- (c) total assets in the country.

No available information.

**V. Details as to whether the activities identified are subject to customer confidentiality.**

For the entire region, confidentiality restrictions are applicable and information may not be provided unless it is requested by the regulator.

**BRANCH AUDIT REPORT**  
**HBMX**  
**SPECIAL REVIEW OF RESTORATION PROJECT**  
**GROUP INTERNAL AUDIT**  
**NOVEMBER 2008**

**REPORT No: GAQ 080082**

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GAQ Branch Audit Report  
HBMX - Special review Of Restoration Project  
November 2008

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## I. EXECUTIVE SUMMARY

### II. Conclusion

The auditors have assessed the total risk grade of the *Restauración Project Phase I* as Amber. Appendix 3 contains the assessment of each of the 7 sub-projects selected for review, as well as overall project management.

Despite it is acknowledged the *Restauración* (Restoration) project started from the need to urgently attend concerns raised by local authorities in regards to KYC and quality issues and that a number of processes have matured since then, the auditors identified major weaknesses that may hinder regulatory compliance and achievement of project goals, including, inter alia:

- The identification, categorisation and files integration processes of high risk customers and PEPs need to be strengthened. For Phase II of the project, when defining the accounts database to work on, there should be criteria in place to justify the database selection made, and adequate reconciliation processes.
- Whilst the systemic control to identify customers engaged in high risk types of business is assessed, CMP should conduct periodic reviews of the accounts database to confirm all customers under such categories had been properly categorised in the system.
- The accountability to complete visit reports should be reviewed, considering they should be prepared on the basis of customer risk levels to confirm they contain reliable information.
- The integration process of old account files for Phase II, where the volume of files to remediate will increase, needs to be streamlined. The progress made in phase I for PEPs and customers with cash deposits above USD 100k was found to be slow, where these two concepts reported integration percentages of 34% and 22% within a period of 8 months despite account cancellation actions have been taken.
- The impact of account cancellation on the business, customers and costs should be analysed against the risks that have been mitigated and accepted, as this will allow having adequate balance between control and business, particularly where cancellations may be attributable to internal errors rather than to the customers.
- One strategy for the integration of old account files based on the expected changes in the regulation needs to be designed and approved, to anticipate the impacts on volume, efforts and resources required in Phase II.

In terms of project management and considering Phase II is ongoing, key issues are as follows:

- Project management should be strengthened and incorporate control activities included in HSBC standards through a Project management office and the use of tools and techniques to support the decision-making process.
- Resource capabilities should be analysed based on the scope and objectives of the

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GAO Branch Audit Report  
 HBMX - Special Review Of Restoration Project  
 November 2008

project, to dimension the staff, time and budget that are necessary to achieve the goals.

There were no repeat recommendations.

The auditors wish to thank the Management and staff of HBMX Compliance, Channels & Distribution, Operations and OPSCO for their assistance and cooperation during the course of the audit.

**1.2 Entity Description**



In addition, the following circumstances were the background of this project:

- Growing pressure from Mexican regulators re KYC issues.
  - Failure to prioritise ML/D and Compliance issues in HBMX.
  - Existence of decentralised KYC processes.
  - The regulatory requirement to remediate 2 million of cumulative files.
- a. The control and custody of customer files lied with the more than 1,300 branches, i.e. these were not centralised, which impeded ensuring adequate files integration and quality.
  - b. Failure to reconcile new accounts input to the system vs. accounts with a file integrated at the branch.
  - c. Identification/monitoring of PEPs and high risk customers.
  - d. No follow-up was given to the integration of old account files.
  - e. Poor levels of integration of new accounts. Based on Internal Audit reviews.
  - f. There was no reliable management information that showed the actual position of files integration.
  - g. There was no identification, monitoring or categorisation of high risk customers, including customers who make high amount USD deposits.

In light of the above, efforts were mainly oriented to restoring the credibility before the authorities, from there the *Restauración* project was divided into 10 sub-projects:

Sub-project	Objective
1- Structure and staffing	Assess adequacy of staffing levels and skills to address the priorities highlighted by the authority.
2- Enhanced follow-up of high risk customer files	a) Define a process to identify, keep up to date, and monitor high risk customers to ensure regulatory compliance. b) The process to identify high risk customer should include those

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GAG Branch Audit Report  
 HBMX- Special Review Of Restoration Project  
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	customers with high amount USD deposits and the corresponding branches
3- Optimised follow-up of regulatory audits and visit reports by CNBV.	Implement a procedure to ensure follow-up and implementation of recommendations in CNBV reports.
4- Remediation of old account files of PEP customers.	a) Ascertain the totality of old account files of PEP customers and design one strategy for files integration based on the risk (ie totality of PEP customers represents and the documentation missing in each file. b) Develop a BAI procedure to identify PEP customers and ensure proper integration of their account files.
5- Remediation strategies to improve the quality of non-PEP old account files.	Define mechanisms to remediate the totality of old account files on the basis of customer risk levels.
6- Strengthen CAMP alert procedures.	Strengthen HBMX monitoring systems, particularly in regards to USD deposits, and consider the feasibility to reduce CAMP alerts through a filtering process.
7- Digitalisation and centralisation of KYC files	Implement one procedure to ensure DDA and investment account files are integrated, and report any omissions for correction.
8- KYC quality assurance (QA)	Implement a process to ensure KYC policies and procedures are applied to customers, and implement a procedure to identify and reject, if appropriate, those transactions that may represent a high risk for HSBC.
9- CNBV letters	Provide timely and prompt response to regulatory letters.
10- Lessons learnt / Improved access to Bank's transactional information	Include the lessons learnt during the Restoration project and the ideas of the project team in connection with improved access to the information.

### 1.3 Scope

The scope of audit fieldwork considered 7 out of 10 sub-projects, and their performance indicators, and entailed, inter alia, a review of:

- a) Project management:
- Roles and responsibilities
  - Budget
  - Resources
  - Goals achievement
- b) Processes ongoing:
- Files digitalisation
  - Old accounts
  - Databases
  - Systems supporting the identification of SCCs

The scope of audit fieldwork did not consider sub-projects 3 and 9 as these were related to processes that had been reviewed by the Transactional Audit team, as well as sub-project 10 which was at a primary/definition stage.

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November 2008**

The audit was conducted by Sergio Piña, Enrique Carmona, Amaury Reyna (Branch Audit), Carlos Magaña (General Audit), Ricardo Zamora, Laura Ordoñez, Mario Cadena, Yirlania Torrenes (IT Audit) from 04 SEP08 through 23 OCT08.

**1.4 Objectives**

The objectives of the audit were to assess and report on:

- a) The processes and controls used to manage and implement the *Restauración* project and related sub-projects.
- b) The processes in place covering internal commitments and those established with the CNBV, and their effectiveness to prevent regulatory breaches.

**1.5 Responsibility for clearing the report**

The following areas have responsibility for clearing the report, and were included in the ML distribution list:

Direction of Operations and Administration  
 Direction of Channels and Distribution  
 Executive Direction of Compliance  
 Executive Direction of Operations  
 Executive Direction of Internal Control and Compliance within Channels and Distribution

**1.6 Summary of High Risk Matters**

Key high risk matters identified during the audit are summarised below:

- a) The roles and responsibilities, and activities, of those involved in the sub-projects should be clearly defined, to prevent gaps, work in silos, or reprocessing.
- b) For Phase II of the project, resource capabilities should be analysed based on the scope and objectives of the project to avoid delays and ensure the successful and timely implementation of the project.
- c) For Phase II of the project, there should be clear definition criteria in place to select and identify the customers/accounts to be reviewed from the databases, as well as adequate reconciliation processes to ensure their reliability.
- d) While the identification/categorisation of high risk customers/activities is automated, the database should be regularly reviewed to confirm all high risk customers had been categorised in the system.  
 Robust validation procedures should be applied to ensure customers reported to the authorities have been identified and categorised in the system as high risk customers.

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**Tab 25**

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GROUP AUDIT MEXICO  
AUDIT REPORT SUMMARY SCHEDULE  
GHQ REPORTABLE AUDITS

Name of Audit	HBMX - SPECIAL REVIEW OF THE RESTAURACION PROJECT			Region: LAM
Business or Customer Group	Central Support High		Audit Committee	HBMX
	Date	Inherent Risk	Control Risk	Overall Risk
This Audit	NOV08	High	Amber	N/A
Last Audit	N/A	N/A	N/A	N/A
<b>Nature of Business</b>				
<p>The <i>Restauración</i> (Restoration) project stems from the requirement to address serious concerns raised by local regulatory authorities relating to HBMX's KYC and AML processes and records. Particular concerns were noted with regard to the accuracy and completeness of account documents (transfusions sought over c. 2 million accounts, dating back to 2003), the timeliness of HBMX's responses to regulatory requests and certain other AML controls, such as those around USD transactions.</p>				
<b>Conclusion of Audit</b>				
<p>The auditors noted that a centralized account documentation unit had been put in place at an early stage of the project. As a result, management believed that the process for accounts opened since commencement of the project was operating effectively. Furthermore, new business acquisition of the HBMX's Grand Cayman offshore unit had been suspended until remediation was complete (a decision recently affirmed by LAM CEO). However, the auditors assigned a control grading of amber, having identified major weaknesses, predominantly in the remediation process, that could potentially hinder regulatory compliance and the achievement of the project's overall goals.</p> <p>The key issues identified included, inter alia:</p> <ul style="list-style-type: none"> <li>Resources dedicated to certain of the defined workstreams appeared insufficient to deliver the quality and timeliness required, particular for the remediation of existing accounts. In that regard, the auditors noted slow progress made in phase 1 (remediation of 8,000 high risk PFS accounts), specifically in terms of the closure of unremediated accounts;</li> <li>Certain customers engaged in high risk types of business had not been identified for inclusion in the files integration processes, raising concerns as to the completeness of the inventory procedures applied;</li> <li>The auditors noted that certain visit reports (a regulatory requirement) did not contain all the information required, and in some cases, these reports were found to have been created without visits being made; and</li> <li>The auditors recommended that the impact of account cancellation on the business, customers and cost bases be analysed against the risks being mitigated, to ensure an adequate balance between control and business, particularly where cancellations may be attributable to internal errors rather than to the customers.</li> </ul>				
<b>Response from Management</b>				
<p>Management is re-evaluating the scoping of later phases of the project, noting that the regulatory authorities may introduce a more risk-based approach, which would reduce the scale of remediation required. Additional controls have been put in place around the visit process, backed by a revision to sales incentives such that only accounts opened with proper documentation would be rewarded, in order to ensure that newly-opened accounts are not defective.</p> <p>The first response to the audit is due on 02 JAN09.</p>				

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HSBC Bank Middle East

Memo

To Denise Reilly, Senior Manager, Operations, HBUS Malcolm Eastwood, Senior Manager, Operations, HBEU		Date January 2003
From Rick Pudner, Head of CIB, Middle East, Dubai		Sender's Reference
CC Dr Nasser Homapour, Iran Representative, Tehran Nigel Weir, GRM, Middle East, Dubai Gary Beon, Global Payments & Cash Mgmt, Dubai James Madsen, Global Payments & Cash Mgmt, London		
Subject BUSINESS CASE – USD PAYMENTS FROM IRANIAN BANKS/ENTITIES		Receiver's Reference
To Facsimile No.	From Facsimile No.	Total No. of pages

**Executive Summary**

This paper has been produced in order for the Senior Management Committee (SMC) of HSBC Bank USA (HBUS) to evaluate whether or not HBUS will process US dollar (USD) payments initiated by Iranian Banks via accounts held with HSBC Bank Plc (HBEU), using the process provided to HBEU by HBUS dated 29 August 2001. This operational process may be amended at any time and HBEU will be required to adhere strictly to the new procedures as advised by HBUS.

Currently, it is estimated that Iranian banks issue up to 700 USD payments a day using their USD service providers, mainly banks in the UK and Europe, which in turn use their New York USD correspondents to effect the payments. It is believed that some service providers amend the payments to ensure Iran is not mentioned in the body of the payment instruction to their USD correspondent. This process minimises the risk of payments being referred to OFAC.

Institutional Banking and FCM believe there is a substantial income opportunity to sell a USD payments proposition to Iranian Banks in view of the impending FATF regulations, which are due to become effective in Q2 2003. The new regulations dictate that each bank (effecting the payments on behalf of their clients) within each FATF member country must ensure the full name, address and account number of the ordering party are quoted on the payment instructions. This increases the risk of Iranian payments being held in the USA as they may fall foul of the OFAC regulations. The Iranian Banks have now prioritised this issue and are now actively seeking a solution from their banks, including HSBC.

We believe that HSBC could offer the Iranian Banks a solution that facilitates a way for them to effect USD payments to beneficiaries outside the USA using the 'U-Turn' process documented within the OFAC regulations for Iran. HBUS have already provided HBEU with their operational requirements to process these U-Turn payments and therefore SMC approval is being sought prior to HBEU scoping potential IT changes and the production of a service proposition for the Iranian Banks. This business case also highlights the potential risks should approval not be given.

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### Background

Iran Representative office was formally opened on 11th of November 1999. Following the establishment of the office the volume of business between Iranian banks / companies and Group offices has been increasing all the time. The Group now has an excellent relationship with all Iranian banks and some very large Iranian corporates such as [REDACTED]

About 80% of Iran's foreign trade, totalling USD25 billion, is denominated in USD. Iran undertakes a considerable volume of trade in markets in which HSBC is represented, enabling the Group to leverage its global footprint. Our Iran Representative office has worked hard over the past three and a half years to build a positive image of Iran through road shows, visits, supporting trade missions and by referring good Iranian business to Group offices. This has shown HSBC to its customers as a bank that is able to do business in difficult markets and as a result added considerable value to the Group. Strategically, Iran is the country in the Middle East region with the most development potential for HSBC in the long term. It has the world's fifth largest oil reserves, second largest gas reserves, substantial mineral reserves and a large well educated population.

The Iran Representative office was established to develop relationships and credibility for HSBC in the market. This objective has been achieved and the Group is well placed to develop its operation from a position of considerable goodwill. Details of HSBC's business with Iran and Iranian entities are shown in Appendix 1.

### Opportunity

The FATF regulations are due to be implemented in Q2 2003 and will force banks within the FATF countries, to disclose all details of the ordering and beneficiary parties, effectively ending the practice currently undertaken for Iranian payments. The Iranian banks have yet to hear from their existing providers, mainly Lloyds Bank and Standard Chartered Bank, and we believe there is currently a window of opportunity.

However, during the past two years, HBEU and HBUS have been in discussions about how we can process these transactions, identifying the operational processes and compliance issues involved. After meetings with OFAC and external counsel, HBUS has produced a payments process. It will be scoped by HBEU, subject to SMC approving this paper, in order to identify their operational, compliance and IT issues before providing Sales with a service proposition.

HBEU / HBUS have identified that by using the 'U-Turn' payment method, Iranian banks can effect transactions to beneficiary accounts outside the USA. This method will allow HBEU to send HBUS payment instructions with Iranian entities quoted on the instructions and yet at the same time be compliant with FATF and OFAC guidelines. The proposed service proposition will provide a suitable disclaimer to ensure HSBC is not held liable for any payments which have not met the 'U-Turn' criteria and as a result been referred to OFAC.

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**Benefits**

- Payment volumes are estimated at 700 per day of which 70% will be commercial payments. Transaction income is estimated at USD4M, assuming that HSBC wins all the business at an average item price of USD30. We believe that charges being levied by other banks at the moment are far higher than this.
- Balance income in HBEU.
- Reputation within Iran and the potential to leverage additional business.

**Risks If Approval Declined**

- If HBUS declines to process these transactions, then consideration will need to be given to closing all existing Iranian bank USD accounts with the HSBC Group.
- Should the above occur the current Group annual income of USD2M from Iranian Banks will be under threat.
- The market will perceive that HSBC does not support Iranian business
- The adverse impact on our Representative office in Tehran.

**Summary**

It is anticipated that Iran will become a source of increasing income for the Group going forward and if we are to achieve this goal we must adopt a positive stance when encountering difficulties. We are aware of the concerns expressed by HBUS but strongly believe that by working together we can overcome them using means which are perfectly legitimate and in accordance with rules laid down by the relevant regulatory bodies. I hope we will be able to resolve this issue otherwise I fear we will destroy future value in a market which has substantial potential for the Group.

It will be appreciated if you could raise this paper to your SMC at the earliest opportunity and advise me of the decision as soon as possible.

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## Appendix I

1- Medium Term Project Finance Line - Various Group Offices. USD500M.  
This line covers a number of individual ECA backed project finance loans. It is denominated largely in USD. The facility requires that Iranian banks effect regular USD repayments. So far under this facility USD35M is utilised. HSBC now has a mandate from [REDACTED]

Two other projects, one for USD145M for [REDACTED] and one for USD170M out of Japan will be financed by HSBC through structured finance outside the above line. The latter, for [REDACTED] is already finalised and the other one is near completion. The provisioning for Iran has been reduced to 5% in December 2002, which will make it easier for HSBC to undertake more projects in Iran in the near future. With this in mind HSBC Project and Export Finance have decided to increase the above line to USD1ba.

2- Short Term Trade Refinancing Agreement - HBME Dubai USD50M, BACB USD25M. These lines are denominated in USD and require the USD loans to be booked at HBME Dubai or [REDACTED]

3- Wheat Finance lines with HSBC Australia USD50M and HSBC Canada USD100M.

4 - L/C's issued for Iranian Companies Abroad - Various Group Offices.  
HSBC offices are developing relationships with Iranian Government and non-Government companies. The L/C's issued are normally denominated in USD. Following NIOC's acceptance of HSBC as one its listed banks, HSBC Bank Middle East now handles Iran's oil export related L/C's. Turnover for this business is about USD400M per year.

5 - USD Clearing Accounts.  
HSBC Bank plc has a number of existing USD accounts for Iranian banks, which are used for payments clearing purposes.

6 - Treasury and Capital Markets  
HSBC Investment bank has transacted in excess of USD1bn of Bond business with Iran generating an income of over GBP700k in 2002. HBME Dubai and HSBC Markets operate active foreign exchange and money market lines with the Central Bank of Iran and Iranian banks.

7 - Potential Business  
a- HSBC is actively pursuing an Asset Management mandate with the Central Bank which will require USD payments to be paid and received.  
b- Iran has entered the capital market for the first time in 20 years, issuing USD1bn worth of paper through the Central Bank. The budget for the next year is USD 2bn with some to be issued in Islamic form. HSBC has a very good chance of being nominated to lead manage part of the conventional issue and a good chance of being nominated for the Islamic issue. Both require USD payments to be paid and received.  
c- HSBC may form an Internet Bank in Iran, which will require an active USD payment capability.

**The key thing to note is that all existing and potential business involves a regular and substantial flow of USD payments both in and out.**

**Redacted Material  
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8876493**

From: Marion O ROACH  
Sent: Mon Sep 01 15:59:53 2003  
To: John F ROOT  
Cc: John ALLISON  
Subject: OFAC  
Importance: Normal  
Attachments: image\_0.gif

I attach a note received from Matthew King.

I would be grateful if you could follow up on this, although I am not sure whether Matthew is referring to payments made through HBEU as [redacted] correspondent or something else.

Our current thinking is however as follows:-

There now appears to be some clarity surrounding the fact that OFAC sanctions do not bite on non-US persons even where payments are denominated in USD.

There is an established payment mechanism of bank-to-bank payments, and no reason why this should not continue to be followed - I do not see [redacted] as any different from any other correspondent customer.

I am not sure however whether the practice being referred to by Matthew is the same as a bank-to-bank payment. Perhaps we could clarify, and judge the extent to which any revised instructions should be reissued.

Regards

David



Memo  
20 Aug 2003 12:43

From: Matthew J W KING/BGM INA GHQ/HGHQ/HSBC Tel: 7991 0276  
44 2079 910276  
Mail Size: 1500

Sent by: Ltz A TESTER

David W J BAGLEY et al

Redacted Material  
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8876504

To: David W J BAGLEY/HGHQ/HSBC@HSBC  
cc: Iain STEWART/IBEU/HSBC@HSBC  
Chris HAWKES/MD GAE EUH/HBEU/HSBC@HSBC  
bcc:

Subject: OFAC

While at a meeting at [REDACTED] yesterday, I was told by [REDACTED] that HBEU continues to send remittances to the US with 'selfes' noted as the ordering party when the transfer would otherwise be filtered out for OFAC sanctions reasons. I recall this has been raised in the past, but I thought we had agreed the practice would cease. Are you aware of the current position?

Matthew King

**Redacted Material**  
**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8876505**

**From:** Jeremy R WALKER  
**Sent:** Thu Aug 25 15:46:48 2005  
**To:** Gary BOON  
**Cc:** John F ROOT  
**Subject:** Memo: Re: NON COMPLIANT TRANSACTIONS  
**Importance:** Normal  
**Attachments:** Iran examples.doc; OFAC\_Iranian\_Consideration\_Spre\_0-18.xls

Gary

Since the GCL Rod or myself have not declined any payments for being in breach of the u-turn exemptions. This is because the underlying transaction has been questioned before payment was made and deemed to be non compliant. I have tried to distance ourselves from these local decisions as far as possible and as a result do not have a record of them. I have however attached our records of payments referred to us for your reference again.

I have attached though some examples of non u-turn payments that we have declined in the past here in RMS which may be useful to you.

Regards

Jeremy

John F ROOT/HGHQ/HSBC on 25 Aug 2005 09:03

Memo  
 25 Aug 2005 09:03

**From:** John F ROOT/HGHQ/HSBC Tel: 799 25555  
 44 20 7992 5555  
 Mail Size: 3323

**To:** Rod MOXLEY/HBEU/HSBC@HSBC  
**cc:** Gary BOON/HBME/HSBC@HSBC  
**bcc:**

**Subject:** NON COMPLIANT TRANSACTIONS

Rod,

Would you please be able to provide Gary with a few examples?

Thank you.

Regards,

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John Root

----- Forwarded by John F ROOT/HGHQ/HSBC on 25 Aug 2005 09:02 -----  
From: Gary BOON/HBME/HSBC on 25 Aug 2005 06:40

To: John F ROOT/HGHQ/HSBC@HSBC

cc:

Subject: NON COMPLIANT TRANSACTIONS

John, in David's note to David Hodgkinson dated 10th August one of the points referred to non compliant payments re trade transactions (see below). Do you have specific examples that you could send us for our education/library?

Thanks  
Gary

I note that it is your view that a significant number of the trade and other transactions you list which currently involve HBME would be U-turn compliant. I have to say that a number of potential payments resulting from trade transactions from other Group offices that John Root and I have looked at since the issuance of the GCL are not in our view U-turn compliant. It is clearly important that as between ourselves and Dubai we continue to agree on a single interpretation and it may be that further consideration of a number of the transactions you list is necessary before a final decision is taken. I can however reconfirm that the sample transactions sent for review by HBME were confirmed as U-turn compliant. We have also vetted PEF's existing payment flows.

<<>><<>>

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From: Menion O ROACH  
 Sent: Wed Jul 06 17:04:23 2005  
 To: Richard E T BENNETT  
 Subject: Visit to HBMX -- 18 - 25 MAY 2005  
 Importance: Normal

Richard

I have copied you with the headline points just in case Sandy calls you. There are a lot of detailed points but until we have the right amount and mix of resources I cannot see you Ramon can make progress.

Regards

David Bagley

----- Forwarded by David W J BAGLEY/HGHQ/HSBC on 06 Jul 2005 15:53 -----  
 John F ROOT/HGHQ/HSBC on 06 Jul 2005 15:43

Memo  
 06 Jul 2005 15:43

From: John F ROOT/HGHQ/HSBC Tel: 799 25355  
 44 20 7992 5555  
 Mail Size: 4690

To: David Leighton/HBMX/HSBC@HSBC  
 cc: David W J BAGLEY/HGHQ/HSBC@HSBC  
 Susan A WRIGHT/HGHQ/HSBC@HSBC  
 bcc:

Subject: Visit to HBMX -- 18 - 25 MAY 2005

David,

I have, in a separate e-mail, sent you my visit report. There is a wealth of detail, as a close analysis of the numbers reveals both where progress has been made and where we should focus our efforts.

The four major recommendations of the report are all RR-related. Because of the sensitivities involved, they are presented separately in this cover memo. The recommendations are as follows:

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The HBMX MLCO should be appointed as soon as possible in order to reorganise promptly a demoralised department and improve AML controls by, e.g., overseeing the implementation of CAMP Retail. I realize that we have commenced an internal process but this needs to be completed as quickly as possible. The external candidate we have identified is, in my view, acceptable if an equivalent internal candidate cannot be found. I would recommend an early offer to this candidate. The acting MLCO is, in my opinion, someone whose talents might be best employed in another department. As we have both recognised, we need an independent, effective professional in the sensitive role of head of AML in Mexico.

The various LCOs should, per the COH, be evaluated closely on an on-going basis by the Compliance function, and not just the business. Key vacancies should be filled. PPS is a particularly important area where we need a full complement of independent, active compliance officers.

Another suggestion would be for us to consider the appointment of a project manager to help the HD CMP. Projects are started but seldom completed, perhaps because of the many ministerial tasks that have occurred since the departure of the HBMX MLCO at the beginning of the year. This may be a role that is only required while the bulk of the required implementation takes place. It may also be role that can be combined with that of MLCO, as the bulk of the required implementation is in AML.

Inter-departmental communication and cooperation could be improved. Three examples should suffice to show where progress could be made. First, the Legal, Compliance, and HR departments should clearly delineate their respective responsibilities in large-scale projects such as the accreditation of the salesforce. Second, HR and Compliance should establish precisely who should do what in training staff throughout HBMX group. Third, AML and OPSCO should communicate regularly about the further distribution throughout Mexico of documentation sent by Group. Here again, responsibilities should be defined.

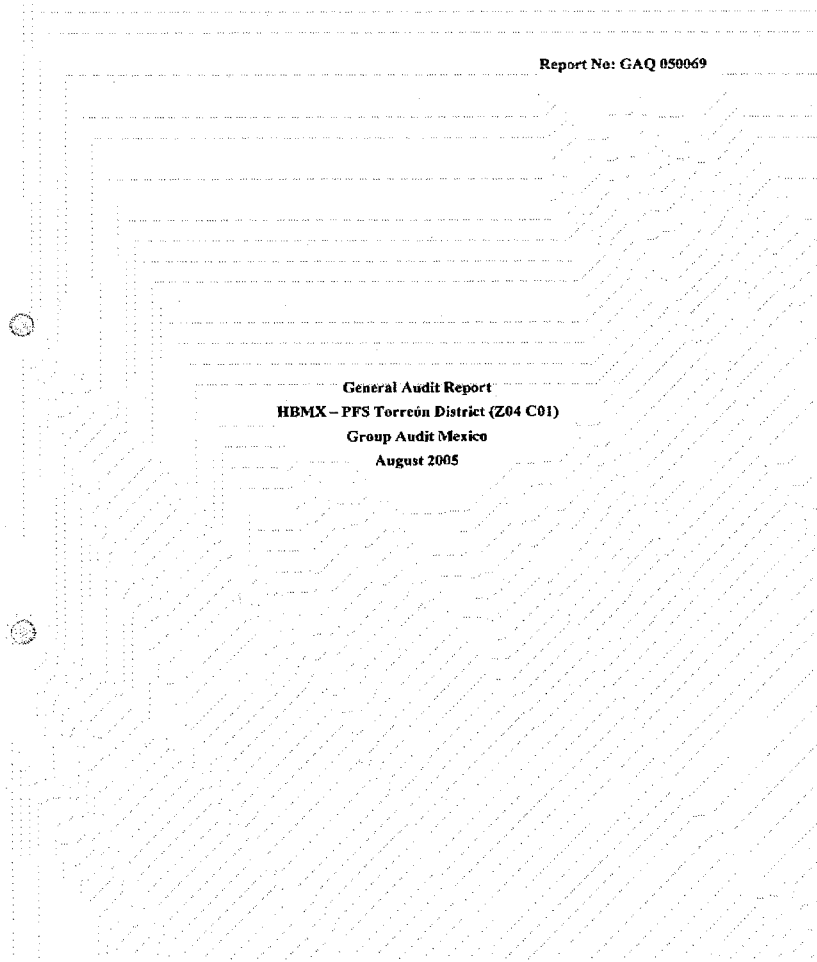
As you of course know, the work has piled up in the Compliance department, and Ramon needs help with the backlog. It is true that we have increased staff in the department, but they are mostly entry-level analysts in need of direction. It is important that we hire an MLCO as quickly as possible, and perhaps also a sort of "operating officer" for Ramon to enable him to bring the department up to Group standards. If you agree, it might be sensible to second a relatively junior but experienced manager from elsewhere in Group.

I would of course be glad to discuss the above, and my report, with you at your convenience. I leave it to you to copy anyone at HBMX you think is appropriate.

Kind regards,

John Root

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**1. EXECUTIVE SUMMARY**

**1.1 Background**

HBMX District Office Torreón (Z04C01) is located in Torreón, State of Coahuila, Mexico. It controls 22 PFS branches and the District has a headcount of 22 managers, 54 relationship managers, 4 PFS relationship managers (Banca Patrimonial) and 105 tellers. Torreón is one of 4 District Offices that report to Dirección Z04C, in the Northeast region of the country.

Key performance statistics of the District for March 2005 were:

	<u>MXN 000s</u>
Net Interest Margin	8,324
Other Income	5,696
Total Income	14,021
Expenses	(3,812)
Net Operating Profit	10,208
Operational Losses	(763)
Net Profit before Tax	<u>9,445</u>
Total Staff (#)	178
Net Contribution per Employee	<u>53</u>
Current, Deposit and Investment Accounts	1,290,607
Number of Customer Accounts (#)	82,041
Average Balance per Account	<u>16</u>
Customer Credit Receivables	368,900
Overdue Receivables	12,284
Percentage Overdue	<u>3.3%</u>

The IT systems used within the PFS Network are SICOBI (Bank's general ledger system), CT and PSSW (Transactions), HOGAN (Customer account information) and Kroner (loans).

The audit was conducted by Iván Torres, Aarón Torres and Rodrigo Rodríguez of Group Audit Mexico from 04 through 08 APR05. This is first audit of the district conducted on a regional basis although the District Office had been audited twice before by GAQ when its control risk environment was assessed as Below Standard.

**1.2 Audit Objectives**

- The objectives of the audit were to assess and report on:
- the appropriateness, efficiency and effectiveness of the internal control environment and the susceptibility of that environment on a sample basis to frauds/failures in internal controls or breaches in authority;
  - the reliability and integrity of financial and other operating matters;

— = Redacted by the Permanent Subcommittee on Investigations

**General Audit Report****HRM - FFS Torreon District (204C91)****August 2005**

- the appropriateness and adequacy of procedures in place to ensure compliance with local, national and international laws and regulations
- compliance with Group and local policies and procedures;
- the design, implementation and effectiveness of ethics related objectives, programmes and activities;
- the evaluation and protection of assets, including the potential to eliminate waste and control costs; and
- the effectiveness of the District management structure in mitigating risk and supporting business growth initiatives.

**1.3 Audit Scope**

The scope of the audit fieldwork which was based on the District's financial and accounting records as at March 2005, entailed, inter alia, a review of:

- its management procedures and controls applied in the District Office and throughout its branches; and
- branch operations, activities, processes and procedures.

Using GAQ's key performance indicators, 5 of the District's 22 branches were selected for detailed review and examination: these were Gómez Palacio (230), La Rosita (388), Ciudad Industrial (408), Hipermart Oriente (409) and Colón (810).

**1.4 Conclusions**

The auditors have assessed the control risk of the District as **Below Standard**.

No significant progress has been made in the administration and control of the branches in the District since the previous audits and 11 repeat recommendations were identified.

Key factors that contributed in addition to the risk assessment included:

- failure by the Sub-Director to maximise his use of management information and system enquiries to control and monitor branch processes, particularly those related to cash flows, manually generated reversal entries, 8000 series transitory suspense account entries, trends and variations in operating performances, expenses, etc;
- recurrent weaknesses in consistently and completely applying KYC requirements including, inter alia, completion of new account documentation, investigation of suspect accounts detected by the Monitor system, preparation of logbooks and visit reports, and failure to visit customers to verify for AML purposes the rationale for transactions in excess USD 1 million;
- the sales strategies of insurance policies were inconsistent with the product characteristics with 26% of the insurance policies issued between OCT04 and FEB05, subsequently cancelled; and
- the risk of receiving counterfeit currency notes or cheques was not mitigated, as UV detection lamps were not being used in branches.

The auditors wish to thank the Sub-Director and his staff for their assistance and cooperation during the course of the audit.

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General Audit Report  
HBMX - PFS Torreon District (ZM4C81)

August 2005

Appendix 1

**COMPLIANCE RELATED RECOMMENDATIONS**

The auditors considered the following recommendations were compliance related issues:

<u>Report Ref</u>	<u>Recommendation</u>
4.2	Branch staff should ensure that KYC and account opening documentation is complete and in compliance with regulations.
4.4	Branch staff involved in selling investment products should be AMIB qualified.

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From: Emma E V LAWSON  
 Sent: Wed Oct 18 10:23:39 2006  
 To: John F ROOT  
 Subject: Fw: COMPLIANCE WITH GPP 25  
 Importance: Normal  
 Attachments: Doc Link.htm

John

Good news from Mexico! It appears will be adopting GPP25 and giving consideration to closure after two SARs rather than the current four.

I will strive to ensure I receive the results of the next meeting of the MLD Committee.

Kind regards Emma

----- Forwarded by Emma E V LAWSON/HGHQ/HSBC on 18/10/2006 10:20 -----

Leopoldo R BARROSO/HBMX/HSBC  
 HBMX  
 17/10/2006 17:35  
 Mail Size: 12688

To  
 Emma E V LAWSON/HGHQ/HSBC@HSBC  
 cc  
 Laura YESIN/HBMX/HSBC@HSBC, Ramon GARCIA/HBMX/HSBC@HSBC  
 Subject  
 Re: Fw: COMPLIANCE WITH GPP 25  
 Entity  
 HSBC Holdings plc - HGHQ

Dear Emma,

The HBMX MLD Committee has decided to adopt the GPP25 requirements at its last meeting past October 14, 2006, thus a dispensation will not presumably be sought; however, since the business has to analyse the accounts that would have to be closed as a consequence of this policy (approximately 1,460 accounts mostly PFS), a period of 30 days has been granted to actually either carry on instructing the closure of the accounts with more than one report, or assume the responsibility over the ones that might be asked not to be closed based on a dispensation that would have to be supported by the business. We will keep you updated of the final conclusions, and decisions adopted as at the next MLD Committee meeting scheduled for November 8, 2006.

Kind Regards  
 Leopoldo

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Ramon GARCIA/HBMX/HSBC  
17/10/2006 08:21 a.m.

To  
Leopoldo R BARROSO/HBMX/HSBC@HSBC  
cc  
Laura YESIN/HBMX/HSBC@HSBC  
Subject  
Fw: COMPLIANCE WITH GPP 25

Polo,

Por favor para respuesta a Emma. Tenemos que tener presente la GPP25 en este tema.

Saludos,

Ramón García Gibson  
Dirección Ejecutiva de Compliance  
HSBC México SA  
Pasaje de la Reforma 347 Oficina 5  
Col. Cuauhtémoc  
06500 México DF  
(52 55) 57 21 55 09  
Fax (5255) 57 21 5756

----- Forwarded by Ramon GARCIA/HBMX/HSBC on 17/10/2006 08:23 a.m. -----

Emma E V LAWSON/HGHQ/HSBC  
17/10/2006 04:02 a.m.

To  
Ramon GARCIA/HBMX/HSBC  
cc  
Susan A WRIGHT/HGHQ/HSBC  
Subject  
COMPLIANCE WITH GPP 25

Ramon

This is something we discussed at the conference.

If the MLD Committee has adopted a procedure of considering closure after the

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fourth SAR has been validated then a dispensation must be sought from GHQ CMP.

Please advise whether the Committee will be amending their procedure or if a dispensation will be sought.

Kind regards Emma  
----- Forwarded by Emma E V LAWSON/HGHQ/HSBC on 17/10/2006 09:58 -----

John F ROOT/HGHQ/HSBC  
HGHQ  
26/07/2006 16:46  
Phone No: 7992 5555  
+0044 (207) 7992 992 5555  
Mail Size: 2510

To  
Ramon GARCIA/HBMX/HSBC@HSBC  
cc  
David W J BAGLEY/HGHQ/HSBC@HSBC, Laura YESIN/HBMX/HSBC@HSBC, Susan A WRIGHT/HGHQ/HSBC@HSBC  
Subject  
Re: 2Q06 HBMX Compliance Report  
Entity  
HSBC Holdings plc - HGHQ

Ramon,

One comment: 4 SARs seems awfully indulgent, even by local standards. At any rate, it is against Group policy, as Susan points out, so you will need to seek an official dispensation.

Thank you.

Regards,  
John Root

<<...>>

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1818

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**GROUP AUDIT MEXICO  
AUDIT REPORT SUMMARY SCHEDULE  
GHQ REPORTABLE AUDITS**

Name of Audit	PFS Subdirección Z01 C31 Puebla		Region Mexico
Business or Customer Group	PFS	Audit Committee	HBMX Audit Committee
	Date	Inherent Risk	Control Risk
			Overall Risk
<b>This Audit</b>	SEP06	Medium	Below Standard
<b>Last Audit</b>	AUG05	Medium	Below Standard
<b>Nature of Business</b> The PFS Puebla Z01 C31 District Office manages a network of 17 branches that provides a range of products (current deposit and investment accounts, saving and payroll accounts, mortgage, car and personal loans, PYMES, insurance and credit cards) and other services.			
<b>Conclusion of Audit</b> The factors that contributed to the assigned risk were among others: <ul style="list-style-type: none"> <li>- KYC issues and file integrity failed to comply with Group policies.</li> <li>- Weaknesses and inconsistencies in input of customer information to PSSW and CIS system were noted.</li> <li>- User IDs were found to be shared among staff.</li> </ul> SIX repeat recommendations were identified from previous audits.			
<b>Response from Management</b> The first response to the audit is due on 18 OCT06.			

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**GROUP AUDIT MEXICO  
AUDIT REPORT SUMMARY SCHEDULE  
GRQ REPORTABLE AUDITS**

<b>Name of Audit</b>	PFS Subdirección Z01 C23 Puebla		<b>Region Mexico</b>
<b>Business or Customer Group</b>	PFS	<b>Audit Committee</b>	HBMX Audit Committee
	<b>Date</b>	<b>Inherent Risk</b>	<b>Control Risk</b>
<b>This Audit</b>	SEP06	Medium	Below Standard
<b>Last Audit</b>	AUG05	Medium	Below Standard
<b>Nature of Business</b>			
The PFS Puebla Z01 C23 District Office manages a network of 17 branches that provides a range of products (current deposit and investment accounts, saving and payroll accounts, mortgage, car and personal loans, PYMES, insurance and credit cards) and other services.			
<b>Conclusion of Audit</b>			
The factors that contributed to the assigned risk were among others:			
<ul style="list-style-type: none"> <li>- KYC issues and file integrity failed to comply with Group policies.</li> <li>- Branch staff lacked knowledge of procedures to identify Special Categories Customers.</li> <li>- Weaknesses in the cash management operations and dual control over monies deposited in rotary lock boxes.</li> </ul>			
FIVE repeat recommendations were identified from previous audits.			
<b>Response from Management</b>			
The first response to the audit is due on 18 OCT06.			

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**GROUP AUDIT MEXICO  
AUDIT REPORT SUMMARY SCHEDULE  
GHQ REPORTABLE AUDITS**

<b>Name of Audit</b>	PFS Subdirección Z01 A20 Morelos			<b>Region Mexico</b>
<b>Business or Customer Group</b>	PFS	<b>Audit Committee</b>		HBMX Audit Committee
	<b>Date</b>	<b>Inherent Risk</b>	<b>Control Risk</b>	<b>Overall Risk</b>
<b>This Audit</b>	SEP06	Medium	Below Standard	Medium
<b>Last Audit</b>	OCT05	Medium	Below Standard	Medium
<b>Nature of Business</b>				
The PFS Morelos Z01 A20 District Office manages a network of 19 branches and 1 Module that provides a range of products (current deposit and investment accounts, saving and payroll accounts, mortgage, car and personal loans, PYMES, insurance and credit cards) and other services.				
<b>Conclusion of Audit</b>				
The factors that contributed to the assigned risk were among others:				
<ul style="list-style-type: none"> <li>- KYC issues and file integrity failed to comply with Group policies.</li> <li>- Weaknesses in the cash management operations and dual control over moneys deposited in rotary lock boxes.</li> <li>- Credit file integrity failed to comply with Group policies.</li> </ul>				
SIX repeat recommendations were identified from previous audits.				
<b>Response from Management</b>				
The first response to the audit is due on 17 OCT06.				

GROUP AUDIT MEXICO  
AUDIT REPORT SUMMARY SCHEDULE  
GHQ REPORTABLE AUDITS

<b>Name of Audit</b>	PFS Subdirección Z03 B02 Cd. Juárez			Region Mexico
<b>Business or Customer Group</b>	PFS	Audit Committee		HBMX Audit Committee
	<b>Date</b>	<b>Inherent Risk</b>	<b>Control Risk</b>	<b>Overall Risk</b>
<b>This Audit</b>	SEP06	Medium	Below Standard	Medium
<b>Last Audit</b>	AUG05	Medium	Below Standard	Medium
<b>Nature of Business</b>				
The PFS Cd. Juárez Z03 B02 District Office manages a network of 21 branches and 1 Custom Module that provides a range of products (current deposit and investment accounts, saving and payroll accounts, mortgage, car and personal loans, PYMES, insurance and credit cards) and other services. The Custom Module receives tax payments of foreign trade.				
<b>Conclusion of Audit</b>				
The factors that contributed to the assigned risk were among others:				
<ul style="list-style-type: none"> <li>- KYC issues and file integrity failed to comply with Group policies.</li> <li>- Weaknesses in input of customer information to PSSW and CIS system were noted.</li> <li>- Weaknesses in voucher operations, reversal control and supervision at Customs Module were identified.</li> <li>- Weaknesses in the cash management operations and dual control over moneys deposited in rotary lock boxes.</li> </ul>				
SIX repeat recommendations were identified from previous audits.				
<b>Response from Management</b>				
The first response to the audit is due on 01 NOV06.				



1823

**From:** Paul PROCTOR  
**Sent:** Thu Oct 23 09:12:46 2003  
**To:** John F ROOT  
**Subject:** Re: OFAC sanctions evasion - Iranian payments  
**Importance:** Normal  
**Attachments:** image\_0.gif; image\_1.gif; image\_2.gif; image\_3.gif; image\_4.gif; Doc Link.htm; OFAC\_evasion\_to\_RD\_-\_Julie\_A\_CL\_1-0.rtf

John,

Correspondence with Clarke/Pollard of Bank plc Compliance.

Paul

----- Forwarded by Paul PROCTOR/HBEU/HSBC on 23 Oct 2003 09:12 -----

**Memo**



**From:** Paul PROCTOR/HBEU/HSBC

**Tel:** 799 12778

**44 20 7991 2778**

**Mail Size:** 45653

---

Julie A CLARKE et al

**To:** Julie A CLARKE/HBEU/HSBC@HSBC  
**cc:** Rod MOXLEY/HBEU/HSBC@HSBC  
Chris J POLLARD/HBEU/HSBC@HSBC  
John R WILKINSON/HBEU/HSBC@HSBC  
Brian W RICHARDS/MDBK/HSBC@HSBC  
**bcc:**

**Subject:** Re: OFAC sanctions evasion - Iranian payments

Julie,

Thank you for the attached.

I did see the original exchange of emails from Rod to John Wilkinson and expressed my concern as follows:

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Quote

Have read your exchange of emails with John Wilkinson re the above.

This is the first time I have seen in writing, an admission that Payments Services are amending payments by removal of either the remitter's name or country to prevent the probable trigger of the US filter and the subsequent freezing of funds.

You indicate that Group Compliance have now forbidden you to tamper with such payments, which I would fully support as it flies in the face of Group policy re complying with the spirit and letter etc. However, do you have anything in writing from GHQ CMP that you can send me as no doubt I will be asked for my input in due course regarding the impact of Wolf on this issue.

Unquote.

I haven't yet received a copy of the GHQ CMP communication that I referred to and this is the first I have seen/heard of this discussion with [REDACTED]

I will be attending the forthcoming meeting (18th September) to further review this issue.

Paul.

---

Julie A CLARKE/HBEU/HSBC on 08 Sep 2003 12:43

Memo

08 Sep 2003 12:43

[REDACTED]

From: Julie A CLARKE/HBEU/HSBC

Tel: 799 25547

44 20 7992 5547

Mail Size: 39094

---

Paul PROCTOR et al

To: Paul PROCTOR/HBEU/HSBC@HSBC

cc: Rod MOXLEY/HBEU/HSBC@HSBC

Chris J POLLARD/HBEU/HSBC@HSBC

**Redacted Material**  
**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.AHSBC OCC 8876819**

bcc:

Subject: OFAC sanctions evasion - Iranian payments

Paul,

Below is Rod's response to the original query attached.



It appears that John Wilkinson has been allowed to continue (to 31/12/03) to use 'selves' as the remitter name for Iranian payments, which I believe contravenes your recently issued guidelines. I believe you should consider attending the meeting he has asked for with PSD, if you have not been invited. Will leave with you.

Chris - I suggest this is followed-up at the next regular meeting with PSD. I have filed this in E-docs and put a paper copy in PSD file.

Regards,

Julie

----- Forwarded by Julie A CLARKE/HBEU/HSBC on 08 Sep 2003 12:22 -----

Memo



From: Rod MOXLEY/HBEU/HSBC

Tel: 790 44479

44 20 7260 4479

Mail Size: 8826

To: Julie A CLARKE

To: Julie A CLARKE/HBEU/HSBC@HSBC

cc:

Subject: Project Wolf

Julie,

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8876820

1826

Further to your note re sanctions. This issue has been under discussion for some time and I sent a note to John Wilkinson, Relationship Manager, on 18 July to formalise our position. The note I subsequently sent to Pat Conroy to keep him in the picture is attached.

Hopefully, this answers your questions.

If not, please give me a call.

Regards

Rod

----- Forwarded by Rod MOXLEY/HBEU/HSBC on 08 Sep 2003 10:10 -----

Memo

[REDACTED]

From: Rod MOXLEY/HBEU/HSBC

Tel: 790 44479

44 20 7260 4479

Mail Size: 2955

Pat N CONROY et al

To: Pat N CONROY/HBEU/HSBC@HSBC

cc: John ALLISON/HGHQ/HSBC@HSBC

Jim F EBDON/HBEU/HSBC@HSBC

Malcolm G EASTWOOD/MDBK/HSBC@HSBC

bcc:

Subject: Project Wolf

Pat,

A quick note for information.

You will be aware from discussions we have had in the Steering Committee that we identified a need to draft Wolf procedures quickly and to this end I agreed to contact [REDACTED]. Naturally during the course of discussions with him we exchanged information regarding their issues with Libya and ours with Iran.

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I have been advised by John Taylor, Senior Manager GAE that [REDACTED] for whatever reason, has deemed it appropriate to bring our current practice regarding the alteration of the remitter field on Iranian payments to the attention of both Matthew King, Head of Group Audit and David Bagley, Head of Group Legal.

I have reassured John Taylor that their auditors did not "miss" anything when they came to audit MPD in October 2002, in fact a general reference was made to these payments in their audit point 6.1. He seems happy with this and doesn't seem inclined to take it any further.

However, just in case you are approached by either King or Bagley (possibly via Mr. Ranaldi) I will re-iterate our stance:

- i) One of the prime purposes of Wolf is to identify such payments and they will all in future be monitored (and rejected, if necessary) by myself and the team presently being set up.
- ii) The specific issue with Iran has been identified and raised formally with the RM, John Wilkinson. Due to the Group business implications he has been given a deadline of 31 December 2003 to remedy this situation. In the interim period he has been in discussion with his Iranian customers to try and reach a professional but appropriate compromise. He is seeking a meeting with us (Payment Services) in September for guidance. Malcolm's stance, I understand, is that any payments after 31 December 2003 will not be processed unless signed off at a very senior level.

Regards

Rod

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1828

From: Julie A CLARKE  
Sent By: Julie A CLARKE  
Date Sent: 03/09/2003 09:24  
To: Rod MOXLEY/HBEU/HSBC@HSBC  
Copy To: Chns J POLLARD/HBEU/HSBC@HSBC  
Subject: OFAC sanctions

Hello Rod,

You will see from all the attached e-mails that a question about OFAC sanctions avoidance/evasion has been asked.

It appears to relate to payments from business areas within HBEU that are processed through PSD.

Please advise me of what your issue was here and if/how it has been resolved.

Thanks,

Julie

----- Forwarded by Julie A CLARKE/HBEU/HSBC on 03 Sep 2003 09:20 -----

[REDACTED] on 02 Sep 2003 18:04

To: "Clarke Julie A (NOTES)" <julie.a.clarke@mhub1.com>  
cc:  
bcc:

Subject: RE: OFAC sanctions

Julie

This information came to me from an ex-G&E auditor (Rob?), now working in the payments area, who 'phoned me to pick my brains on how [REDACTED] handled payments affected by OFAC. During the conversation, I mentioned that historically we used "selves" but that I had stopped the practice as soon as I had discovered it in mid-2000. He stated that it was still done in HBEU. This was not in connection with [REDACTED] payments and I have no examples.

Sorry I can't be more specific.

-----Original Message-----

From: Julie.A.CLARKE@mhub1.com [mailto:Julie.A.CLARKE@mhub1.com]

**Redacted Material**  
**Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8876824**



1830

To: ALAN T KETLEY/HBUS/HSBC@HSBC  
CC: DENISE A REILLY/HBUS/HSBC@HSBC  
Subject: Fw: Cover payment processed to Credit Suisse re "Bank Mellat" - USD 100,000

fyi - this is the payment I mentioned earlier in the meeting.  
I also stopped by your office, to see if there is anything, the OFAC Compliance team can support you with, as it relates to the Mid-East summit.  
p.s. i believe that Monica and Camille were trying to pull some numbers of the entry types listed per program; let me see if they have specifics to share with you.

----- Forwarded by Grace C Santiago-Darvish/HBUS/HSBC on 11/29/05 01:25 PM -----

Re: MOXI EY/HBEU/HSBC  
11/24/05 11:11 AM

To  
Elizabeth Protomastro/HBUS/HSBC@HSBCAMERICAS  
cc  
John ALLISON/HGHQ/HSBC@HSBC, John F ROOT/HGHQ/HSBC@HSBC, Grace C Santiago-Darvish/HBUS/HSBC@HSBC, Nancy Hedges/HBUS/HSBC@HSBC, Andrew P Drolet/HBUS/HSBC@HSBC, Jose Malias/HBUS/HSBC@HSBC, Teresa Pesce/HBUS/HSBC@HSBC, Anne Liddy/HBUS/HSBC@HSBC, Donald W McPherson/HBUS/HSBC@HSBC, Jeremy R WALKER/HBEU/HSBC@HSBC, Malcolm G EASTWOOD/MDBK/HSBC@HSBC  
Subject  
Re: Fw: Cover payment processed to Credit Suisse re "Bank Mellat" - USD 100,000

Elizabeth,

Thanks for your email.

The revised procedures established within HBEU regarding OFAC affected payments necessitate Iranian payments to be routed to a dedicated Centre of Excellence in HSME Dubai. This has worked well in the majority of cases. However, in instances where the customer inputs the transaction through an approved electronic channel (Hexagon, for example) and the transaction STPs, the only "control" over the transaction HBEU can exert is when it hits the Wolf queue. It should be understood that at this stage accounting entries will have been passed and the cover MT202 will have automatically been generated by the HBEU Payments system.

The attached transaction for Mellat was such a cover payment and so we have 3 options in handling such transactions:

1. Notify our customer base advising of change of procedures regarding intermediary banks/cover payments and HBEU will adjust its routing table for these payments. I believe this is under discussion but involves a huge amount of work and may also have other customer implications.
2. When HBEU identifies the payment in Wolf, we can reverse the accounting entries, recall the cover payment and then re-route via HSME Dubai who will vet the payment and pay as a serial payment. This has been done on occasions but

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Subcommittee on Investigations

it irritates the customer, confuses the cover agent and causes delays for which HBEU will receive interest and compensation claims.

3. HBEU Wolf team will vet the payment on the Wolf queue to ensure it satisfies the U turn provisions and pay. Clearly, if it does not meet the provisions, the cover will be recalled.

At the present time, we use option 3. This means that the payment has been vetted in UK and so will satisfy the U turn requirements. The lack of transparency to HBUS has been acknowledged and a paper has already been submitted to Head of Payment Services for consideration.

For your information, I attach a summary of events regarding the Bank Mellé transaction, so that you are in possession of the full facts as to how certain issues have arisen:

The original payment [REDACTED] was an STP item received from Rio Tinto Minerals favour of MELIIRTHA96. Rio Tinto quoted CRESCHZ80A as an intermediary bank in field 56 and this created STP.

The 103 to Cred Suisse would have been vetted by HBEU WOLF but due to the fact the cover had already been paid and the payment would otherwise qualify as a u turn the payment was released as agreed.

The cover 202 meanwhile would have instructed HBUS to pay Credit Suisse Zurich and informed them the credit related to our direct 103. In this way Cred Suisse were able to apply the funds to MELIIRTHA96. I can find no trace of Bank Hoffman within our payments so this must be internal routing from Cred Suisse's end to apply funds to MELIIRTHA96.

The funds could not be applied by Hoffman and they have then approached HBUS for further information. HBUS passed this request on to us, we sought more info from our customer and upon receipt of the new SWIFT details responded to HBUS.

Hoffman should not have contacted HBUS direct but followed SWIFT protocol and sent their request for further info via Cred Suisse. HBUS requested we advise Hoffman directly of the further information EPS have disregarded this request and then have provided HBUS with Iranian information

Regards

Rod

Elizabeth Protomastro/HBUS/HSBC on 23 Nov 2005 20:07

Note  
23 Nov 2005 20:07

From: Elizabeth Protomastro/HBUS/HSBC      Tel: 212-525-6692  
Mail Size: 110627

To: Rod MOXLEY/HBEU/HSBC@HSBC  
cc: John ALLISON/HGHQ/HSBC@HSBC

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= Redacted by the Permanent  
Subcommittee on Investigations

John F ROOT/HGHQ/HSBC@HSBC  
Grace C Santiago-Darvish/HBUS/HSBC@HSBC  
Nancy Hedges/HBUS/HSBC@HSBC  
Andrew P Drole/HBUS/HSBC@HSBC  
Jose Matias/HBUS/HSBC@HSBC  
Teresa Pesce/HBUS/HSBC@HSBC  
Anne Liddy/HBUS/HSBC@HSBC  
Donald W McPherson/HBUS/HSBC@HSBC  
bcc:

Subject: Fw: Cover payment processed to Credit Suisse re "Bank Mell" - USD  
100,000

Rod, this message was addressed to you. Teresa Pesce should be a "cc" only.  
I have sent a message to Claudia McPherson to disregard.

Thank you.

----- Forwarded by Elizabeth Protomastro/HBUS/HSBC on  
11/23/2005 03:05 PM -----  
Elizabeth Protomastro on 23 Nov 2005 15:04  
Note  
23 Nov 2005 15:04

From: Elizabeth Protomastro Tel: 212-525-6692  
Title: Vice President Location: 452 5th Ave. Floor 07  
WorkGroup: COMP/ANTI-MONEY LAUNDERING Mail Size: 106228

To: Rod MOXLEY/HBEU/HSBC@HSBC  
Teresa Pesce/HBUS/HSBC@HSBC  
Claudia McPherson/HBUS/HSBC@HSBC

cc: John ALLISON/HGHO/HSBC@HSBC  
John F ROOT/HGHQ/HSBC@HSBC  
Grace C Santiago-Darvish/HBUS/HSBC@HSBC  
Nancy Hedges/HBUS/HSBC@HSBC  
Andrew P Drole/HBUS/HSBC@HSBC  
Jose Matias/HBUS/HSBC@HSBC  
Teresa Pesce/HBUS/HSBC@HSBC  
Anne Liddy/HBUS/HSBC@HSBC  
Donald W McPherson/HBUS/HSBC@HSBC  
Subject: Cover payment processed to Credit Suisse re "Bank Mell" - USD  
100,000

We are bringing this to your attention as this situation indicates that cover  
payments involving Iran are still being processed by PLC. It was our  
understanding that Group payments involving Iran would be fully disclosed as to  
the originators and beneficiaries. Please see details below.

The following payment was processed by HBUS on 17-Nov-2005. It was processed  
as a "straight-through" payment as it contains no reference to Iran and so  
would not be stopped by the filter. Copy is also attached.

17-Nov-2005

IRN: [REDACTED]  
Debit: [REDACTED] HSBC Bank PLC London Clearing  
Credit: [REDACTED] Credit Suisse, Zurich  
Bank to Bank Info: Bnf / Cover our direct TT Ref [REDACTED]

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1833

USD 100,000

On 21-Nov-2005, we received a SWIFT from PLC stating that it had "contacted the remitter" and they advised "correct SWIFT address should be MellIRTH94". As you will see from the attached SWIFT message, this message indicated to us that HBUS was now to pay Bank Mellii. As you are aware, a U.S. bank cannot credit an Iranian bank, and such a payment would have to be rejected.

However, HBUS does not have the funds, i.e., no payment to reject. The funds were paid to Credit Suisse on 17-Nov-2005. There is some more background correspondence on this payment, described below.

On 18-Nov-2005, HBUS received a SWIFT from Bank Hoffmann, with a "cc" to PLC, advising that they are unable to apply the funds and requesting more details on the payment. (Note that HBUS investigations confirmed that Bank Hoffmann AG, i.e., HOFMCHZZ, is owned by Credit Suisse Zurich. Bank Hoffmann was not mentioned on the payment instruction processed by HBUS.) That same day, HBUS sent a message to both PLC requesting details on the payment and another message to Bank Hoffmann advising of such action, and stated on both messages that the PLC could "provide further payment details through ourselves (HBUS) for transmittal to you (Bank Hoffmann) or directly to you under their discretion."

On 22-Nov-2005, HBUS received a message from Bank Hoffmann AG telling it to consider their 18-Nov-2005 "request as settled and closed." It appears that there was a direct exchange of information between PLC and Bank Hoffmann, and based upon this information, Bank Hoffmann was now able to process the payment.

As you can imagine, it has taken some time to research the flow of the messages re this cover payment in order to document on our side that (1) we hold no funds to reject and (2) if Bank Mellii is involved as mentioned in the PLC SWIFT of 21-Nov-2005, the payment meets the u-turn license, which it does. HBUS is debiting and crediting two offshore, non-Iranian banks.

The 21-Nov-2005 message from PLC to HBUS appears to have been sent in error.

HBUS has also sent a message to Credit Suisse requesting an explanation of how the payment was settled, but we realize we may never get a response to this request.

I have now documented an audit trail to support that, if the payment does involve Bank Mellii, it is covered under the u-turn. But we still have at issue the fact that PLC is submitting to HBUS cover payments involving Iran. It was our understanding with PLC that payments involving Iran are to be fully disclosed as to the identities of the originators and beneficiaries.

Please review and advise your comments.

Thank you.

Attachment: r0516990.tif

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1834

HSBC Bank plc

Memo

To David Bagley		Date 21 November 2006
Copy to Jim Large Rod Moxley Vikram Bose Michael Grainger John Rendall Patrick Nolan		
From Malcolm Eastwood		Sender's Reference Ext 799 12300 @ 8CS28
Subject GCL 060011 DISPENSATION		Receiver's Reference
To Facsimile No.	From Facsimile No.	Total No. of pages

David,

HBEU Payment Services are hereby seeking an extension to its previous dispensation which expired on 31 October 2006 from the under-noted section of the above-mentioned GCL as follows.

**"1. With effect from 30Apr06 all USD payments initiated by a Group Office and remitted via HBUS, or any other US correspondent, must be made as serial payments."**

**HBEU dispensation**

All USD payments initiated by HBEU Payment Services destined for a beneficiary in the US are now remitted via serial route to HBUS. However, are not currently in a position to route USD payments destined for countries outside the US, however, in the same manner (via HBUS), for three primary reasons.

Firstly, serial payment methodology does not cater for the increased number of payment fields necessary to effect some payments requested in settlement of HBEU core customer transactions.

Secondly, the US test key network is considerably smaller than that of HBEU and the absence of common Standard Settlement Instructions will greatly increase the risk of payment delay and subsequent customer dissatisfaction.

Thirdly, the differing number of reference digits used in the serial payment method will potentially lead to increased manual intervention, delay and incorrect payment.

We have been working with HBUS to build solutions, which will ensure that the majority, if not all, USD commercial payments will be sent via the serial method. To date, no workable solutions have been finalised by HBUS.

Page 1 of 2

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1835

This is an extension of our previous dispensation which expired on 31 October 2006. HBEU would seek to hold this dispensation in place until after the successful implementation of the GPS system (which is scheduled for 1 July 2007). During the interim period we will work with HBUS to develop workable solutions. I understand that Sandra Peterson has been asked to lead this.

By way of information, a further barrier to our achieving full compliance with the GCL without adverse customer impact is outlined by HBFR (email from Matthew Paul Smith of 24 October 2006 refers) and surrounds fee charging. The change to serial payment methodology would put HBEU at a competitive disadvantage and we believe precipitate voluminous customer complaints, as evidenced by the attached schedule of customer issues prepared by our GTB Product team when sampling was undertaken in Q306. We have sought input from our business partners in CMB & CIB on this issue and they have expressed the view that they would not wish us to proceed until the HBUS additional charge issue is resolved and the customer impact minimised. As presented this practice would appear to contravene HBUS's policy of "treating the customer fairly".

Regards,

Malcolm Eastwood  
Head of Payment & Commercial Operations

Attachment: USD Serial Routing Complaints Log

Page 2 of 2

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## USD Serial Routing Complaints Log

1) [REDACTED] raised a complaint as payments which they were sending to beneficiary banks outside the US with charges field marked "OUR" were being changed by HBUS to "SHA" and so charges had been deducted from the payment. It is very important for [REDACTED] to ensure that the full amount of their payment is received by the beneficiary. The interim solution adopted was to remove the particular beneficiary bank from the pilot and HBEU to route these payments direct again which has pleased [REDACTED] however should this scenario happen again with any of their USD traffic even with Principle Protect, for example HBUS having to route through Fedwire due to not holding authenticator keys, we can expect further serious complaints and potential withdrawal of payments business – (worth £500K payments income per annum alone.)

2) [REDACTED] which remits large numbers of payments through RBS and HSBC. Their key customer activity is to provide retail payments worldwide. They also are using a whitelabel treasury platform provided by HSBC to support their on-line FX trading and international payments activities. Both payments flows are being processed through HBEU's EPS. [REDACTED] is a payments consolidator. Its business model relies upon providing payments in all currencies to end users at competitive pricing. They are keen to squeeze out any extraneous costs in processing the payments to maintain as much of the FX margin as possible. Additional charges appearing as a result of shifting the process from cover to serial payment method for USD payments are therefore extremely visible to them.

[REDACTED] have complained about the extra \$20 being deducted by HBUS from their payments being sent out with charges field "BEN". As 75% of their payments are below \$1,000, any additional charges taken from their payments are especially felt by the beneficiaries (often these can be remittances to family) and affects their business model. These payments were all to one Peruvian bank which has since been removed from the pilot however once this extended to cover all USD traffic their customers will especially notice the further deductions and the overall costs of sending USD through HSBC would likely mean [REDACTED] would withdraw their payments business from HSBC – the relationship income is £1.6m per annum.

3) [REDACTED] have raised queries as their customers are complaining due to receiving \$20 less from their USD payments. Their business is similar to that of [REDACTED] in that regular low value payments are made to the same beneficiaries. The RSCE responded that these are bene-deduct fees and so beneficiaries should expect the payments less charges however these enquiries are set to increase should serial routing come live and complaints to follow once they realise that HBUS are taking extra charges.

4) [REDACTED] have raised exactly the same queries as [REDACTED] with the RSCE, also handled in the same way and so queries / complaints set to increase.

5) [REDACTED] recently won business on the strength of our group presence, complained as they have been receiving payments into their USD account held with ourselves and \$20 extra charges have been deducted. These payments are originating from our Group Offices such as HSBC France and HSBC Hong Kong. This raised the situation where they are being penalised for sending USD payments within the Group yet they do not encounter this when receiving USD from other banks such as BNP.

1837

6) A similar complaint was received from [REDACTED] who were suddenly charged an extra \$20 for transferring USD via Hexagon from their account at HSBC Hong Kong to their account held with us. This has led to the perception that we are the "rip-off" bank.

7) HSBC Funds Administration Jersey have advised that they have received numerous complaints from both the HSBC Executive population as well as "traditional" customers in relation to the additional \$20 bene-deduct fees being taken from their USD payments. These have been received despite only 5% of payments being routed in this way at present.

8) A [REDACTED] complained about the additional \$20 charge on their USD payments to [REDACTED] and as a result their RM believes that they are now making their USD payments from elsewhere.

Page 2 of 2

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1838

From: Rod MOXLEY  
Sent: Wed Jul 04 14:54:07 2007  
To: Tony WERBY  
Cc: Andy M NEWMAN  
Subject: Re: Fw: [REDACTED] - HSBC arrangements for payment of the Consideration  
Importance: Normal  
Attachments: image\_0.gif; image\_1.gif; image\_2.gif; Doc Link.htm; GCL 060011.doc

Tony,

I don't know if there is still an ongoing issue with the attached but I will supply a few general comments which may help clarify the position.

Firstly, the whole concept of filtering of payments (and the related issues as to whether the vehicle for transmission should be MT103s or MT202s) was to ensure that we as a Bank are not conducting business with known terrorists or with countries who have had sanctions imposed against them. In the scenario you have described, the important overriding point is that we should be sure that at no point in the chain are we dealing with counterparties who may cause HBEU reputational damage. It is therefore critical that we know who the transaction is ultimately between and this is not masked by funds passing between a multitude of intermediary banks and third parties.

Secondly, the reason for the introduction of GCL060011 was to ensure that our colleagues in HBUS were not necessarily vulnerable to investigations by US regulators when they were processing MT202 payments, which contained only a small amount of detail. The US regulators are not interested in whether we have paid or received funds from another bank, however reputable, more that they are comfortable that we know that the underlying transaction is bona fide. A suitable way to guarantee "transparency" is by insisting upon MT103 instructions with full disclosure of all parties to the transaction. If, in this transaction, there is any doubt about whether HBUS are being placed at risk because of the mode of payment transmission, I would suggest that their Compliance area (Elizabeth Protomastro or Grace Santiago-Darvish) are advised and clearance given by them.

Thirdly, the dispensation granted by GHQ CMP was only granted on the basis of the huge volume of HBEU traffic and the potential resolution of the problem by an impending global system change. It would appear unlikely, therefore, that an application for a further dispensation would be successful at this stage but I am sure John Allison would be better placed to answer this.

Hope this is helpful-please advise if you need further comments.

Regards

Rod

---

Tony WERBY/IBEU/HSBC

Tony WERBY/IBEU/HSBC IBEU 20/06/2007 10:55 Phone No. 799 19081 To Rod MOXLEY/HBEU/HSBC@HSBC  
+44 (0) 20 0207 991 9081 Mail Size: 72867 cc

**Redacted Material**  
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1839

From: Paul PROCTOR  
Sent: Mon Jul 15 14:56:19 2002  
To: Julie A CLARKE; Malcolm G EASTWOOD  
Cc: Paul B GOLDFINCH; Nick J COSGROVE; Geoff ARMSTRONG; Mary L CUSACK; John R CHAPPENDEN; Pat N CONROY; Allan D DEACON; John ALLISON; Chris J POLLARD  
Subject: Monitoring of payment transactions against sanctions.  
Importance: Normal  
Attachments: image\_0.gif; General Guidelines for Referred Transactions Jul02.doc

Julie/Malcolm

Thank you for your input into the wording of the guidelines to be issued to IBL managers/staff. I have incorporated your suggested amendments and would be grateful for your final confirmation of acceptance.

Julie, I have highlighted Malcolm's suggested wording re 'recommending that payments including potential offending words is not made' but would welcome your confirmation that such recommendation, if made to the originating party, would not contravene Group Policy. Malcolm, is my interpretation of your suggested phrase correct.



I look forward to your final thoughts whereupon I will issue within IBL.

Paul.

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1840

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**General Guidelines for Referred Transactions – Sanctions Monitoring**

HSBC Bank plc has a duty to ensure that it complies with any sanctions that directly affect it (e.g. UK/EU/UN) with regard to transactions processed on behalf of customers.

In the case of US sanctions, which are enforced by OFAC, HSBC Bank plc is not legally required to comply with them but we should be mindful of Group policy which states that 'Group members should comply with both the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice in each jurisdiction around the world where they conduct business'. It is strongly recommended, therefore, that RMs do not deliberately take action aimed at assisting a customer to circumvent OFAC sanctions. For example payment instructions should not be amended by IBL staff.

At present, MPD/ICPD refer to IBL, transactions from the account inhibit queue and those non-straight through processed (STP) payments going to countries where they are aware that sanctions exist. Certain payments will STP notwithstanding that they contain country information which may be sanction sensitive. MPDs list of countries where sanctions are known to exist is reviewed by the LCR on a quarterly basis. It is envisaged that, in due course, the responsibility for policing payments and cheque clearings against sanctions will migrate from IBL to Payment Services at Park Street but until then, please observe the following guidelines:

**For sanctions imposed by the UK, EU or UN:**

- HSBC Bank plc has a legal obligation to monitor transactions against these sanctions.
- As only the sending party (Correspondent/Remitting bank/HSBC branch) is fully aware of the underlying reason for the transfer, your only practical course of action is to refer back to them to assure yourself that the transfer does not represent a breach of sanctions.
- Only if you can be certain that to process the payment would not result in HSBC Bank plc contravening sanctions, can you authorise MPD to process the payment.
- Should you conclude that to process the payment would contravene such a sanction, then the payment should not be authorised and the sending bank advised immediately.
- You will need to closely liaise with MPD/ICPD, since they will need to know what action to take with the payment in question.

**For sanctions imposed by the US/OFAC:**

- Whilst HSBC Bank plc is not legally bound by such sanctions we must be mindful of Group policy.

- USD payments routed via the US, or where settlement is via a cover payment placed on the account of a nostro provider domiciled in the USA will lead to the payment being scrutinised in detail under the OFAC requirements. Key words such as Iran, Iraq, Libya, Cuba or the mention of cities or entities known to be domiciled in those countries will normally result in the funds being sequestered by OFAC, with the onus then being on the originator to prove that the payment is not sanctionable. A full copy of the payment instruction should therefore be reviewed where there is suspicion that sequestration may occur.
- Release of a sequestered payment can only normally be achieved through the production of a license or by proving that the word or words generating the sequestration were added as a result of a clerical error, i.e. they did not form part of the original payment instruction. **It is therefore recommended that any payment referred which contains such wording is not made.** If it is then it should be pointed out to the remitter that payment will be made at their risk and without liability on the part of HSBC should the funds become sequestered. This should be communicated in writing as should the customer's acknowledgement and confirmation that the payment should still be made.
- It should also be born in mind that payments in other currencies incorporating such information and which are sent to or routed via the US may also be subject to sequestration rules.
- You should refer payments falling within the above criteria back to the sending party (Remitting/Correspondent Bank or HSBC branch), pointing out only that OFAC sanctions exist and ask for further instructions. On no account should you deliberately guide, encourage or coerce the sender into amending the payment details so as to circumvent the OFAC sanctions. Any action taken must be determined by the sending party. We will simply process as instructed. If the payment is still processed after referral make clear that this is at their risk and without any liability on the part of HSBC, exchange correspondence to this effect and record the discussion and decision taken on a call report to the customer's file.
- In the event that referral back to the sending party is not feasible ahead of the cut-off time for USD payments you should refer to a Senior Manager, who would need to take a decision, taking into account the likelihood of the funds being sequestered against the risk of an interest claim being made against us if we fail to process ahead of the cut off time.

15 July 2002

1843

From: John ALLISON  
Sent: Tue Nov 11 13:19:44 2003  
To: Susan A WRIGHT  
Subject: Iran payments  
Importance: Normal

Susan

As you are aware, I visited MPD in Park Steet last week to discuss Iran payments.

Current procedure

The Iranian correspondent bank customers enter //REC in Field 72 of their MT100 payments. This causes them to drop out for review/repair before execution. MPD staff know that they are expected to ensure that the word Iran, or the phrase "do not mention Iran", or any other compromising reference are not contained in the MT 202 cover payment payment message which is actually transmitted to the USA. There is no clearly documented procedure - it is more a case of "established custom", believed by MPD to be at the request of relationship management.

The newly established Compliance Manager in MPD is not comfortable with the custom which he has inherited, neither from a moral compliance perspective, nor from the operational loss/embarrassment factor should an MPD reviewer/repairer make a human error and leave something in a field which causes a US bank OFAC filter to identify a trigger word/phrase/reference, and delay or block the payment.

MPD Compliances are very uncomfortable at being asked periodically (currently by Nigel Weir and Gary Bloor in Middle East) whether a certain formatting methodology will pass successfully through an OFAC filter. They feel it a relationship management responsibility to understand what the Iran payments represent, and give advice/guidance to the Iranian banks on the circumstances, if any, in which payments are acceptable. The role of MPD is to execute customer payment instructions efficiently.

Possible future procedure

We based our discussion around the OFAC FAQ site, particularly:

QUOTE

Question - I've heard that U-Turn payments are allowed for Iran. What exactly is a U-Turn payment?  
Answer - A "U-Turn" payment involving Iran is where US dollar transactions involving Iran are cleared through a US bank. Generally speaking, there must be a third-country bank on both sides of a transaction to qualify as a "U-Turn". For example, Bank Mellat Iran can send funds from its account at a German bank through the German bank's correspondent in New York to an Italian bank to pay for goods purchased from Italy. The originating and beneficiary banks may not be US banks.

UNQUOTE

It is the opinion of MPD Compliance that all of the Iran payments which they process fall into the "U-Turn" category. They therefore believe that it should be entirely acceptable to send MT103c (which have replaced MT100s) direct to the paying bank, and send MT202 cover payments to US banks, perhaps even going so far as stating specifically in bank-to-bank information field, "U-Turn payment". MPD pointed out that on the OFAC website, U-Turn payments are actually defined as cover payments:

QUOTE

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US depository institutions may handle "U-Turn" transactions - cover payments involving Iran that are by order of a third country bank for payment to another third country bank- provided they do not directly credit or debit an Iranian account.  
UNQUOTE

We discussed how HBUS would want cast iron guarantee that only appropriately qualifying U-Turn payments could be sent to them, and this will be given more consideration. MPD understand HBUS's preference for a direct MT103 to HBUS, for them in turn to issue a second MT103 (the so-called serial route), because it gives HBUS total transparency and control. This represents a deviation from established SWIFT cover payment practice, and MPD underlined that the Iranian banks would have to be coached in another "special procedure".

Next immediate action

Conscious of the instruction from David Bagley to cease processing Iranian bank payments, but bearing in mind these discussions, MPD requested further consideration on whether the payments can legitimately be executed as U-Turn payments.

My interpretation

If the payments qualifying for U-Turn can be identified by controls/procedures to 100% extent, then I believe that cover payment technique could/should be used. If controls/procedures are not 100% reliable, then MT103 probably becomes inevitable.

Happy to discuss further.

John

1845

From: Tony P COLLINS  
Sent: Thu Dec 18 17:17:40 2003  
To: John ALLISON  
Cc: David W J BAGLEY; Malcolm G EASTWOOD; Rod MOXLEY; Jeremy R WALKER; Nigel J WEIR; Geoff ARMSTRONG; Quentin R AYLWARD; Brian W RICHARDS; Gary BOON; John F ROOT; John R WILKINSON; Susan A WRIGHT  
Subject: Memo: Re: Iran - U-Turn Payments  
Importance: Normal  
Attachments: image\_0.gif; image\_1.gif; image\_2.gif; Mell Pyrm Processing.doc; Mell Rev.doc

The processing of Iranian payments and the subsequent reputational risk involved has been a major talking point during the last few years. These discussions began due to the number of Iranian payments frozen by HBUS, the subsequent pressure placed upon them by the Federal Authorities and our own fears concerning our global reputation.

OFAC Sanctions state that " US Depository Institutions may handle "U-Turn" transactions ( cover payments involving Iran that are by order of a third country bank to another third country bank ) , provided they do not directly credit or debit an Iranian account.". The subsequent pressure by the Federal Authorities caused HBUS to move the goal posts slightly, eventually advising that Serial Payments alone would be acceptable in order to receive full disclosure.

The political situation then changed in the wake of 9/11 which I would guess strengthened HBUS resolve for full disclosure, but whether the adoption of the original findings which have now been proposed are still valid today should be put under closer scrutiny.

During the previous 7 months RMS have investigated the Iranian issue with an open mind, taking into consideration our reputational risk, current and possibly future Iranian business and the technical, staffing and financial implications. The most important issue was obviously to ensure that we complied with current OFAC sanctions and to effect payments with the minimum of reputational risk. Cover payments met this criteria and with the proposed addition of all OFAC Sanctions to the Project Wolf database and the extra security provided by the OFAC Backstop Queue in London, we believed that Cover payments were the way forward. With this in mind, we were under the impression that Group Compliance would contact Legal Counsel with a view to pursuing their agreement that Cover payments were acceptable, and to subsequently approach HBUS with a new recommendation for cover payments.

It has now been confirmed that the reason for not contacting Legal Counsel at the outset was to ensure we didn't incur legal expense without first discussing the approach with HBUS. We understand the reasoning but believe we have lost the impetus of the original plan to persuade HBUS to accept cover payments as valid payment method, agreed by both OFAC and hopefully Legal Counsel. HBUS have therefore reiterated their desire for full disclosure as per their original discussions pre 9/11.

Assuming that the example of payment formatting provided for Bank Mellil will now be duplicated for all our Iranian accounts, HBUS will therefore need to open separate processing accounts for all our current and future customers which will subsequently be entered into their OFAC filter as a "token" to ensure that every transaction is filtered for investigation.

HBUS will therefore require further FTE to process these payments but a business proposal including actual pricing has yet to be agreed. Were the 3 original FTE required for Bank Mellil payments only? If so, how many will be required for all Iranian accounts? With the deadline only a few weeks away we may find ourselves agreeing to pay costs that in the future may not prove financially sound. These costs again may rise as our Iranian customer base increases.

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1846

If customer transfers are to be effected by MT202, the customer must input Fd 56 to ensure that MPS processes the payment through the serial method. It is possible that if Fd 56 is left blank, MPS will send out 2 x MT202s by the cover method.

Will all our Iranian customers be required to sign "Terms and Conditions" explaining that HSBC will not be liable for any payments we process using an MT100 series payment method? What stance will we take with those customers who don't wish to sign?

MPS cannot locate specific payment types for a specific customer base and send them to a repair queue. Therefore the only option would be to set a marker on all the Iranian accounts and manually check each payment. If no action is taken, an MT103 from Bank Mellat could still STP causing an automated cover payment to be effected via the US. If MPS cannot be amended, where will the onus of checking each payment lay? Which ever department is chosen for this task, time will be required for a business plan to be investigated to discuss future staffing levels and costs.

As it is illegal to tamper or amend a payment instruction as it may be deemed as "side-stepping" current sanctions, what action will be taken by Livingston/Global when an illegally sent MT103 fails to repair due to a formatting issue other than the payment being a 103? It will also be necessary to re-educate our customers with regard to formatting and especially Field 72 with the commonly used statement "Do not mention Iran". There is also the legal implications concerning interest claims if HBUS hold a valid MT202 payment for further investigation. Who will pay these costs when both the customer and HBEU believe the payment complies with OFAC sanctions?

For the serial method to have any chance of success, it will require our correct interpretation of a U-Turn transaction for every single payment, a full business proposal to include staffing levels in HBUS and HBEU plus costings and the agreement of the customer. Due to many banks closing their Iranian business, I would expect our customer base to increase significantly when they realise that HSBC is happy to process USD payments. This also causes concern.

In conclusion, this method will require an extremely difficult manual process which takes us one step back in our fight for STP. Group Compliance have advised that "Due to the current regulatory climate, all payments must be transparent" which increases the likelihood of HBUS seeing something they don't like and holding funds for investigation/freezing assets. With regard to U-Turn payments, it all comes down to interpretation. In addition, there is an extremely limited amount of time available to set the required wheels in motion. My view is that the serial method requires a large amount of work prior to commencement, a disproportionate amount of expense and a higher than average risk to the banks reputation being damaged by a future payment.

Regards

Tony

---

Susan A WRIGHT/HGHO/HSBC on 11 Dec 2003 17:30

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Memo  
11 Dec 2003 17:30

From: Susan A WRIGHT/HGHQ/HSBC

Tel: 7992 5554  
44 2079 925554

Mail Stop: 55043

To: Nigel J WEIR et al

To: Nigel J WEIR/IRM IB MEM/HBME/HSBC@HSBC  
Gwof ARMSTRONG/HBEU/HSBC@HSBC  
Quantin R AYLWARD/MDBK/HSBC@HSBC  
Brian W RICHARDS/MDBK/HSBC@HSBC  
Rod MOXI EY/HBEU/HSBC@HSBC  
Gary BOON/MGR PCM MEM/HBME/HSBC@HSBC  
John F ROOT/HGHQ/HSBC@HSBC  
John ALLISON/HGHQ/HSBC@HSBC  
Malcolm G EASTWOOD/MDBK/HSBC@HSBC  
John R WILKINSON/HBEU/HSBC@HSBC  
Jeremy R WALKER/HBEU/HSBC@HSBC  
Tony P COLLINS/HBEU/HSBC@HSBC  
David W J BAGLEY/HGHQ/HSBC@HSBC

cc:  
bcc:

Subject: Re: Iran - U-Turn Payments

Further to my recent emails please find attached the proposed U-turn process/procedures forwarded by Carolyn Wind.

Could you please advise John Allison of your comments as soon as possible. It may be worthwhile convening another conference call and if you would like us to arrange this please let me know.

Regards

Susan Wright



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HSBC OCC 8877150



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HSBC OCC 8877151

1849

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**U-TURN PAYMENT PROCESSING FOR BANK MELLI VIA HBEU**

HBUS will process payments for Bank Mellé as the originator of transactions via HBEU. As Bank Mellé will appear as the originator, all transactions will be subject to OFAC review on the EP payment system.

**Assumptions:**

- A separate processing account will be established under the name of "HBEU Special Account" on HBUS books. Only Bank Mellé originated transactions will pass through this account.
- Additionally, the account number of "HBEU Special Account" will be entered into the OFAC filter as a "token" so that every transaction for this account will be stopped in the OFAC queue for review and approval before processing.
- HBUS will be reimbursed for 3 FTE to be hired due to extra process burden of OFAC review for an estimated 400 transactions a day (methodology and pricing to be established)
- The "U-Turn" transactions will be formatted in accordance with SWIFT MT202 standards and will include Bank Mellé as the originator as noted below:

**STEP 1:**

Bank Mellé sends an MT202 to HBEU to debit their account and make a U.S. payment with full details:

<b>Originator's Bank:</b>	Bank Mellé
<b>Debit Party:</b>	Bank Mellé's account with HBEU
<b>Credit Party:</b>	HBEU's nostro account with HBUS
<b>Intermediary Bank:</b>	any U.S. bank via Fedwire / CHIPS
<b>Beneficiary Bank:</b>	any foreign bank which is not Iranian, not HBEU and not a foreign branch of a U.S. bank and must be for the benefit of the foreign bank's USD account on the books of the above "intermediary" U.S. bank party Bank Mellé is remitting funds to
<b>Beneficiary:</b>	
<b>Reference:</b>	(optional)

**STEP 2:**

HBEU sends an MT202 to HBUS to debit HBEU's account with HBUS:

<b>Originator's Bank:</b>	Bank Mellé
<b>Debit Party:</b>	HBEU's nostro account with HBUS
<b>Credit Party:</b>	any U.S. bank via Fedwire / CHIPS
<b>Intermediary Bank:</b>	(not applicable)
<b>Beneficiary Bank:</b>	any foreign bank which is not Iranian, not HBEU and not a foreign branch of a U.S. bank and must be for the benefit of the foreign bank's USD account on the books of the "Credit Party" U.S. bank party Bank Mellé is remitting funds to
<b>Beneficiary:</b>	
<b>Reference:</b>	(optional)

OFAC Filter Review Process:

1. Upon receipt of instructions from HBEU, payment will be executed as STP (straight through processing) or repair. If repair, any required corrections will be done in accordance with standard operating procedures.
2. Payment will be stopped in the EP OFAC Filter for manual review. There will be two reviews and two approvals required before the payment can be processed, as described in items (3) and (4).
3. The first reviewer will examine the payment for compliance with the "U-turn" exception under the Iranian Transactions Regulations, i.e., the wire transfer must be:
  - (1) By a foreign bank which is not an Iranian entity
  - (2) From its own account at a domestic bank
  - (3) To an account held by a domestic bank
  - (4) For a second foreign bank which is not an Iranian entity.
4. If the first reviewer confirms that payment is not prohibited by OFAC sanctions, i.e., it is permitted under the "U-turn" exception to the Iranian Transactions Regulations, the payment will be released to be verified by the second reviewer. If the reviewer determines that payment does not meet the U-turn requirement, it will be rejected back to HBEU in accordance with the Iranian Transactions Regulations and reported to OFAC as required.
5. If the second reviewer verifies and confirms that the payment meets the U-turn exception, he/she will release the payment for final processing via Book Transfer, CHIPS, or Fedwire. If the second reviewer determines that the payment does not meet with criteria for a U-turn exception, it will be rejected back to HBEU in accordance with the Iranian Transactions Regulations and reported to OFAC as required.

1852

From: David W J BAGLEY  
Sent: Fri May 05 10:11:02 2006  
To: John ALLISON  
Cc: John F ROOT  
Subject: Fw: SERIAL PAYMENTS - USD - GCL  
Importance: Normal  
Attachments: Doc Link.htm

John,

I am not sure I fully follow this, nor have I tried to analyse how well this sits with the dispensation requests received in relation to HUB sites, largely via Lily. It does however indicate a possible consistent approach which was of course something we discussed at our meeting earlier this week.

Could you consider and seek further and better particulars where needed.

Regards

--- Forwarded by David W J BAGLEY/HGHQ/HSBC on 05/05/2006 10:08 ---

Michael GRAINGER/HBEU/HSBC HBEU  
05/05/2006 10:00 Phone No. : 799 25254  
+44 (0) 20 7892 5254 Mail Size: 37294

To: David W J BAGLEY/HGHQ/HSBC@HSBC  
cc: Stephen REYNOLDS/HBEU/HSBC@HSBC, Malcolm G EASTWOOD/MDGK/HSBC@HSBC, Rod MOXLEY/HBEU/HSBC@HSBC, Akbar CHALAH/HBEU/HSBC@HSBC, Ralph D. ELBARTH/HBEU/HSBC@HSBC, Melanie R FRENCH/HBEU/HSBC@HSBC, Mike R BANYARD/HBEU/HSBC@HSBC  
Subject: Fw: SERIAL PAYMENTS - USD - GCL  
Entity: HSBC Bank plc - HBEU

Michael GRAINGER/HBEU/HSBC

David,

I work in GTB - PCM for Stuart Rouseil / Peter Hazou and have been asked to co-ordinate a response to the recent GCL (below) in relation to USD payment messages initiated by a group office having to be sent as serial payments.

In conjunction with Operations - RSCE (with whom I know you have been in communication already via MPS impacts pre GFS - attached below), and IT, who are reviewing the HUB impacts on other European

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1853

group offices, I would like to request a dispensation from the GCL. This will allow for systems changes to be implemented for the HUB sites and a pilot technical solution for both areas to minimise both systems and customer disruption, given the short notice to implement the GCL.

In summary

With reference to the recent GCL  
<http://group.gq.hsbc.int/group/home.nsf/ByRef/UKCM6NLDN10414806042006?Open>

This has a 2 fold impact.

1 On MPS from HBEU London where Operations and PCM in the UK have been working with HBUS since March on a pilot to test MPS constraints and minimise system and customer disruption.

Rod Moxley has formally sought dispensation till end October 2006 per below note to yourself so I will let that run its course. Malcolm Eastwood and I are both party to the pilot working party.

2 On other HBEU sites through HUB. Extract from IT summary of GCL impacts:-

*This requires changes to HUB which, both on a Core 7 and Core 8 platform, only currently allows MT103s to be sent to the US if the beneficiary is also in the US. There is a HUB development to support Serial Payments but it has not yet been piloted. The HUB Centre of Excellence has requested that all sites await the pilot release prior to further roll out - this is to fully prove the change and will prevent unnecessary re-work. We need to do more analysis to gain an understanding of any local to Core conflicts which might exist before it is applied to any of our Core 8 sites. We also need to review whether there are alternatives to back synchronising the change to Core 7 (which would inevitably require input from local IT in Spain). However the only certainty at present is that our HUB sites in Europe will not be compliant by the end April, and that dispensation from the GCL needs to be sought*

IT has proposed a temporary manual workaround in line with what ASP have done for their Region and therefore a dispensation from the systems solution till end of 2006 to allow for time for the systems changes to be piloted, and then implemented. This will require a Regional roll-out across all HBEU sites.

In the meantime, sites have confirmed that they will comply with the manual workaround (as implemented in Asia with their dispensation stretching through to end of August - I attach their correspondence at the foot of this mail which outlines the manual solution, also implemented in Europe).

IT has approved the request for dispensation, and grateful for your confirmation as to the proposed course of action for both areas.

Regards,

Michael

David

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1854

HBEU Payment Services are hereby seeking a dispensation from the undernoted two sections of the above GCL as follows:

**Quote**

1. With effect from 30 APR 06 all USD payments initiated by a Group Office and remitted via HBUS, or any other US correspondent, must be made as serial payments.

**HBEU dispensation**

All USD payments initiated by HBEU Payment Services destined for a beneficiary in the US will be remitted via serial route to HBUS. We are not currently in a position to route USD payments destined for countries outside the US, however, in the same manner (via HBUS), for three primary reasons.

Firstly, serial payment methodology does not cater for the increased number of payment fields necessary to effect some payments requested in settlement of HBEU core customer transactions.

Secondly, the US test key network is considerably smaller than that of HBEU and the absence of common Standard Settlement Instructions will greatly increase the risk of payment delay and subsequent customer dissatisfaction.

Thirdly, the differing number of reference digits used in the serial payment method will potentially lead to increased manual intervention, delay and incorrect payment.

We are committed to working with HBUS to build solutions during the next six months, which will ensure that the majority, if not all, USD commercial payments will be sent via the serial method.

4. Until further notification, U-turn payments, under the Iran country OFAC sanctions, should also continue to be made as cover payments (MT103 + linked MT202) as serial payments cannot qualify as U-turn payments. In accordance with GCL 050047, all U-turn payments must continue to be made via HBME DUB. Where U-turn payments are made, Field 72 of the Swift payment message must be completed so as to make reference to any linked MT103.

**HBEU dispensation :**

We will continue to route USD Iranian u-turn payments via HBME Dubai without altering the customer instruction in any way. Compliance with the Field 72 requirements will be the responsibility of HBME Dubai, since we have no control over this element of the process.

HBEU would seek to hold this dispensation in place until 31 October 2006 at which time we would review HBUS servicing and progress of the GPS payment system, with a view to removing the dispensation.

**Unquote**

Dispensations are submitted by different parts of the business in different formats. In order to ensure that this is properly formalised, I will be grateful if you will confirm in due course that you are happy with all aspects of the dispensation request (i.e. whether you require the request to be transferred to a standard form or whether authorisation is required by way of email from Head of Payment Services), and indeed confirmation that you are prepared to authorise it.

Regards

Rod

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HSBC OCC 8877233



1855

Re: MOXLEY/HBEU/HSBC HBEU 01/02/2006 To: David W J BAGLEY/HGHQ/HSBC@HSBC  
08 39 Phone No : 799 13684 cc: James J Y MADSEN/HBEU/HSBC@HSBC, John  
44 20 7991 3664 Mail Size: 54392 Al I. ISON/HGHQ/HSBC@HSBC, Malcolm G  
EASTWOOD/ADBKI/HSBC@HSBC, Marion O  
ROACH/HGHQ/HSBC@HSBC, Michele CROSS/HBEU/HSBC@HSBC,  
Martin S CLARK/HBEU/HSBC@HSBC, John P  
EDGLEY/HBEU/HSBC@HSBC, Bill E F RICE/HBEU/HSBC@HSBC  
Subject: Re: SERIAL PAYMENTS - USD  
Entity: HSBC Bank plc - HBEU

David,

Thank you for your note regarding the above.

I detail below a consolidated response on behalf of the Payment Services area in HBEU, which attempts to address your specific issues and also draw out other observations materially affecting this subject.

1. All Group offices will be required to move to mandatory serial payment methodology for all USD payments initiated within the Group and passing via HBUS.

Presently, all our USD payments to banks located in US use the serial payment method. There is a problem, which we believe to be a Global one, that USD to other non US countries use the cover method, in part due to market practice and in part due to the fact that on occasions, the excessive number of parties to a payment instruction prohibits the use of serial payment routing (due to the finite number of SWIFT fields).

If we are to migrate to the full serial payment methodology for all USD payments to all countries, HBEU Payment Services would seek a dispensation pending the introduction of the new GPP system, which will need to be configured to accommodate this change. UK implementation of GPP is expected by 31 December 2006 but other parts of the Group, Hong Kong for example, will not follow until later and this may impact on their ability to meet the proposed March deadline.

2. Where any dispensation is granted for cover payments, this should normally be for a limited period of time and any payments made in relation to any OFAC constrained jurisdiction being made on a serial payment basis.

Any outward payments to OFAC constrained jurisdictions are highlighted on the Wolf queue. In future, when such payments are identified, the cover bank routing method will be changed and payment will be made by the serial payment methodology. This will involve adjustments to our routing table and manual adjustment to the payment. In respect of inward payments from OFAC constrained jurisdictions, our ECS department are working on an enhancement to ensure affected payments are identified pre-accounting, so that offending payments can be cancelled prior to credit of customer account or paid (if satisfying exemption criteria).

3. A specific exemption from serial payment methodology will be required for Iranian U-turn payments where any such payment must be pre-screened for U turn compliance and routed via HBME Dubai.

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This will entail no change to HBEU, although the completion of field 72 by HBME Dubai does raise some concerns. Firstly, HSBC could be construed as materially changing customer instructions, in precisely the same manner outlawed in the recent "Do not mention Iran" notations on some institutional customers' instructions. Secondly, if funds are subsequently sequestered in US as a result of action taken by HBME Dubai, roles and responsibilities need to be defined, as the complaint would revert to HBEU (its customer) but the error would be that of HBME Dubai or of the Group strategy itself.

4. Specific dispensations from serial payment methodology may also be required in relation to specified customers.

From an operational viewpoint, these should be kept to a minimum but I would assume that these would indeed be very rare. Having agreed upon a Group strategy, I am uncertain as to what class of customer and for what reason payments would require to be made by the non-transparent cover method, particularly when our GPP system will be geared towards the serial payment methodology.

**Other observations:**

a. Payment of USD to non US countries still remains a big issue. It has been touched upon above but the amount of IT development work required would be substantial and for this reason we would strongly recommend waiting for the improved solution offered by the implementation of GPP. I am aware that GHQ CMP will be called upon to make a difficult business decision here but it is not my belief that the Compliance risk is increased by the stance taken by ourselves.

b. I am attaching a note from Martin Clark, PSCU detailing systems issues which will result from cover to serial payment methodology. These may not be specifically Compliance-related issues but may assist in the overall understanding of attendant issues and can provide a focal point for discussion of the wider servicing issues which are now brought into focus.

Regards

Rod

[attachment "U.S Dollar Serial Routing Issues.doc" deleted by Stephen REYNOLDS/HBEU/HSBC]

David W J BAGLEY/HGHQ/HSBC

David W J BAGLEY/HGHQ/HSBC HGHQ      To: John ALLISON/HGHQ/HSBC@HSBC, Michele  
Sent by: Manton O ROACH 26/01/2006 14:13      CROS/HBEU/HSBC@HSBC, Malcolm G  
Phone No. 7991 8945      EASTW/OOD/ADBKH/HSBC@HSBC, James J Y  
44 2076 918645 Mail Size: 9578      MADSEN/HBEU/HSBC@HSBC, Rod MOXLEY/HBEU/HSBC@HSBC

cc:

Subje: SERIAL PAYMENTS - USD

ct:

Entity: HSBC Holdings plc - HGHQ

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1857

Dear All

Further to our meeting on 24JAN06 I have attempted below, in the form of a series of bullet points, to set out the suggested recommendation to Group CEO. The approach set out aims to achieve full transparency at as early a date as is practically possible for as much of the Group as we can. Further during any period that a particular area is unable to move to serial payment methodology for all USD payments, then permissible payments relating to OFAC constrained jurisdictions will be made on a serial payment basis.

The suggested approach is therefore:-

By way of GCL, all Group Offices to be required to move to mandatory serial payment methodology for all USD payments initiated within the Group and passing via HBUS. (We need to suggest a date by which this ruling will become mandatory - could I suggest 1 March unless it is felt to be impractical to do this earlier). (I have assumed that the vast majority of USD payments initiated within the Group, and passing other than through local USD clearing systems are routed via HBUS - do we need to deal with USD payments made by another US correspondent. For consistency these too should be serial).

Where any jurisdiction, entity or business is unable to move to a serial payment basis by the specified date, then cover payments can only continue with a dispensation (I suggest obtained from GHQ CMP on the understanding that we will seek technical guidance if required). Where any dispensation is granted this should normally be for a limited period of time (for example to allow systems development for introduction of GPs) and any payments made in relation to any OFAC constrained jurisdiction (where that payment must be in compliance with GCL 050647 - i.e. permitted by OFAC) being made on a serial payment basis.

A specific exemption from serial payment methodology will be required for Iranian U-turn payments where again consistent with the above GCL any such payment must be pre-screened for U-Turn compliance and be routed via HBME DUB. HBME DUB are of course considering whether they can complete field 72. (Subsequently confirmed).

Specific dispensations from serial payment methodology may also be required in relation to certain specified customers - again a dispensation to be required from GHQ CMP.

Progressively HBUS to migrate third party customers to serial payment methodology with mandatory serial payment methodology being required by 1JAN07/1MAR07? (I am concerned that 1MAR07 may be seen as being too long a period of time, although will make it clear in any recommendation that this is the preferred time period from a commercial perspective - here we will need the business numbers by the time I go to Group CEO which I would like to do by the end of the week).

Particularly in relation to third party business we will continue to monitor the regulatory debate in the US where specific consideration is being given by the industry and regulators as to cover payments and what US correspondent banks are required to do in relation to the monitoring of cover payments.

Assuming that the above accurately reflects our discussion - although I am happy to be corrected on any points there then seems to me to be a number of practical steps which we need to consider, where I do not necessarily expect that I have thought of all of the possible issues. The following however occur:-

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It will clearly be sensible for us to be in a position to issue some guidance/FAQs with regard to those issues and problems which might be faced by Group Offices. Could I ask John Alison, Malcolm and Rod to consider these and start preparing FAQs - already we have identified issues such as potential breaches of SWIFT rules, insufficient message fields etc.

It is clearly important that we monitor and indeed perhaps prompt discussions within SWIFT - this clearly requires that be brief Marilyn as our board representative. I would welcome suggestions as to how and when we might do this.

My suggestion would be that the policy be issued by GCL which, subject to Group CEO's concurrence, ought to be issued as soon as possible allowing offices time to prepare. Is there any obvious prior consultation/warning that we can give particularly to payment areas - if so, I am sure John would be happy to do this subject to having an appropriate list of contacts.

I look forward to hearing from you in due course.

Regards

David Bagley

Michael Ramasden/HBCA/HSBC@HSBC02 To: Alan.HOCK/HBEU/HSBC@HSBC  
HBCA 25/04/2006 13:58 Mail Size: 12155526 cc: Anirudham Ravindran/HBCA/HSBC@HSBC02, Chee Kiong Chan/HBCA/HSBC@HSBC02  
Subject: Fw: Compliance - Serial payments GCL 060011: US Dollar Payments  
Entity: HSBC Bank plc - HBEU

Alan,

This is what ASP are doing for their region. Something similar may need to happen for Europe.

Rgds,

Michael

----- Forwarded by Michael Ramasden/HBCA/HSBC on 25/04/2006 05:57 AM -----

Humberto To: Lily L Y HOVCNP APH/HBAP/HSBC@HSBC cc: Nitanjana  
FERNANDES@HSBC HUB SRIVASTAVA/TSV INM/IDAP/HSBC@HSBC  
APH/HBAP 25 Apr 2006 03:00 Sattu MAHAPATRA/ODD SGH/HBAP/HSBC@HSBC  
852 2288 0308 Mail Size: Anirudham Ravindran/HBCA/HSBC@HSBC02  
12110252 Michael Ramasden/HBCA/HSBC@HSBC02  
Hugh W C LIM/PCM ASP/HBAP/HSBC@HSBC  
Nolan S ADARVE/PCM ASP/HBAP/HSBC@HSBC  
Frankie S O AU/PCM ASP/HBAP/HSBC@HSBC

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Kit Kwan K K WONG/GDP IT APH/HBAP/HBSC@HSBC  
 Fred K W LI/GDP IT APH/HBAP/HBSC@HSBC Subject: Fw: Compliance - Serial  
 GCL 060011: US Dollar Payments Our Ref: Your Ref:

Lily

We have discussed the system solution, developed by GPCM, in order to meet the compliance requirements of GCL 060011: US Dollar Payments, with IT departments in SGH and INM. Both have come up with figures of around 7 weeks for implementing the change.

**Scope as determined by INM IT**

a) Sources : Totally 70 existing programs changed of which 20 programs have local-to-core amendments and needs review of impact on local amendments and 5 new Critical programs which are changing are process control programs for OR and IB modules.

b) Files : New Files - 10, Files undergoing changes - 22

c) Program : Existing programs which need to be recompiled/recreated due to changes in files are approx 55 (as per the documentation).

**Broad timelines as determined by INM IT**

IT work program synchronization (2w) 24Apr - 07May  
 UAT (3w) 06May-26May  
 Release Preparation 22May-27May (in parallel)  
 Signoff 27May  
 CMM Request 27May  
 Release 10/11Jun

**Broad timelines as determined by SGH**

S/No	Task	Man-days	Start	End	Party
1.	Study documentation & source	2	18Apr06	19Apr06	ITD
2.	Source synchronization	6	20Apr06	27Apr06	ITD
3.	Review documentation	8	19Apr06	28Apr06	ODD/SO C
4.	Conversion	1	28Apr06	28Apr06	ITD
5.	User Acceptance Test (cycles 15 -17)	15	02May06	23May06	ODD/SO CHTV/ HSS/ITD

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6.	Prepare Workflow/Procedural changes	5	22May 06	26May 06	ODD/SO C
7.	Release Preparation	5	22May 06	26May 06	ITD
8.	Implementation	1	27May 06	27May 06	ITD

**Work that needs to be done per site:**

(List of HUB sites: Dhaka, Mauritius, Brunei, Manila, Korea, Taiwan, Indonesia, China, Bangkok, Australia, New Zealand, Colombo, Malaysia, Vietnam, Japan, Singapore, Kazakhstan, India, Pakistan)

Following the completion of the release in INM, These changes have to be rolled out to the rest of 18 ASP HUB sites.

The rollout to each site will entail the following -

1. Review of each sites local amendments to verify if there is any impact.
2. Review of each sites processing methods, to verify if there is any impact.
3. Testing of local interfaces/ modules, processes and procedures.
4. Release of changes to sites production environment. (See scope for impact).
5. Ensuring proper customer communication and change in tariff.

Given that for the pilot site it will take around 7+ weeks, elapsed time, we are of the opinion that to roll out the changes to other ASP countries would take us around 2 1/2 months to a completion date of 31 Aug 2006 for 18 sites. This would be an extremely aggressive implementation schedule.

We seek dispensation for the above mentioned countries, for the implementation of GCL 060011 till 31 August 2006.

Humberto Fernandes

1861

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HSBC WHISTLEBLOWER ITEM 15 -- HBMX

INVESTIGATION REPORT - EXECUTIVE SUMMARY

HEAD OF GROUP AUDIT MEXICO (GAQ) FOR GHQ CMP  
FEBRUARY 2005

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HSBC WHISTLEBLOWER - ITEM 16 - HBMX  
GAQ - INVESTIGATION REPORT

FEBRUARY 2005

## 1. EXECUTIVE SUMMARY

### 1.1 Purpose of the Investigation

The purpose was to determine the accuracy of a whistleblower claim that a Director of HBMX (an executive) had ordered a subordinate to falsify documentation for submission to the Financial Services regulator ("CNBV") during a recent, scheduled inspection. It should be noted that the claim was lodged by three staff who worked under the Director in question.

### 1.2 Background

On 21DEC04 GHQ CMP received a whistleblower report of specific irregularities that were alleged to have occurred in the Money Laundering ("MLP") section of the HBMX Compliance (CMP) department (Ramon Garcia Gibson, head of HBMX CMP).

The "Whistleblowing" took the form of an email sent by one individual to GHQ CMP, with two other individuals "co-opted" as whistleblowers by way of being copied.

The email to GHQ CMP claimed that on 13DEC04, [REDACTED], an analyst in the Money Laundering Prevention (MLP) section of CMP, had created false attendance lists and minutes of the Bank's Money Laundering Committee meetings on the order of his Director (Carlos Rochin), and at his request, had submitted these falsified documents to the Bank's regulator, CNBV. (Mexican Law places importance on the existence of attendance lists in preference to minutes of meetings to evidence that meetings had actually taken place.) The whistleblowers also claimed that these meetings had not in fact been held.

Financial institutions were required to establish a money laundering committee (Comite de Comunicacion y Control, CCC) following the publication on 14 May 2004 by the Mexican Ministry of Finance (Hacienda) of new and revised anti-money laundering regulations within 30 days of gazetting.

These requirements superseded all earlier arrangements whereby banks had operated anti-money laundering deterrence committees ("CAPORI") governed by each bank's own internal rules, with a Hacienda mandated requirement, which (inter alia) sought to add a degree of formality demonstrably missing from the broader Mexican financial system hitherto.

The internal rules governing the HBMX CAPORI Committee were that the committee was to meet monthly to (inter alia) determine transactions and/or customers sufficiently suspicious to merit being reported to CNBV. The designated chairman (president) was Ramon Garcia, and Carlos Rochin was his alternate. Other members were selected to represent various businesses within the Bank with an interest in the oversight of KYC/AML.

The allegations conveyed to GHQ CMP were that, in fact, the last meeting covering Money Laundering (CAPORI) was actually held on 24JUN04 and that the Hacienda's new requirement (the CCC meeting) was not complied with.

A principle new requirement aimed at raising the profile and level of importance of Money Laundering monitoring embodied in the new regulations was that the CCC should comprise three executives of no more than two levels below the CEO (in practice Executive Directors), and two

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at no more than three levels below (Directors). In addition, it was mandated that each institution's Head of Internal Audit should also be a member (although no voting rights would attach). The new committee's responsibilities largely mirrored those of the CAPORI committee, which was thereby superseded, but directed certain additional requirements/powers regarding approval of deterrence personnel, systems, policies and procedures.

As a result of the new requirement, and in accordance with its provisions, CMP tabled proposals for membership of the CCC Committee to the HBMX Board of Directors, which were approved at the 27JUL04 board meeting (which meets quarterly, and thus precluded approval within the prescribed deadline). Both Ramon Garcia and Carlos Rochin were appointed members along with three nominated Executive Directors and the Head of Internal Audit.

Following the CNBV annual inspection of the Bank during 4Q04, during which copies of the "minutes" of the Bank's money laundering committees had been collected (which clearly related to the old style "Caponi" meetings), the CNBV requested copies of attendance lists as the "minutes" did not show who had attended. In response to this request it was alleged by the whistleblowers that Carlos Rochin had instructed a member of section [REDACTED] to falsify such attendance lists in an attempt to mislead the Regulators.

The Whistleblowers also claimed Carlos Rochin (who was absent from the office at the time) instructed [REDACTED] then to make himself scarce to prevent further questioning by the CNBV.

The whistleblowers' denunciation also included other secondary complaints relating to alleged favouritism/nepotism in the department, following the creation of the Compliance Department pursuant to acquisition (hitherto this had been the province of Internal Audit, and all the Whistleblowers had been transferred from that department at the time), and the recruitment of Ramon Garcia as its Head (together with the associated external hires on more favourable compensation packages than those enjoyed by legacy staff), together with other HR related complaints.

At the request of GHQ CMP, and with the agreement of the whistleblowers, the Head of GAQ met with the whistleblowers on 19JAN05 to commence an investigation into their claims.

### 1.3 Scope of the Investigation

The investigation was undertaken on behalf of GHQ CMP and its scope included:

- individual interviews held at an offsite location with each of the whistleblowers to discuss their claims;
- a review of the original CMP departmental records that contained minutes of meetings of the Bank Money Laundering Committee (CAPORI/CCC) that were held on 28JAN04, 25FEB04, 30MAR04, 29APR04, 6MAY04, 24JUN04; and that might at first glance have indicated that meetings were held on 16AUG04, 31AUG04, 30SEP04 and 29OCT04;
- discussions with HBMX executives that supposedly attended the meetings to confirm the attendance lists and the existence of the meetings; and
- formal interviews, conducted jointly with David Leighton (HBMX COO), of the key CMP/MLF personnel.

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#### 1.4 Findings

1. The Bank had been in breach of the new Hacienda regulations since 14JUN04.

Despite the HBMX Board resolution on 27JUL04 authorising the nominations of specific individuals to attend the recently prescribed CCC committee, and the fact that Ramon Garcia (Head of HBMX CMP) was one of the nominees as well as the executive responsible for bringing this business to the attention of the board with his recommendations as to who should be appointed to the CCC committee (and should thus have been aware of developments), the first CCC committee was not in the event held until 28JAN05.

2. Detailed investigations have substantiated allegations that attendance records related to Money Laundering meetings held after July 2004 were falsified insofar as no meetings were actually held. Carlos Rochin, Director for Money Laundering Detection directly admitted instructing [REDACTED] (a junior member of his staff) to create false attendance lists and to go back through the file to reformat all the minutes for 2004 by adding a signature line to ensure consistency.

The attendance lists were falsified by copying lists for earlier meetings and then pasting over the header and date with revised details. The pasting was not obvious from a copy of the doctored document, a copy of which was then given to CNBV.

The process governing production of the Money Laundering committee meetings was as follows. From an electronic Microsoft Word template containing the standard CAPORI minutes heading, [REDACTED] would enter all suspect cases for consideration by the Committee into a table contained within the template which would be used as the agenda for the meeting. This document was not distributed, and was for internal CMP use up until this point, but bore in its header words indicating that it was the Minute of the CAPORI meeting. Following the meeting, the format would be expanded with text recording the decisions of the Committee, and entered unsigned into the file as the official minute. It should be noted that the formats contained in the file relating to meetings which did not actually take place are in this pre-meeting format. However, as part of the file cleansing exercise preparatory to the CNBV audit, these formats were re-printed in mid-November 2004 with a new footer containing provision for the signatures of Ramon Garcia and Carlos Rochin, and were signed by each (see below).

The reformatted minutes were then brought before Ramon Garcia for signature, and Ramon was informed by Rochin that this was merely a formality to ensure the file was complete, and on the clear understanding that the meetings had in fact been held. It should be noted that Ramon had essentially delegated the running of these meetings to Rochin and had not attended many of them. His reasons were that this was consistent the rules established internally to govern these committees; because Rochin had personally written the rules in Hacienda in his previous employment with Hacienda, and was thus the recognised expert on Money Laundering; and because, having worked with Rochin in two other institutions prior to hiring Rochin to HBMX, he had implicit faith in Rochin.

The reformatted minutes were printed on 17NOV04 and collected by CNBV at some time thereafter. Copies of the attendance lists for the second half of the year were subsequently requested by the CNBV on 13DEC04.

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3. It is important to note that despite the fact that the Money Laundering Deterrence committee meetings were not held after 24JUN04, the MLD section of HBMX MLD continued to complete all preparatory work necessary to enable such meetings to be held, and discharged fully its responsibilities to report all identified suspicious transactions to CNBV on a timely basis. Such direct reporting was approved by Carlos Rochin under the authority vested in him to report "emergency" cases, with a view to such decisions being ratified later by the Money Laundering Committee.
4. Both Carlos and [REDACTED] confirmed they created false documents, the latter under the express instructions of his superior notwithstanding that [REDACTED] was most uncomfortable with what [REDACTED] had been asked to do. Ramon Garcia confirmed that, at the request of Carlos, he had signed the reformatted minutes as President of the Committee on the clear understanding from Rochin that meetings had in fact been held and that everything was in order.
5. The CNBV returned to the Bank after they had completed their exit interviews with Bank management to ask for copies of the attendance lists for the Money Laundering meetings held as such attendance lists were not incorporated into the minutes themselves. This may have resulted from the fact that the certified extract prepared and signed by the Company Secretary of the HBMX Board resolution for the establishment of the CCC Committee, and provided by Rochin to the regulator, had inadvertently omitted listing the Head of Internal Audit as an attendee at the CCC meetings -- an omission that had not been detected by Rochin before passing the document to the CNBV.
6. The CNBV was apparently aware before the end of their audit that the CCC committee had never been convened, and that HBMX was prima facie not in compliance with Hacienda's requirement. They must also have been fully aware that after the mid-year deadline for the CCC committee, whether or not a CAPORI meeting was held was entirely irrelevant, as it should have been superseded by the CCC committee. Carlos Rochin advises having reported to the CNBV during their inspection that he would hold the first CCC meeting in January 2005 in clear breach of the new rules. However, by his own admission, Rochin never revealed this breach to Ramon Garcia, asserting that everything was in order at each enquiry.
7. It should be noted that this breach was not considered by the CNBV an issue sufficiently serious to be raised at the formal exit meeting with HBMX management.
8. [REDACTED] felt pressured into following the instructions received from Rochin in the absence of [REDACTED] his direct superior, who was on a business trip in [REDACTED] at the time, but did so immediately upon [REDACTED] return. As Rochin was on leave by this time, [REDACTED] took the unusual step of visiting Carlos Rochin at his home to discuss the issue. Rochin advised him that he took full responsibility, and that [REDACTED] was thereby absolved. He also stated that the CNBV had already noted the lack of HBMX's compliance with the new Hacienda requirements, and that HBMX was thus already liable to whatever sanctions were handed down by the Regulator, irrespective of the fact that attendance lists had been falsified, as the meetings to which such lists related were irrelevant following the introduction of the new regulations.
9. For the record, [REDACTED] emailed [REDACTED] concerns to [REDACTED] on 23DEC04, who forwarded the mail to Rochin (on 28DEC04, which appears to have been unresponded). [REDACTED] had, however, responded (the same day) to [REDACTED] offering him the opportunity to

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meet with Luis Alvarez, the CMP Ethics Director, to raise his concerns officially. Unfortunately, Luis Alvarez was on leave until the following Monday (28DEC04), by which time, [REDACTED] had got cold feet and had decided not proceed. (It should be remembered that [REDACTED] had only around [REDACTED] employment in the Bank, and occupied a junior post.) It should also be noted that Luis Alvarez personally followed up on the issue, offering [REDACTED] a second chance to come forward on a formal basis, but that this was not taken up.

10. Ramon Garcia during his interview expressed astonishment that the meetings evidenced by the "minutes" had not in fact been held, and was only convinced that this was the case when presented with documentary evidence. This confirmed Rochin's earlier testimony that Ramon had had no knowledge of the falsification of the attendance lists, the "minutes" of meetings that had not been held, or that the reformatting of minutes held in the file was anything other than a housekeeping exercise.

Ramon stated that he had relied on Rochin to manage the entire process on his behalf. This was fully corroborated by Rochin in a prior interview at which he was emphatic that he had deliberately withheld the true facts from Ramon Garcia.

11. That Ramon Garcia was negligent in failing to ensure the implementation of the new CCC meeting requirement is not in doubt. This omission was further exacerbated by the fact he was a nominated member of the new committee, and would reasonably have been expected to have noticed that he had not been called to attend - all in a context where other (less important) HBMX subsidiaries were all in full compliance with the new rules by SEP04.

#### 1.5 Conclusion & Recommendation

The allegations made by the whistleblowers have been substantiated. Specifically:

- Ramon Garcia personally failed to ensure that the Bank was in compliance with the Hacienda regulations in a timely manner, and that he placed undue reliance on Rochin given the latter's track record and demonstrable expertise in the Mexican Money Laundering area.

All evidence supports the contention that Ramon Garcia was neither involved in the falsifications that were effected, nor that he was in any way aware of them. Rochin was emphatic that he had deliberately misled his superior whenever Ramon Garcia had enquired about progress, by assuring him that everything was under control and proceeding as required. As a result of his implicit trust in Rochin, given the benefit of hindsight, Ramon Garcia was guilty of exercising inadequate oversight of the activities of his subordinate, and thus deserves censure.

- For his part, Carlos Rochin clearly abused the trust and confidence Ramon Garcia had placed in him by failing in his responsibilities, and by falsifying records designed to mislead the CNBV. By his own admission he instructed an inexperienced and junior member of his own staff to falsify documents, and he deliberately misled his superior. He should receive appropriate censure.

- [REDACTED], albeit occupying a junior position and with only [REDACTED] experience with the Bank, should also be censured for [REDACTED] part in creating the false documents, an act which [REDACTED] clearly recognised as being wrong. [REDACTED] also failed to follow through using

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available channels, and the direct assistance of [REDACTED] immediate superior to use those channels, in order to report these transgressions.

- [REDACTED] demonstrably acted in a timely manner, and went to unusual lengths to resolve the issue, but ultimately failed in the final stages by accepting Antonio's refusal to take matter further using the channels available to [REDACTED] should be censured.

In the case of Ramon Garcia, the level of censure should be subject to further evaluation once CNBV's decision is known regarding possible penalties imposed on HBMX and confirmation has been received from GHQ CMP, HBMX CEO and HBMX COO that they can continue to rely on him to fulfil his responsibilities as Head of Compliance.

As previously outlined the Bank intends to make formal disclosure to the CNBV of the fact that falsified attendance lists have been presented to them pursuant to their recent inspection.

#### **1.6 Management Response**

Senior HBMX Management has provided the following response to the findings and recommendation of this investigation:

- Carlos Rochin has resigned from HBMX;
- Ramon Garcia has forfeited his entitlement to a bonus for his efforts during 2004 (a figure approaching 5 figures USD) as well as any increment under the forthcoming March pay review; and
- [REDACTED] will receive written warnings to be placed on their file in Human Resources.

Management further commented as follows:

Whilst it would appear that the whistleblowers should be commended for their action, there are underlying circumstances that indicate that their motives were at variance with their stated position that they were principally concerned to protect the Bank's reputation.

Under Bitat, the Money Laundering function was part of Internal Audit, but following acquisition, and at the recommendation of GHQ Compliance (in line with standard HSBC practice) it was decided to constitute an independent department staffed with properly qualified and experienced staff. This resulted in the need for extensive external recruitment, including Ramon Garcia (who was well known to GHQ and their strongly preferred candidate), as well as the progressive removal of staff deemed inadequate to the task.

Removal of the previous Director was accomplished relatively early, but a subsequent change in local HR policy aimed at limiting payouts to departing staff resulted in a delay of over a year in the removal of one of the two Sub-Directors in the Money Laundering section. During this extended period the Sub-Director in question was given ample opportunity to identify an alternative post more suited to his limited abilities, but failed to do so as [REDACTED] reputation preceded him. [REDACTED] was therefore subsequently served notice in mid-November, a date which coincides with the date upon which the reported falsifications were executed.

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The burden of carrying a totally non-functioning Sub-Director, one of only two in the section, therefore fell entirely on Rochin, who struggled. He had also to face discontent among the disaffected element that he had inherited which manifested itself as thinly disguised resentment and extremely limited cooperation. He chose to keep this burden to himself rather than report it to Ramon Garcia.

The decision to instruct [REDACTED] to falsify the attendance lists was made whilst Rochin was attending a CAMP working group at another location. It was a decision which he immediately regretted. The call was initiated by [REDACTED] and whether the call had been choreographed by others is unknown, but the result was Rochin's ill-considered, snap decision that presented a unique opportunity for the disaffected elements among his staff to exact retribution for the dismissal of their colleague. In doing so, they ignored all locally available channels and instead went direct to the GHQ Whistleblower for maximum impact.

In the event, the considerable senior management time spent gathering the evidence presented in the file attached to this management summary proved unnecessary as regards extracting a confession from Rochin. He responded clearly, unequivocally and truthfully to questions (as borne out by previous interviews and collected documentation), attempted to conceal nothing, and accepted full responsibility for his actions. As stated above, he has tendered his resignation, which we have accepted.

The first irony is that Rochin had contemporaneously invested considerable effort to procure a pay rise for the whistleblowers, without their knowledge, during the period when they were exacting their revenge; the second is that the first CCC committee has potentially been compromised due to the non-attendance of the Head of Group Audit (as mandated) who was otherwise (and unavoidably) engaged in this highly confidential investigation at the time it was held.

Whilst this case may have served to highlight the difficulties faced in attempting to transition HBMX to the standards demanded by HSBC Group, it is difficult to conclude that justice in the full sense has been done, given the cynicism attendant on this particular use of the Whistleblower system. Due to the strict anonymity rules of the Whistleblower system, and the tiny staff complement in the Money Laundering section (which makes obvious the identity of the complainants), HBMX management is effectively prevented from publicising the lessons learned as part of the ongoing effort to change entrenched attitudes.

There is also little point in extending the usual thanks to all those that assisted in this investigation as this report will remain confidential, and will enjoy limited circulation. We are left with the destruction of a promising career, as well as potential damage to the reputation of HBMX's Head of Compliance. Ramon Garcia will now focus personally on rebuilding the shattered Money Laundering Section of the HBMX CMP Department.

#### **1.7 CNBV Meetings**

Representatives of the Bank met with CNBV on two occasions to report the findings disclosed in this report.

Ramon Garcia met with Patricio Bustamante, (Vice-president of Supervision) and Yeron Castro

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(General Director of Supervision) of CNBV on 3FEB05, to report the matter. CNBV were not previously aware of it and requested the Bank to submit a brief report on the matter.

Ramon advised CNBV that Carlos Rochin had resigned from HBMX.

CNBV reiterated the comments raised at the closing meeting to its inspection visit that, by comparison with other Mexican financial institutions, HBMX CMP appeared to be understaffed and urged Ramon to increase the department's headcount to permit more effective money laundering prevention coverage of HBMX's activities and operations.

At a follow-up meeting with the CNBV on 8FEB, attended by Sandy Flockhart, David Leighton, Graham Thomson, Ramon Garcia, Sandy presented the Bank's letter summarising the matter. He stated that the Bank was reporting the matter because it was internal policy to do so, and as a matter of courtesy. He indicated that it was possible, given the serious nature of the matter, that GHQ CMP may consider it appropriate to advise the Bank's lead regulator, the UK's Financial Services Authority (FSA), of it.

During the meeting David Leighton indicated that the decision to submit falsified documents to CNBV was made by Carlos Rochin at a time when he was apparently under pressure. CNBV asked that this mitigation should be explained in a further letter to it from the Bank.

CNBV reiterated the comments made to Ramon Garcia regarding staffing levels in the money laundering prevention department and also expressed some reservations regarding the CAMP system. It was agreed that the Bank would assess the staffing requirements once CAMP had been implemented and the volume of transactions reported by it assessed. It agreed to submit by April 2005, a summary of the system's capabilities.

There was no indication provided during either meeting that CNBV intended to censure the Bank.

Graham Thomson  
Head of Group Audit Mexico  
9FEB05

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From: Michael F GEOGHEGAN  
Sent: Wed Mar 14 00:33:14 2007  
To: Richard E T BENNETT  
Cc: Ralph G BARBER  
Subject: Fw: Iran  
importance: Normal

Richard

Please bring this matter up at GMB

Mike

\*\*\*\*\*  
HSBC Holdings plc  
Registered Office: 8 Canada Square, London E14 5HQ, United Kingdom  
Registered Number 617987  
\*\*\*\*\*

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David W J BAGLEY

From: David W J BAGLEY  
Sent: 13/03/2007 15:19 GMT  
To: Michael F GEOGHEGAN  
Cc: Stuart T GULLIVER; David R RODGKINSON; Alan RAMSAY  
Subject: Iran

Mike

I refer to discussions prompted by the letter recently filed with the SEC relating to the extent of our exposure to business in the so-called named countries (Sudan, Syria and Iran), particularly through CIBM in London and Paris. This latter activity relating to Iran, in addition, and as a result of further designations issued by US authorities in relation to Iranian banks I have also briefly updated you with regard to further steps taken in liaison and after discussion with HMME, and HBEU in respect of relationships with Iranian banks.

The position is as follows:-

We were aware of the exposure and activities within CIBM and this is included in the figures that have been submitted to Finance in advance of the drafting of the letter to SEC.

The existing levels of business, much of which is historic and subject to ongoing commitments, has been reviewed by CMP as against the requirements of Group policy, particularly where transactions are

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1871

denominated in USD. Some of this activity relates to pre-existing committed obligations which are binding on an ongoing basis. Group policy recognises that we will have to allow such arrangements to run off. Relevant business colleagues are however aware of the Group's stance in terms of having no appetite for new or extended business activity involving Iranian counterparties. Where transactions appear to potentially conflict with Group policy those transactions are referred to GHQ CMP for determination and sign-off. We have recently reinforced the requirements of Group policy in the course of a detailed review meeting.

US authorities recently designated Bank Sepah as a Specially Designated National under OFAC sanctions based on allegations that Bank Sepah had participated in funding and assisting transactions related to weapons proliferation. After discussion with HBNE and HBEU it has been agreed that all relationships with Bank Sepah will be closed, including a GBP clearing role in the UK, and an appropriate guidance note will shortly be issued cross-Group.

Separately US authorities alleged that Bank Saderat had been involved in transactions intended to fund terrorist organisations, as designated by the US authorities, Hamas and Hezbollah. We have withdrawn a trade finance line from Bank Saderat, will closely monitor all activity through existing relationships, and will not in any way expand activity involving Bank Saderat.

We will continue to closely monitor the situation in relation to Iran, and any future designations by relevant authorities, particularly those in the UK and US. Generally there is a clear understanding that the Group has no appetite for any increased or fresh activity, and we have an absolute bar on USD transactions initiated by Group Offices, even those which fall within exemptions under US sanctions.

It appears likely that US authorities will seek to designate further Iranian entities and banks under US sanctions as part of a gradual and continued tightening. It is also clear that FSA are increasing their regulatory focus on compliance with sanctions prompted, we believe, by UK government increased appetite to cooperate with the US in terms of sanctions upon Iran.

Regards

David Bagley

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*Elizabeth (3)*

"Crocker, Tom" <TCrocker@alston.com> on 02/02/2001 09:28:50 AM

(S)



To: Elizabeth Protomasho  
Subject: RE: Central Bank of Iran

.....  
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.....

Elizabeth-- The bottom line is that the scenario outlined below does not appear to qualify for the so-called USD "U-turn" exception in the Iranian Transactions Regulations. Section 560.516(a)(1) of those Regulations provides a general license for dollar clearing functions which meet the following criteria: the transfer must be (1) by a foreign bank which is not an Iranian entity (2) from its own account at a domestic bank (3) to an account held by a domestic bank (4) for a second foreign bank which is not an Iranian entity. Diagramming this out, the chain would look as follows:

Foreign Bank (non-Iranian) 1--Domestic Bank 1--Domestic Bank 1 or 2--Foreign Bank 2 (non-Iranian)

The HSBC proposal, as described in your message, differs from the above, as follows:

Foreign Bank 1 (HBEU)-- Domestic Bank 1 (HBUS)--Domestic Bank 1 (HBUS)--Foreign Bank 1 (HBEU)

The problem is at the tail end of the transactional chain. The USD transfer goes back into a foreign bank, HBEU, but that bank is not a "second" foreign bank-- it is the same bank as the first foreign bank. If one were to argue, as one possibly might, that the second foreign bank at the end of the transactional chain is not HBEU but Bank Mellat, that also would be flawed because the second foreign bank would be an Iranian entity, which is prohibited. Obviously, one way to solve this problem and be in compliance with the Regulations would be to have a second, non-Iranian foreign bank at the end of the transactional chain (the fact that an Iranian entity such as Bank Mellat originates the transaction and ultimately benefits from it at the end of the transaction should not matter, provided the transactional chain outlined in Section 560.516 is met in the middle of the transaction).

Looking at the scenario outlined below for Mellat--Royal Bank of Scotland/NatWest--JP Morgan Chase, it is not clear how that transactional chain would qualify for the exception. However, I suspect that there possibly might be several additional entities in the chain, such as the involvement of a US office of Royal Bank of Scotland/NatWest (which would be Domestic Bank 1) and of a second foreign bank, such as possibly a London subsidiary of JP Morgan Chase, which would be the second foreign bank. Alternatively, it is possible that OFAC might have issued a specific license

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to JP Morgan Chase to process the Iranian USD transactions even if they do not qualify under Section 560.516. I would view that possibility as unlikely, however, but there is no way to know for certain unless one were to obtain such information directly from the licensee (OFAC does not make public its issuance of specific licenses). Still, sometimes large domestic banks whose cooperation OFAC needs are able to obtain surprising licenses that foreign banks cannot normally obtain. Let's just say, it wouldn't be the first time. There is certainly no reason why HSBC could not apply for a license, however, and we could discuss how to proceed with that should you wish to explore it. However, as noted above, my suspicion is that JP Morgan Chase may well comply with the general license at Section 560.516 because of the involvement of additional entities in the transactional chain.

5/20/201

As to the remaining questions you raise, if the transaction qualifies under Section 560.516 it should not matter what the transactions underlying the USD clearing are, even if they involve the petroleum business, as outlined in your email. Thus, there are no specifically prohibited underlying transactions in relation to USD clearing— provided you qualify for the general license or get a specific license.

**Redacted by the Permanent Subcommittee on Investigations**

Please give me a call if you need further explanation.  
Best regards, Tom Crocker (202-XXXXXXXXXX)

—Original Message—  
From: Elizabeth.Protomastro@HSBCRepublic.COM  
[mailto:Elizabeth.Protomastro@HSBCRepublic.COM]  
Sent: Wednesday, January 31, 2001 3:59 PM  
To: Crocker, Tom  
Subject: Central Bank of Iran

As we discussed, details of the proposed relationship are provided below.

"As we discussed, HBEU is anxious to obtain a definitive answer to whether HSBC Bank USA (HBUS) could make and receive USD payments instructed by HBEU or for credit to HBEU, for account of a Central Bank of Iran account on the books of HSBC Bank plc (HBEU). From information we have received subsequent to January 17, we understand that

1) Bank Melli acts as the commercial arm of the Central Bank of Iran. Either Bank Melli or the Central Bank of Iran (aka Bank Markazi Iran) or Bank Melli, London Branch, would open a US Dollar denominated account on the books of HBEU. (For the sake of this note, I will call the account owner Bank Melli.) Melli would instruct HBEU to make US Dollar payments, and, in turn, HBEU would instruct HBUS to charge its account to effect the payments. Receipts would come into HBUS via CHIPS or Fed and would be credited to HBEU's account with HBUS, for further

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credit to the USD account that Mellif would maintain with HBEU.

Presently Bank Mellif maintains its USD account with Bank Mellif, London Branch, who, in turn, maintains its account with Royal Bank of Scotland/National Westminster Bank, whose correspondent in the US is JP Morgan Chase.

2) We understand that there would be 5 payments plus five receipts per day; the value of the payments would be \$ 200 million, and the value of the receipts also \$ 200 million. Input would be electronic (presumably SWIFT).

3) The name of the ultimate account holder would not appear on the transactions (but I assume there could be slip-ups)

3) The transactions would be:  
 a) money market placements and receipts  
 b) receipts in favor of the National Iranian Oil Corporation (as a result of oil exports)  
 c) letter of credit reimbursements  
 d) possibly, payments to suppliers (of oil drilling equipment, for instance)

We believe that JP Morgan Chase is operating under a license from OFAC to transact this business, albeit indirectly.

Per our conversation, would you ask Counsel to provide his opinion, after discussing with his contacts at OFAC and any other relevant regulatory agencies in the US? We assume that if JP Morgan Chase can obtain a license, we should be able to, as well. Would counsel also advise whether certain types of payments and receipts are not permitted? Finally, if we do proceed, would he advise how to apply for the license."

-----  
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JUN-29-2001 16:54

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this message which arise as a result of Internet transmission.

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.....

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=====

11/30

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JUN-29-2001 16:54

*to business unit*

212 525 6994 P.12/38

*EXHIBIT (4)*

(Embedded image moved to file: pic20723.pcx) 14 Feb 2001 08:41

From: Kurt Ziegler/Institutional  
Banking/Republic/US @ REPUBLIC

Mail Size: 14281

To: Brian W RICHARDS/MD&K/HSBC@RSBC  
cc:  
Subject: URGENT Central Bank of Iran URGENT REVISED

Brian,

based on this inquiry outside counsel commented as per the next message.

Kurt  
----- Forwarded by Kurt Ziegler/Institutional  
Banking/Republic/US on 14/02/2001 08:36 -----

Elizabeth Protomastro  
13/02/2001 18:25  
From:  
Date  
6692  
HSBC Legal Department  
Phone  
Dept  
Title  
Location  
Vice President  
452 5th Ave, Floor 07

To: Kurt Ziegler/Institutional Banking/Republic/US@Republic  
Subject: Memo: URGENT Central Bank of Iran URGENT REVISED

For your reference, attached is the email that outside counsel is referring to as "the scenario outlined below". This was forwarded to him just as it is and he came back with the opinion being sent in a separate email to you.

----- Forwarded by Elizabeth Protomastro/HSBC/HSBC on  
02/13/2001 01:22 PM -----

*12/30*

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212 525 6994 P.13/30

Peter C BLENK@HSBC  
02/01/2001 10:23 AM

To: Elizabeth Protomastro/HSUS/HSBC@Republic  
Subject: Memo: URGENT Central Bank of Iran URGENT REVISED

I hope you have not spoken with Counsel, yet, as the picture seems to have changed radically; the changes are in RED

----- Forwarded by Peter C BLENK/HBEU/HSBC on  
02/01/2001 02:46 PM -----

Peter C BLENK  
Memo  
31 Jan 2001 17:34

To: Elizabeth Protomastro/HSUS/HSBC@Republic  
cc: Gary A BURNS/MBK/HSBC@HSBC  
From: Peter C BLENK/HBEU/HSBC 790 33752; 44 20 7260 3752  
Subject: Central Bank of Iran

As we discussed, HSBC Bank plc (HBEU) is anxious to obtain a definitive answer to whether HSBC Bank USA (HBUS) could make and receive USD payments instructed by HBEU or for credit to HBEU, for account of a Central Bank of Iran account on the books of HSBC Bank plc (HBEU). From information we have received subsequent to January 17, we understand that:

1) Bank Melli acts as the commercial arm of the Central Bank of Iran. Either Bank Melli or the Central Bank of Iran (aka Bank Markazi Iran) or Bank Melli, London Branch, would open a US Dollar denominated account on the books of HBEU. (For the sake of this note, I will call the account owner Bank Melli.) Melli would instruct HBEU to make US Dollar payments, and, in turn, HBEU would instruct HBUS to charge its account to effect the payments. Receipts would come into HBUS via CHIPS or Fed and would be credited to HBEU's account with HBUS, for further credit to the USD account that Melli would maintain with HBEU.

Presently the Central Bank of Iran or Bank Melli Iran maintains its USD account with Bank Melli, London Branch, who, in turn, maintains its account with Royal Bank of Scotland/National Westminster Bank, whose correspondent in the US is JP Morgan-Chase. We assume that this arrangement would continue, with HBEU substituting for RBS/Nat West and HBUS substituting for JP Morgan-Chase.

2) We understand that there would be 25 treasury-related payments plus 25 treasury-related receipts per day; the value of the payments would be \$ 750 million, and the value of the receipts also \$ 750 million.

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Input would be SWIFT. These payments and receipts relate to placement of money (usually overnight but sometimes up to 3-months) with highly rated European banks. Melli believes that they require an intraday line (IDEL) of \$ 200 - \$ 300 million to handle this business efficiently. This line might be secured by deposits with HBEU or HBUS.

3) In addition, they make 100 commercial payments per day. Melli London makes these payments on behalf of the branch and their clients. Some of these payments are letter of credit reimbursements. None of the payments relate to letters of credit covering military goods. The total value of these payments is \$ 200 - 300 million per day. We have not heard that the National Iranian Oil Company could be a by-order party, but this is possible.

4) The name of the ultimate account holder would not appear on the transactions (but I assume there could be slip-ups, given the volume of 150 transactions per day.)

We believe that JP Morgan-Chase is operating under a license from OFAC to transact this business, albeit indirectly.

Per our conversation, would you ask Counsel to provide his opinion, after discussing with his contacts at OFAC and any other relevant regulatory agencies in the US? We assume that if JP Morgan-Chase can obtain a license, we should be able to, as well. Would Counsel also advise whether certain types of payments and receipts are not permitted? Finally, if we do proceed, would Counsel advise how to apply for the license?

Reply

Elizabeth Protonastro  
11/02/2001 18:28  
From  
Date  
6692  
HSBC Legal Department  
Phone  
Dept  
Title  
Location  
Vice President  
452 5th Ave, Floor 07

To: Kurt Ziegler/Institutional Banking/Republic/US@Republic

cc: Carolyn Wind/HBUS/HSBC@Republic

14/30

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Anne Liddy/HBUS/HSBC@Republic  
 Peter C BLENK/HBU/HSBC@HSBC  
 John G HOLINGA/HBUS/HSBC@HSBCAMERICAS  
 Subject: RE: Central Bank of Iran

The opinion received from outside counsel, Tom Crocker of Alston & Bird, on 2/2/01 in regards to the proposed transactions per Peter Blenk's emails of 1/31/01 and 2/1/01 is quoted below.

"...the scenario outlined below does not appear to qualify for the so-called USD "U-turn" exception in the Iranian Transactions Regulations. Section 560.516(a)(1) of those Regulations provides a general license for dollar clearing functions which meet the following criteria: the transfer must be (1) by a foreign bank which is not an Iranian entity (2) from its own account at a domestic bank (3) to an account held by a domestic bank (4) for a second foreign bank which is not an Iranian entity."

For your information, the following is a reprint of complete Section 560.516(a)(1) from the Iranian Sanctions Regulations.

§560.516 Payment and United States dollar clearing transactions involving Iran.

(a) United States depository institutions are authorized to process transfers of funds to or from Iran, or for the direct or indirect benefit of persons in Iran or the Government of Iran, if the transfer is covered in full by any of the following conditions and does not involve debiting or crediting an Iranian account:

(1) The transfer is by order of a foreign bank which is not an Iranian entity from its own account in a domestic bank (directly or through a foreign branch or subsidiary of a domestic bank) to an account held by a domestic bank (directly or through a foreign branch or subsidiary of a domestic bank) for a second foreign bank which is not an Iranian entity. For purposes of this section "foreign bank" includes a foreign subsidiary, but not a foreign branch of a domestic bank;

(2) The transfer arises from an underlying transaction that has been authorized by a specific or general license issued pursuant to this part;

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(3) The transfer arises from an underlying transaction that is not prohibited by this part, such as a non-commercial remittance to or from Iran (e.g., a family remittance not related to a family-owned enterprise); a U.S.-related commercial transfer not prohibited by this part (see, e.g., Sec. 560.515(b)); or a third-country transaction not prohibited by this part; or

(4) The transfer arises from an underlying transaction that is exempted from regulation pursuant to Sec. 203(b) of the International Emergency Economic Powers Act (50 U.S.C. 1702(b)), such as an exportation to Iran or importation from Iran of information and informational materials, a travel-related remittance, or payment for the shipment of a donation of articles to relieve human suffering.

(b) Before a United States depository institution initiates a payment on behalf of any customer, or credits a transfer to the account on its books of the ultimate beneficiary, the United States depository institution must determine that the underlying transaction is not prohibited by this part.

(c) Pursuant to the prohibitions contained in §560.208, a United States depository institution may not make transfers to or for the benefit of a foreign-organized entity owned or controlled by it if the underlying transaction would be prohibited if engaged in directly by the U.S. depository institution.

(d) This section does not authorize transactions with respect to property blocked pursuant to part 535.

[64 FR 20168 4/26/99.]

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JUN-23-2001 16:56 GBC 212 525 6994 P.18/30

Exhibit (E)

Matthew J W KING/HGHO/HSBC on 26 Apr 2001 13:19 Memo  
26 Apr 2001 13:19 From: Matthew J W KING/HGHO/HSBC Tel: 790 59815  
44 207 266.9815  
Mail Size: 15055

To: Brian W RICHARDS/HOBK/HSBC@HSBC  
cc: John L RICHARDS/HSBL/HSBCAPAC@HSBC  
Chris COULDREY/HBEU/HSBC@HSBC  
Subject: Re: OFAC - Iran

Further to our conversation, I attach a copy of the US legal advise which sets out the manner in which transactions need to be structured in order to avoid US OFAC restrictions. ~~I am happy for the business to be undertaken on this basis. Please let me know if you require further information.~~

I am assuming this business will be booked in HBEU, hence I am copying Chris Couldrey. If any other Group entity is likely to be involved, could you let me know.

Regards

----- Forwarded by Matthew J W KING/HGHO/HSBC on 26/04/2001 12:44 -----

To: Matthew J W KING/HGHO/HSBC@HSBC  
cc: John L RICHARDS/HSBL/HSBCAPAC <John.L.RICHARDS@NotesEMEA.com>  
Winthrop.Brown@shawpittman.com  
From: John.Simons@shawpittman.com  
Subject: Re: OFAC - Iran

.....  
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.....

Matthew,  
  
This is in follow up to my email to you of 3/5/01 and my email to W. Brown of 2/27/01 (forwarded to you) concerning the above-referenced matter.  
  
Steve Munro of OFAC's Chief Counsel's Office called me yesterday to say that he discussed with Lorraine Lawlor, Deputy Chief of OFAC's Compliance Division, the language in 31 CFR 560.516 (the "U-Turn" dollar clearing exemption), which on its face appears to prohibit a US bank from processing a payment order to

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or  
 from Iran, or for the direct or indirect benefit of persons in Iran or the Government of Iran, unless the payment order is by order of a foreign non-Iranian bank from such foreign bank's own account at the US bank to an account held by a second foreign non-Iranian bank at another US bank. He said that Ms. Lawlor acknowledged such language in the regulation, but she said that the Compliance Division has never viewed the "second" US bank language as mandatory, but merely descriptive of the way most such payment orders are received and processed by US banks. In essence, the Compliance Division's main concern is that the payment order issued to the US bank must not come directly from an Iranian bank and that the US Bank must not send the funds directly to an Iranian bank or credit an Iranian account on its books. Neither he nor Ms. Lawlor could come up with a policy reason why a second US bank should be required in processing such payments.

Mr. Munro said he was unaware of any specific license granted by OFAC to a US bank in connection with the "U-Turn" dollar clearing exemption, and that he had never seen an enforcement action or penalty imposed on a US bank for not using a "second" US bank for such clearing transactions. Given the foregoing interpretation by the Compliance Division, my guess is that JP Morgan/Chase were also comfortable that their processing transactions would be viewed by the Compliance Division as falling within the "U-Turn" dollar clearing exemption whether or not they used another US bank in the clearing process. Accordingly, if HBUS is also the correspondent bank for the second foreign bank, then HBUS should be able to send directly to, or credit the account of, the second foreign non-Iranian bank for further credit to such foreign bank's customer and still be in compliance with such regulation. The receipt of funds flow into and out of HBUS can follow the same scenario.

Mr. Munro said that if the US bank was uncomfortable with the Compliance Division's "interpretation" of such regulation (notwithstanding the fact that the Compliance Division originally drafted such regulation), then it could submit to the Compliance Division a copy of the first SWIFT payment order that did not involve a second US correspondent bank and ask the Compliance Division to approve same under the regulation. I don't believe this is necessary given the foregoing, but HBUS could do so if it desired more formal assurance from OFAC.

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JUN-29-2001 16:56

JBC

212 526 6994 P.20/30

Please advise if you have further questions.

Regards,  
John

```

----->
|           | Matthew J W |
|           | KING         |
|           | <matthewking@ |
|           | hsbc.com>    |
|           |             |
|           | 03/08/2001  |
|           | 01:23 PM    |
|           |             |
|           |----->

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----->
| To:       | John.Simons@shawpittman.com |
| cc:       | JohnLRICHARDS/HSBL/HSBCAPAC |
|           | <JohnLRICHARDS/HSBL/HSBCAPAC@Notes.EMEA.com> |
|           | Winthrop.Brown@shawpittman.com |
| Subject:  | Memo: Re: OFAC - Iran      |
|----->

```

John,

Has there been any progress?

Regards

06/03/2001 00:16

```

To: MatthewJWKING/HGHQ/HSBC2HSBC
cc: JohnLRICHARDS/HSBL/HSBCAPAC2HSBC
    Winthrop.Brown@shawpittman.com
From: John.Simons@shawpittman.com
Subject: OFAC- Iran

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JUN-29-2001 16:57

-SBC

212 525 6994 P.21/30

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 .....

Matthew,

\* I apologize for the delay in getting back to you, but the attorney in OFAC's Chief Counsel's Office who is knowledgeable about the Iranian regulations has been out of the office until today. I did speak to him (Stevenson Munro) in general terms about the proposed transaction (without attribution) and specifically about the "U-Turn" dollar clearing exemption in 31 CFR 560.516 and the language in such regulation that would appear to require HBUS, upon receiving a payment order from HBEU, to send the payment to another US domestic bank for credit to a second foreign bank which is not an Iranian entity. The regulation is not specific about the requirements of how funds must be received by HBUS from foreign banks for ultimate credit to Bank Milli's account at HBEU, but presumably there may be the same "second US bank" requirement. I understand from Brian Richards that many, if not most, of the payment orders from HBEU will likely instruct HBUS to send funds to Chase or another US bank for credit to a foreign bank (non-Iranian) account anyway (with a similar situation for incoming receipt of funds), so this may not be a problem, but he couldn't guarantee this fact pattern for every situation.

At any rate, Mr. Munro agreed that the regulation was confusing and he could not readily explain the seeming requirement for interposing a second US bank (in my initial discussions with OFAC's Compliance Division, such division did not appear to require such "second US bank" in the payment transaction even after I pointed out such language in the "U-Turn" dollar clearing exemption). He said that he would discuss same with the head of OFAC's Compliance Division and get back to me shortly (tomorrow if we're lucky). I know you are anxious to resolve this matter, but I think it is important to get a clearer understanding from OFAC as to exactly how it interprets the "U-Turn" dollar clearing exemption in

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.SBC

212 525 6994 P.22/30

31 CFR 560.516.

HSBC's wire transfers, SWIFTS and payment orders are run through a "filter" for OFAC compliance purposes. These filters only kick out those messages in which an OFAC filter keyword is read. If there is no OFAC filter keyword read on such messages, then such messages would not be automatically kicked-out for further manual review. Nonetheless, I'm sure you are interested to know how OFAC would treat such SWIFTS if an Iranian interest appeared somewhere in such messages.

I'll let you know as soon as I hear back from Mr. Munro.

Regards,  
John C. Simons  
Shaw Pittman

---

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bind the HSBC entity referred to is duly verified.

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JUN-29-2001 16:57

HSBC

212 525 6994 P.24/30

Brian W RICHARDS/MSBK/HSBC on 27 Apr 2001 09:39 Memo  
27 Apr 2001 09:38 From: Brian W RICHARDS/MSBK/HSBC Tel: 790 45439  
Mail Size: 2644

To: Matthew J W KING/RCHO/HSBC@HSBC  
cc: John L RICHARDS/MSBL/HSBC@PAC@HSBC  
Chris COULDREY/HDEU/HSBC@HSBC  
Quentin R AYLWARD/MSBK/HSBC@HSBC  
Terry J BELLAMY/MSBK/HSBC@HSBC  
Subject: Re: OFAC - Iran

Matthew

Many thanks.

The payment orders for the debit of Melli's account will originate from HBEU, and credits favour Melli will be credited to the account at HBEU.

The cover will, of course, pass over HBEU's USD account with HBUS, with HBUS receiving funds favour HBEU for account of Melli (mostly from other banks in the USA, but possibly to the debit of HBUS's own correspondent bank customers), or paying away from HBEU's USD account at HBUS favour other banks in the USA (or possibly to the credit of HBUS's own customers).

Those direct customers of HBUS could, on occasions, be another Group entity, such as HEME or HBAP, but I suspect this would be very much the exception.

The payment orders would not make mention to Bank Melli, and HBUS would not receive either payment orders or payment receipts directly from an Iranian entity. For HBUS any Iranian entity would be, at "closest", the customer of a non-US bank outside of the USA, and by far the greatest volume of payments would involve another US bank in the payment chain.

I believe that this payment chain accords with the penultimate sentence of the 2nd paragraph of John Simons EMail to you dated 8MAR01.

Brian

24/30

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JUN-29-2001 16:57

adC

212 525 6994 P.25/33

To: Winthrop Brown/SPPT/US@SPPT  
 cc:  
 Subject: Re: Memo: OFAC constraints in the  
 Central Bank of Iran operating a USD Clearing  
 account with HSBC Bank plc in London(Document  
 link: Winthrop Brown)

Win.

I spoke to the Compliance Division of OFAC today about the "U-Turn Dollar Clearing" exemption (31 CFR 560.516) for wire transfers involving Iran, and was told that as long as the payment instructions or USD come from an offshore foreign bank (other than directly from an Iranian bank) to the domestic US bank and then go back out to another offshore foreign bank (other than directly to an Iranian bank) (i.e., the US bank must be "buffered" by non-Iranian foreign banks), the processing of such a wire transfer by a domestic US bank would be in compliance with OFAC regulations. The Compliance Division stated that the US bank in such a wire transfer should not debit or credit an "Iranian account on its books" and should not be the originator of such a payment order. If the USD come to rest in the US, then the transaction would not be deemed to be a "U-Turn Dollar Clearing" transaction for purposes of such exemption. HBEU's proposed transaction appears to fit this scenario as long as (i) HBUS can send USD it receives from an offshore non-Iranian bank back out to a non-Iranian foreign bank, and (ii) payment orders received by HBUS from HBEU instruct it to debit its account at HBUS and then send USD to another offshore non-Iranian foreign bank.

The Compliance Division also told me that the requirement in Section 560.516 (b) for US depository institutions, prior to initiating a payment on behalf of any customer or crediting a transfer to the account on its books of the ultimate beneficiary, to determine if the underlying transaction is prohibited by OFAC's regulations, does not apply to wire transfer transactions meeting the requirements of the "U-Turn Dollar Clearing" exemption of Section 560.516 (a).

While this interpretation from the Compliance Division is encouraging (and may explain why JP Morgan Chase can perform such services currently), I want to double check this interpretation with OFAC's Chief Counsel Office. I have a call into such office but may not hear back from them until tomorrow.

In the mean time, you can contact Mathew and advise of the foregoing and mention

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JUN-29-2001 15:58

HSBC

212 525 6994 P.26/30

that we hope to confirm such results with the Chief Counsel's Office tomorrow.

Regards,  
John

Winthrop Brown
02/26/2001 11:47 PM

To: John Simons/SPPT/US/SPPT
cc:
Subject: Memo: OFAC constraints in the Central Bank of Iran operating a USD Clearing account with HSBC Bank plc in London

Did you send me something on this? I may have inadvertently lost it.  
Forwarded by Winthrop Brown/SPPT/US on 02/26/2001 11:47 PM

Matthew J W KING <matthewking@hsbc.com>
02/19/2001 11:14 AM

To: Winthrop.Brown@shawpittman.com
cc: John L RICHARDS <john.l.richards@hsbc.com>
Subject: Memo: OFAC constraints in the Central Bank of Iran operating a USD Clearing account with HSBC Bank plc in London

Win,

26/30

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1890

JUN-29-2001 16:58

\_RC

212 525 6994 P.27/30

Could you get your OFAC expert to look at this proposal and let me know (hopefully) what we need to do to be able to accept this business. Incidentally, I see your old colleague, Tom Crocker. Features. Please send him my regards if you happen to be speaking to him.

Regards

----- Forwarded by Matthew J W KING/HGRQ/KSBC on  
19/02/2001 16:28 -----

John L RICHARDS  
Memo  
19 Feb 2001 11:48

To: Matthew J W KING/HGRQ/KSBC@HSBC  
cc: Mukhtar MOSSAINSHIEM  
Brian W RICHARDS/MBK/HSBC@HSBC  
From: John L RICHARDS/HSBL/HSBC@PAC 9821 204 0467  
Subject: OFAC constraints in the Central Bank of Iran operating a USD Clearing account with HSBC Bank plc in London

(Embedded  
image moved (Embedded image moved to file: pic16056.pcx)  
to file:  
pic15924.pcx)

Dear Matthew

We have been asked by the Central Bank of Iran to take over its USD clearing account held with Natwest in London. Operation of this account will require that USD receipts/payments are settled through HSBC US. We had assumed that based on the clarification given in Malcome Barnett's compliance circular GRQ RCO 950015 that such transactions, as detailed more fully below would be possible. The advice received from Elizabeth Procomastro suggests this is not the case.

As such transactions are already being undertaken on behalf of Natwest by JP Morgan Chase, which must be subject to the same compliance issues as HSBC, I can only assume that the question asked of Alston and Bird did not fully cover the transactions that we intend, although the position stated in Peter Blenk's email below is clear.

This is a very important matter for the Group as it is expected that our ability to respond positively to the Central Bank will have a

27/30

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JUN-29-2001 16:59

..8C

212 525 6984 P.28/30

Major influence on our winning of a substantial Asset Management mandate and future project finance mandates. If we are to refuse their request I must be able to show them a formal legal opinion explaining why the proposed transactions are illegal and as a result why the current arrangement with JP Morgan is in fact illegal.

I apologise for troubling you with this but shall be grateful for your intervention. Further information on this matter can be obtained from Brian Richards in FIG in London, who has been copied in on this email.

Regards

John L Richards  
Group Representative Iran

----- Forwarded by John L RICHARDS on 02/19/2001 -----

14 Feb 2001 12:31  
Memo

To: Quentin R AYLWARD/MDBK/HSBC@HSBC  
Gary A BURNS/MDBK/HSBC@HSBC  
Chris BUTCHER/MDBK/HSBC@HSBC  
John L RICHARDS/HSBL/HSBCAPAC@HSBC  
homapour.n@thubi.com

cc:  
bcc:

From: Brian W RICHARDS/MDBK/HSBC Tel:

Our Ref: Your Ref:

Subject: URGENT Central Bank of Iran URGENT REVISED

----- Forwarded by Brian W RICHARDS/MDBK/HSBC on 14 Feb 2001 09:02 -----  
Kurt Ziegler/Institutional Banking/Republic/US @ REPUBLIC on 14 Feb 2001 09:41

Memo

28/30

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8903878

1892

To: Janet Burak, Regional Compliance Officer  
David Bagley, Head of Group Compliance  
David Dew, COO, HUSI

From: Carolyn Wind, EVP and Chief Compliance Officer, HUSI

Date: 7JAN08

Report: 4Q07 Compliance Report For PFS, CMB, GTE and GPB

1. Issues Arising
  - (a) NEW ISSUES

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Permanent Subcommittee on Investigations**

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Confidential Treatment Requested

HSBC-PSI-PROD-0000508

**Redacted by the  
Permanent Subcommittee on Investigations**

- **Customer Scanning Fircosoft Vendor Product:** Serious performance issues have been discovered with the Fircosoft customer scanning product that may hinder our ability to fulfill a 29PEB08 commitment made to the OCC in response to an MRA identified during the Retail Bank BSA/AML examination conducted in 3Q07 with respect to PEP scanning. Benchmark testing has indicated that the existing product, as well as the enhanced version scheduled for release in 2008, will not support FDUS volumes. Substantial time and funds have been expended to date regarding implementation of this product, scheduled for completion in 1Q/2Q08. However, HTS and Compliance have now had to analyze various vendor alternatives, the results of which will be presented to senior AML Compliance management in early JAN08.

**Redacted by the  
Permanent Subcommittee on Investigations**

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Confidential Treatment Requested

HSBC-PSI-PROD-0000509

1894

**Redacted  
by  
Permanent Subcommittee  
on Investigations**

HSBC-PSI-PROD-0000510 – HSBC-PSI-PROD-0000516



Claude: Yes, Mr. Cohen? Hello.

Mr. Cohen: Did you forget?

Claude: No, I did not forget, but I was with other clients, I am [??] it's Monday. Alright, we are going to get a reply for you. Charles will call you back by early afternoon.

Mr. Cohen: Early afternoon.

Claude: Yes and I am... I hope that that will work.

Mr. Cohen: Another thing. Can you give me the attachment for First because I'm going to look over what you sent me.

Claude: Ah yes, yes.

Mr. Cohen: So, can you tell me who the signatories are for First?

Claude: Yes, I'm going to get that for you, one second, I'm going to give it to you. I will give you who the signatories are, OK?

Mr. Cohen: In order, in order.

Claude: In order.

Mr. Cohen: The first, the second, the third.

Claude: The first, the second, the third, the fourth. I think that there's Léon.

Mr. Cohen: I don't know, tell me.

Claude: OK, I'll tell you. I'm going to tell you but the table [??] he is not the one who signs.

Mr. Cohen: Who is the individual that signs; the one who is the... what we call the owner.

Claude: Alright. Hold on while I look, so...Signatures. HSBC Corporate banking resolution, the one that signs. That will wait because that's imaging, we do that in imaging and that gives us who the signature is and who...the name and the signature. So, we have Sonia.

Mr. Cohen: The first, who is the first?

Claude: We have Sonia who has the first authorization.

Mr. Cohen: Sonia?

Claude: Yes, Mauricio, Habib Levy Sibony [inaudible] and then we have Habib Levy Sibony [inaudible], we are sure of the loans and then, director president secretary it's Karen...

Mr. Cohen: Karen is the director.

Claude: Yes, director president secretary on the...

Mr. Cohen: It was the... I...

Claude: Alright now, it's the opening account booklet, application. Here we go, hold on. Now, on the card too, on the signatories' card, we have, let's see what we have. I think that we have the same thing. One second, I will see, I went back into further detail. We have, so here we go, we have Habib...

Mr. Cohen: Habib.

Claude: Mauricio

Mr. Cohen: Yes

Claude: And Sonia

Mr. Cohen: Sonia

Claude: Yes, but Habib, I think that he is the beneficial owner. Hold on while I check, corporate documentation... I know that Habib is the beneficial owner, I think that it's Habib.

Mr. Cohen: But I don't want, I think, I want to be sure.

Claude: [Inaudible] I know that you changed it, I am sure that it's [??] and we changed it. It's Habib.

Mr. Cohen: It's Habib.

Claude: Yes.

Mr. Cohen: Alright.

Claude: I told you that it was Habib, we changed it, I know.

Mr. Cohen: So he is the one who has to sign the W attachment...

Claude: Yes, for the ... why? For the address?

Mr. Cohen: No, for everything that you sent me, the two papers, the W...

Claude: No, the secretary, it's Karen who...

Mr. Cohen: But Karen no longer exists.

Claude: So I don't know, we have to do something because it's Karen, in fact...

Mr. Cohen: We'll do the papers.

Claude: So here, you put Habib. We will need a paper like this saying that he is the secretary, do you understand?

Mr. Cohen: Draw up a paper for me, I will have Habib sign [it] for you.

Claude: Alright, OK.

Mr. Cohen: Another thing.

Claude: And for Whitebury? Do you know Whitebury?

Mr. Cohen: Yes. Whitebury, who is it?

Claude: We have to know for it too. For that one, we...

Mr. Cohen: [inaudible] signature

Claude: Yes, because I had... also for Whitebury, we need.... Ah, I spoke with Zolti, you know.

Mr. Cohen: Yes.

Claude: So, she... I sent it with the secretary... the secretary how to do it; she's no longer there, eh?

Mr. Cohen: Yes, it's Zolti.

Claude: Yes, so I spoke... so the document -- who signs? You want him to sign too?

Mr. Cohen: Yes, for him to sign.

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Claude: OK. Leon signs for American Leisure not World [??], do I know? Grand opening, application, so... Lea signs there I think.

Mr. Cohen: Give me all of the names.

Claude: I'm going to tell you all of the names, all of the names. Habib is the beneficial owner.

Mr. Cohen: Habib, beneficial owner.

Claude: Yes, of Whitebury. The application is ... here we go, its Allegria.

Mr. Cohen: It's Habib, Allegria.

Claude: Wait, no, no, Habib isn't there. Allegria.

Mr. Cohen: It's Allegria?

Claude: Yes. Mauricio, Sonia and Leon and Lea jointly.

Mr. Cohen: Allegria

Claude: Mauricio

M. Cohen: Mauricio

Claude: Sonia

Mr. Cohen: Sonia

Claude: Leon and Lea jointly, that is to say together.

Mr. Cohen: But, that's a bit, you took me out of it?

Claude: You are still there.

Mr. Cohen: Ah no, that's not right. The last time that I signed I...

Claude: No, no, no.

Mr. Cohen: Yes.

Claude: I will... hold on... no. I'm telling you no, no. We only took your name from the credit card and yours and Sonia's personal account.

Mr. Cohen: So you have to send me the papers again to sign.

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HSBC-PSI-PROD-0030876

Claude: And you want to remove your name from Whitebury.

Mr. Cohen: From Whitebury and from First.

Claude: OK, so I am going to send Whitebury and First again. Here we go, you still have...

Mr. Cohen: And I'm going to put... and send me a new owner, I want to put the [inaudible].

Claude: To whom? Him, he's going to sign?

Mr. Cohen: To Whitebury, yes.

Claude: To Whitebury. OK, so I am going to send you a new booklet.

Mr. Cohen: You're sending me a new booklet.

Claude: And I am going to...write for me who is going to sign. I will put [inaudible] X here.

Mr. Cohen: What?

Claude: I'll put an X where you have to sign.

Mr. Cohen: Yes, Habib is the beneficial owner, the same thing...

Claude: Habib, I don't have that, he is still the beneficial owner, but you have to add him as a signatory, no?

Mr. Cohen: Yes, we have to add him as a signatory.

Claude: So there, I added him as a signatory, there has to be a power of attorney. There has to be a power of attorney, a power of attorney for him of the company.

Mr. Cohen: I have the power of attorney.

Claude: You have it?

Mr. Cohen: Yes, yes.

Claude: Very well, so if you have it, bring it to me, you send it to me.

Mr. Cohen: OK.

1900

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Claude: [Inaudible].

Receptionist: [Inaudible] hello

Claude: Yes, hello.

Receptionist: Ah, hello ma'am...

Claude: Where is Mr...

Receptionist: In ten, fifteen minutes.

Claude: Why? He isn't there?

Receptionist: He is on the phone.

Claude: He is always on the phone Yannic, is...

Yannie: [Inaudible]

Claude: So what's new huh? OK, let's go...

Yannie: Don't hang up, don't hang up, hello, don't hang up.

Mr. Cohen: Hello.

Claude: Hello. It seems like you are always on the phone. I told him that the phone is your life, without the phone, you cannot survive.

Mr. Cohen: [Laughs]

Claude: Did you get the fax that I sent you yesterday?

Mr. Cohen: Yesterday, yes I got it.

Claude: Alright, now I'm going to send you...listen carefully to what I am going to send you. I am going to send you the new account openings but at the same time, I am going to send you all of the copies that I have here, the ones that they didn't sign and everything. That way you have them and you can change whatever you want.

Mr. Cohen: There we go. You put in the names, I'll do the signatures.

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Claude: I am going to put absolutely nothing. I am going to send the copy that I have here and you, you look at it. If you want to change it, you can do whatever you want, alright?

Mr. Cohen: OK.

Claude: It's better like that, no?

Mr. Cohen: Alright. OK, tell me something else, do you do companies?

Claude: Companies, yes. We do companies, BVI company,, Panamanian and Bahamian, whatever you want, what do you want. The VMC, trusts.

Mr. Cohen: What is better to replace Whitebury?

Claude: I am going to tell you honestly...

Mr. Cohen: Yes.

Claude: ... it's Trust.

Mr. Cohen: What is Trust?

Claude: It's from the Trust company.

Mr. Cohen: Not a Trust.

Claude: You don't want it? You want to change Whitebury completely?

Mr. Cohen: Yes, yes.

Claude: And who... Habib still has to sign?

Mr. Cohen: Not always the same ones yes, but it will be Habib and my wife and...

Claude: And who?

Mr. Cohen: And my son and my daughter.

Claude: And without you?

Mr. Cohen: Without me.

Claude: Now Whitebury is BVI?

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Mr. Cohen: Yes, but what can we put?

Claude: We can change Whitebury to Bahamian.

Mr. Cohen: The Bahamas?

Claude: Yes.

Mr. Cohen: And the shares are bearer shares?

Claude: No. The shares are no longer bearer shares, now they are always registered shares.

Mr. Cohen: No...

Claude: We no longer accept that.

Mr. Cohen: Or there is... I am told that there are the Panamanians.

Claude: Panamanian, yes there is Panama but they're not really like Bahamian. The Bahamas...

Mr. Cohen: So it's Panama, the share is still a bearer share.

Claude: But we no longer accept that; there is going to be a law, now it's a law, they no longer accept bearer shares. They want registered shares. That's why I'm telling you.

Mr. Cohen: Yes, but for the moment no.

Claude: It's over in six months, three months; now they already started to have all...now I have two that are bearer shares, they changed them to registered. They no longer accept bearer shares. Because that can get lost, that can...Anybody can take the bearer share and come...

Mr. Cohen: In the Bahamas they do bearer shares, Bahamas no...

Claude: Panamanian yes I know, I know, I know...

Mr. Cohen: Leave Panamanian as bearer shares.

Claude: I know Mr. Cohen but they no longer accept that now, it's...

Mr. Cohen: Mine are bearer shares.

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HSBC-PSI-PROD-0030893



Claude: I know, but now they no longer accept that, probably within six months, three months, they always want registered shares; they no longer want bearer shares.

Mr. Cohen: Eh listen, there are banks that take it...

Claude: I know, I know but this is how it is, there is a law now...

Mr. Cohen: But you are going to lose clients.

Claude: No, no they are in the process of changing them, all bearer shares, to...

Mr. Cohen: In Switzerland its bearer shares.

Claude: What went to the bearer remains with the bearer, but for the new ones now, they no longer accept that for the new ones.

Mr. Cohen: Ah alright. I have companies of other companies, I'm going to see what I am going to give you.

Claude: Alright

Mr. Cohen: OK? Send me all of that.

Claude: Alright.

Mr. Cohen: Let's go, send it today, eh?

Claude: But no, I'm sending it to you, I'm also sending you the appraisal, the original not the copies that I sent you, [inaudible] I'm sending it to you.

Mr. Cohen: OK, alright.

Claude: OK. Bye.

1904

From: GYANEN KUMAR/HBUS/HSBC  
Sent: 12/23/2008 9:57:13 AM  
To: DENIS E O'BRIEN/HBUS/HSBC  
CC: CHRISTOPHER.LOKBUS.HSBC.COM  
Subject: Fw: USD cash in Mexico

HSBC-BNI\_E 0045457.txt

Denis,

FYI - please refer below.

I have not been told anything firm as to why this decision is being taken as much as it is a drastic change. My instincts tell me that perhaps this has something to do with compliance. Perhaps you may want to reach out to your counterparts to check for details.

Thank you

Gyanen

----- Forwarded by Gyanen Kumar/HBUS/HSBC on 12/23/2008 09:52 AM -----

Mario LANGARICA/HBMX/HSBC@HSBC04  
12/22/2008 07:10 PM

To  
Gyanen Kumar/HBUS/HSBC@HSBC02  
Cc  
Abel Ghacham/HBUS/HSBC@HSBC02, Jairo Mamur/HBMX/HSBC@HSBC04, Rita Gonzalez/HBUS/HSBC@HSBC02, nicholastaylor@hsbc.com, javier fernandez  
Subject  
USD cash in Mexico

Dear Gyanen,

This is an informative mail for you to know about some recent USD cash policies taken by HSBC Mexico. This is not an official mail but I wanted you to be updated.

HSBC Mexico management has recently announced that as of January 1, 2009, the bank will no longer be receiving USD cash deposits in any format (branch network, cash pick up, etc.). The instruction comes directly from our senior management and is currently being implemented in all HSBC businesses in Mexico. We have already communicated this new policy to all of our clients.

We know that you now have some existing and potential customers in Mexico where USD cash export services are offered. As far as I know, this instruction has just been announced at HSBC Mexico level but we do not know if it will be extended to global businesses with Mexican clients. We believe that it is important for your product to understand the depth of the decision to make sure you take proper actions.

As of today, we have obtained approval from our CEO and from Tony McCarthy to continue offering the banknotes product to Banamex, Banorte and Ixe.

I am attaching the press release (in Spanish) that outlines the new policy.

Best regards,

Page 1

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1905

HSBC-BNL\_E 0045457.txt

Mario Langarica  
Director - Instituciones Financieras  
Global Banking and Markets  
HSBC Mexico  
Phone: (5255) 5721-2630

MEXICO\_Alerta@hsbc.com.mx  
Medio Oficial de Difusión de Información Emergente

Page 2

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Confidential Treatment Requested

HSBC-PSI-PROD-0095870

1906

Daniel Jack/HBUS/HSBC  
05/31/2007 10:06 PM

To: Alan T. Kralley/HBUS/HSBC  
cc: Gyaran Kumar/HBUS/HSBC@HSBC  
bcc:  
Subject: BN-NY & Casa De Cambio Puebla in Mexico

Alan / Gyaran,

This is to briefly summarize our discussion yesterday.

Gyaran called us from Miami to inform us that trade volumes have recently decreased significantly with Casa De Cambio Puebla in Mexico. When Gyaran contacted the customer to discuss the change, his contact, Jose Gutierrez failed to return his calls in a timely manner, which was unusual. When they finally spoke, Jose informed Gyaran that the cambio was currently being audited by Banco de Mexico (including KYC on the MSB's customers) and they had not given their business with us to any other competitors, but Jose did not provide any reasons for the change in activity.

Gyaran informed us that Wachovia had terminated their account with CDCP in Mexico and their acct for trade settlement with us was now with Harris in Chicago. He also indicated that he had some concerns (AML & Reputational Risk) about our relationship with CDCP and planned to visit them in Mexico on 11-Jun-07 for his annual site visit to discuss the reasons for the changes in their activity with us.

We said we would review recent activity with them and monitor any future activity very closely. We would/will investigate any unusual or potentially suspicious activity accordingly.

I understand that effective today, we are suspending all activity with this MSB customer in Mexico - at least until his visit and our discussion/agreement regarding the relationship between HSBC and CDCP.

---

Daniel Jack, VP - AML Compliance  
Global Banknotes & Metals  
Telephone: 212-525-8686

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Confidential Treatment Requested

HSBC-PSI-PROD-0095908

1907

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Confidential Treatment Requested

HSBC-PSI-PROD-0095909

1908

Alan T. Ketley/HSBUS/HSBC  
05/31/2007 11:38 AM

To: Daniel Jack/HBUS/HSBC@HSBC

cc:

bcc:

Subject: Fw: Casa De Cambio Pueblo

Alan T. Ketley  
Senior Vice President, Anti Money Laundering  
Tel: 212 525 6147 / Fax: 212 382 7580

Forwarded by Alan T. Ketley/HSBUS/HSBC on 05/31/2007 11:36 AM

Gyanen Kumar/HSBUS/HSBC

05/30/2007 10:57 PM

To: US Banknote Dept Sales Team

cc: "Haran Ofir" <haran.ofir@us.hsbc.com>, "David Wilens"  
<david.m.wilens@us.hsbc.com>, "Alan T. Ketley"  
<alan.l.ketley@us.hsbc.com>, "Christopher Lok"  
<christopher.lok@us.hsbc.com>

Subject: Casa Da Cambio Pueblo

With immediate effect we are suspending all activity with the subject client.

I will speak to you in the morning with more details.

Please treat this matter as confidential.

Thanks  
Gyanen

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1909

HSBC-OCC\_E 0189672.txt  
From: DANIEL JACK/HBUS/HSBC  
Sent: 6/6/2007 4:47:06 PM  
To: ALAN T KETLEY/HBUS/HSBC@HSBC  
CC: ALAN P WILLIAMSON/HBUS/HSBC@HSBC  
Subject: HSBC in Mexico - AML Compliance & Casa de Cambio

Alan,

As we discussed briefly, following is a summary of my conversation today with Leopoldo Barroso, the Head of AML for HBMX in Mexico (9-011-5255-5721-5414).

He said that HBMX has a few DDAs and a loan with Casa De Cambio Puebla, and they have been a customer for over 6 years (pre-HSBC). His office monitors activity and reports any alerts on unusual transactions to the MLD Committee, which meets on a monthly basis, for appropriate action. A circular was sent to all staff in HSBC Mexico on 4/15/05 and an update on 11/28/06 concerning Casas de Cambio (MSBs) to ensure all businesses/employees comply with Group P&Ps and Mexican regulations concerning KYC, activity monitoring & reporting on their customers.

Leopoldo indicated that there had been some recent articles and much speculation about the source of USD cash imported to and exported from cambios in Mexico, including concerns from the US Treasury (e.g. BMPE). He mentioned an article in the News Herald in Florida but could not remember the date. I checked this website & could not find any related articles - <http://www.newsherald.com/>

I did not mention the DEA seizure or Wachovia closing accts or unusual activity we recently saw with CCP (a big drop in their USD sales to us).

Leopoldo said they plan to decide within the next 5 days (and will let me know) whether they will close the relationships with CCP, and he recommended we not conduct any further transactions with CCP. He asked if we could let him know if close our relationship.

He said he did not realize that HBUS exported USD cash shipments from Mexico to US, using armored carriers (& commercial flights), then onto the FRB. He thought all this activity & scrutiny was with HBMX. So he asked if I could provide him with a list of our HBUS Banknote customers in Mexico (banks & MSBs) along with their volumes of USD exported from Mexico into USA. I told him there were privacy issues but I would see what info I could give him.

Please let me know if you have any questions or would like more info.

---

Daniel Jack, VP - AML Compliance  
Global Banknotes & Metals  
Telephone: 212-525-8686

----- Forwarded by Daniel Jack/HBUS/HSBC on 06/06/2007 12:45 PM -----

Daniel Jack/HBUS/HSBC  
06/05/2007 03:52 PM

To  
Leopoldo R BARROSO/HBMX/HSBC  
cc

Subject  
Re: HSBC in Mexico - AML Compliance & Casa de Cambio  
Page 1

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Leopoldo - Thank you for the quick reply.

I will call you tomorrow at noon NY time, unless you want to call me today. I will be working late tonight.

The customer is Casa de Cambio Puebla, S.A. de C.V. in Mexico. They have been an HBUS Banknote customer since Nov-2004. Generally, we have been purchasing large shipments of USD (used banknotes) from them. The KYC documentation indicates that volume depends on Mexican workers in the US repatriating their salaries to families living in Mexico.

I wondered what relationships HBMX has with them and wanted to ask you some other related questions. Please let me know. Thank you.

---

Daniel Jack, VP - AML Compliance  
Global Banknotes & Metals  
Telephone: 212-525-8686

---

Leopoldo R BARROSO/HBMX/HSBC  
06/05/2007 12:17 PM

To  
Daniel Jack/HBUS/HSBC@HSBC  
cc

Subject  
Re: HSBC in Mexico - AML Compliance & Casa de Cambio

Daniel,

It is correct, I am the Head of AML for HBMX. I would like to know which "Casa de Cambio" you are referring to, so that I can get more information for our conversation, and depending upon that it might be preferable to have a chat tomorrow at 11:00 CST or 12:00 EST.

Regards  
Leopoldo

Daniel Jack/HBUS/HSBC  
05/06/2007 11:07 a.m.

To

Page 2

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1911

HSBC-OCC\_E 0189672.txt  
Leopoldo R. BARROSO/HBMX/HSBC@HSBC  
cc

Subject  
HSBC in Mexico - AML Compliance & Casa de Cambio

Leopoldo,

According to the HSBC Group Compliance website/intranet, you are the Anti-Money Laundering Director for HSBC in Mexico.

Can you confirm this?

I am the AML LCD for the HBUS Global Banknotes business and want ask you a few questions about a casa de cambio in Mexico who is a customers of ours.

Please let me know when is a good time to call you today to discuss this mutual customer in Mexico.

Thank you.

-----  
Daniel Jack, VP - AML Compliance  
Global Banknotes & Metals  
Telephone: 212-525-8686  
-----

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1912

To: Janet Barak, Regional Compliance Officer  
David Bagley, Head of Group Compliance  
David Dew, COO, HUSI

From: Carolyn Wind, EVP and Chief Compliance Officer, HUSI

Date: 26OCT07

Report: 3Q07 Compliance Report For PFS, CMB, GTB and GPB

- I. Issues Arising
  - (a) NEW ISSUES

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(b) MATTERS REPORTED PREVIOUSLY

- HBUS Bananotes/Casa De Cambio Puebla (RED 3870): No transactions have been conducted with Casa de Cambio Puebla SA de CV in Mexico since 1JUN07. Although HBMX continues to deal with this Money Services Business, HBUS plans to formally terminate the Banknotes relationship soon.

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1916

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by  
Permanent Subcommittee  
on Investigations**

HSBC-PSI-PROD-0095920 – HSBC-PSI-PROD-0095922

From: DENISE A REILLY/HBUS/HSBC  
Sent: 7/22/2001 8:22:53 AM  
To: DOUGLAS STOLBERG/HBUS/HSBC@HSBCAMERICAS  
Cc: JOE HARPSTER@RNB.COM; MICHAEL B GALLAGHER/HBUS/HSBC@HSBCAMERICAS  
Subject Re: Bank Mell

The following memo is background information on the Bank Mell business, prepared by John Richards, Group Representative Iran. Additionally, in a conference call that Joe Harpster, Compliance and I had with HBEU and Richards on 6/27, it was relayed to us that the Group (with the backing of Bond) was looking to significantly grow our presence in Iran. Current lines of credit were reported to be \$500m, trade lines of \$150m and growth was anticipated in trade, cash management and internet banking. The Bank Mell clearing was viewed by Richards and others as not only profitable as a standalone but also key to winning additional business.



Given the success of the business proposal, we continue our dialogue on the transaction flow. The decision to proceed is a commercial one and we are working closely with them on the operational feasibility of any proposed transaction flow.

From: John L RICHARDS/HSBL/HSBCAPAC Tel: 6021 204 0467  
Mail Size: 4106

To: Brian W RICHARDS/MOSK/HSBC@HSBC  
cc:

Subject: The Central Bank of Iran

Dear Brian

We have been approached by the Central Bank of Iran to take back their USD clearing business from Natwest. In principal I am keen to do this but on the clear proviso that it can be done profitably and on a sustainable basis.

One of our key objectives for the year is to develop HSBC's Asset Management activities in Iran and with the Central Bank now managing the oil price stabilization fund amounting to some USD10bn there is considerable scope for this. Obviously many foreign banks are chasing the same business and so we need to demonstrate some competitive or relational advantage. The proposal from the Central Bank was therefore not unwelcome.

I had an initial meeting with Mr Nowbahar Director Intl Dept of the Central Bank yesterday along with Nigel Weir who is visiting Tehran. I emphasised that if we were able to do this we would need to have detailed discussions so that we are clear what is required of us and what we require of them. The Central Bank manage their transactions through Bank Mell London and the intention would be that negotiations are held with Mr Sedehghar.

I would like to end up with a written agreement so that all parties are aware of what they are committing to. Although negotiating with Iranians is a frustrating activity we are in a strong position. They have become disatisfied with NatWest and with the exception of Lloyds, who will have the same issues we

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1918

have there is little competition. I also assume that our technology advances will make the business more attractive than it was in the past.

I shall be grateful for your thoughts on this and your advice on how I should take this forward. Nigel is here until Thursday and if possible I shall be grateful for your initial feedback before he leaves so that I can discuss the matter further with him. I am sure that he will take this up with you himself but at the end of the day negotiations will be held in London and will be driven by you.

Nasser and I will be in the UK on Feb 14th 15th to help host a presentation to a number of Iranian Bank Managing Directors in association with Robert Gray and the Investment bank. Subject to your views we can join any negotiation meetings that are arranged over that time.

In summary if we can make this business independently profitable and sustainable the benefits that we can derive particularly from the Treasury, Asset Management and investment banking spin offs will be substantial. I want therefore to agree a strategy of how we go forward and who we involve before we make any further contact so that I am aware of all the issues involved.

I appreciate your help with this

Best regards

John

Douglas Stolberg  
11 Jul 2001 18:23

To: Denise A Reilly/HBUS/HSSC@HSCAMERICAS

cc: Joe.Harpster@mb.com  
Michael B Gallagher/HBUS/HSSC@HSCAMERICAS  
Subject: Re: Bank Mail

Denise and others,

With the amount of smoke coming off of this gun, remind me again why we think we should be supporting this business?

Doug

Denise A Reilly on 11 Jul 2001 17:16  
Note  
11 Jul 2001 17:16

From: Denise A Reilly Tel: 302.636.2500 Del  
Title: Senior Vice President Location: Delaware  
WorkGroup: Payment Services Mail Size: 33351

To: Douglas Stolberg/HBUS/HSSC@HSCAMERICAS

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1919

cc: Joe Harpster@mb.com  
Michael B Gallagher/HBUS/HSBC@HSBCAMERICAS  
Subject: Bank Melll

This is an issue that you should be aware of. As described in Carolyn's memo, we have had ongoing discussions on the topic of Iranian payments both internally, with HBEU and with HBME IRN. HBUS Compliance and HBEU have also consulted with external counsel. The genesis for the discussion was an RFP for HBEU Treasury to handle Bank Melll's USD clearing. From an operational perspective, we will follow Compliance's direction as to whether we should support this business and if agreed, will establish any required operational controls.

Given the level of attention this is now getting, it may be raised at the SMC and will be included in the quarterly Compliance report.

I will keep you apprised.

----- Forwarded by Denise A Reilly/HBUS/HSBC on 07/11/2001

04:37 PM  
Carolyn Wind on 11 Jul 2001 11:13  
Note  
11 Jul 2001 11:13

From: Carolyn Wind Tel: 212 525 5503  
Title: Executive Vice President Location: 452 5th Ave, Floor 07  
WorkGroup: RNYC Compliance Mail Size: 29902

To: Matthew J W KING/HGHQ/HSBC@HSBC

cc: Paul L Lae/HBUS/HSBC@HSBCAMERICAS  
Anne Liddy/HBUS/HSBC@HSBCAMERICAS  
Elizabeth Protomastro/HBUS/HSBC@HSBCAMERICAS  
Denise A Reilly/HBUS/HSBC@HSBCAMERICAS  
Subject: Bank Melll

Matthew, this e-mail is to summarize the issues we discussed yesterday regarding HBEU Bank Melll proposal. As you know, HBUS was initially approached in January 2001 with the proposal that HBEU would use its USD account with HBUS to clear USD payments for Bank Melll. Subsequently, there has been extensive review of the matter, including input from two outside US legal firms. The first issue was whether or not the underlying transactions originated by Bank Melll are permissible under the Iranian Transactions Regulations. The regulations provide a general license for transactions that meet the "U-Turn" definition and so we have gone back and forth as to whether the proposed underlying transactions meet the definition. (see below).

Of more concern is the second issue which is that given the way the payment orders are to be constructed and formatted, HBUS will not be able to confirm whether or not the underlying transaction actually meets the "U-Turn" requirement. It is not apparent that HBEU will be able to confirm that each payment meets the requirements. In an effort to facilitate "straight-through processing", it now appears that HBEU will train Bank Melll on formatting the payments and that we will be relying on Bank Melll to ensure that only qualifying payments are processed through HBEU's account with HBUS. (See attached letter to Bank

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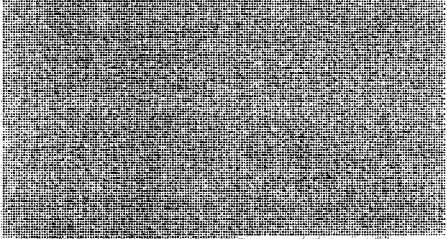
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Melli). If OFAC identifies a transaction that does not qualify, it might view HSBC's actions due to the non-disclosure as having involved willful disregard or evasion. Given the large dollar amounts and volume of activity proposed (300-400 transactions per day), if OFAC took such a view, potential liabilities could be substantial and would certainly impact HBUS's relationship with OFAC.

So to recap:

- A) Does this structure as proposed meet the U-turn requirement for processing? If Bank Melli and the second foreign bank do not appear on the MT202 processed by HBUS, how do we determine that the payment is in fact a U-turn?
- B) HBUS will not know the foreign banks and, therefore, will not be able to monitor for compliance. Will Melli be informing HBEU of the second foreign bank? Will HBEU set up a function to monitor these payments for compliance with the U-turn provision?
- C) If HBEU will set up a function to monitor the payments, it is possible that OFAC may not find it acceptable for HBUS to rely on HBEU to monitor payments for compliance with the U-turn.
- D) If the foreign banks involved are not disclosed on the MT202 processed by HBUS, and neither HBEU nor HBUS is monitoring the payments for compliance, OFAC could refer to the section of the regulation regarding "evasion" (Section 560.203 Evasions; attempts).

1) Definition of the permitted "U-Turn" transaction under the Iranian conditions:  
 The opinion received from outside counsel, Tom Crocker of Alston & Bird, on 2/2/01 in regards to the proposed transactions per Peter Melli is available in Exhibit A and B in the attached list below.



These summaries and exhibit attached to this document are for informational purposes only. They do not constitute an offer of insurance or any other financial product, which is two different foreign banks involved.)

**TRANSACTION DETAIL**  
 Below are summaries of HBUS' understanding of the first proposed transaction flow and the latest proposal.

Example I: U-TURN TRANSACTION

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1. Bank Mellé sends instructions to HBEU to:

debit Bank Mellé's account at HBEU  
credit HBEU nostro with HBUS

2. HBEU sends instructions to HBUS to:

debit HBEU account with HBUS  
credit any foreign bank (via a USA correspondent for the foreign bank)  
for further credit to the ultimate beneficiary

Note: Original HBEU suggestion on payment format would not mention Bank Mellé as the originating bank

Example II: Cover Payments (MT202 & MT100)

1. Bank Mellé, London sends instructions to HBEU to:

debit their account with HBEU and  
credit HBEU nostro with HBUS

2. HBEU will send an MT202 to HBUS to:

debit HBEU's account with HBUS  
credit any foreign bank (either on our books or via a USA correspondent for the foreign bank)

Note: Current HBEU recommendation on format would not mention Bank Mellé but would contain some reference identification on the specific transaction being settled between Bank Mellé and their customer.

3. HBEU will also simultaneously send an MT100 to the foreign bank (credit party) referenced in the above MT202, supplying them with beneficiary details for applying the funds received from HBUS

Note: The MT100 is often processed prior to the MT202 due to time differences between the US and the beneficiary's country.

3) HBEU instructions to Bank Mellé regarding how to format payments:  
See attached email of 28 JUN 01 from John R. Wilkinson with a copy of the letter sent to Bank Mellé with instructions on how to format the SWIFT messages.

From: John R WILKINSON/HBEU/HSBC To: 790 44466  
44 20 7260 4466  
Mail Size: 23330

To: Denise A Reilly/HBUS/HSBC@HSBCAMERICAS  
cc: Joe.Harpeter@mb.com  
Anne Liddy/HBUS/HSBC@HSBCAMERICAS  
John L RICHARDS/HSBL/HSBCAPAC@HSBC  
Brian W RICHARDS/MDBK/HSBC@HSBC  
Quentin R AYLWARD/MDBK/HSBC@HSBC  
Terry J BELLAMY/MDBK/HSBC@HSBC  
Nick J GILLGRASS/MDBK/HSBC@HSBC

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1922

Peter C BLENK/HBEU/HSBC@HSBC  
Subject: Re: Bank Mellat

Per our conference call today, please find attached the letter 30APR01 sent by our Payments dept (MPD) to Bank Mellat in London.

Once the proposition goes live we have instructed Bank Mellat to alter the format of its payments to achieve straight through processing. The field 52 input of 'One of our clients' is a standard phrase used by MPD in these situations.

Since sending the letter we have further asked them to only put 'One of our clients' in field 52, thus removing the chance of them inputting an Iranian referenced customer name, that causes fall out of the cover payment sent to HBUS and a breach of OFAC regulations.

This method was successfully tested last month on a MT202 (bank to bank) and a MT100 (commercial) payment.

I can understand your concerns following the recent formatting error detailed in Peter Benk's email 15JUN01, however I must provide some background for you.

MPD confirm that Bank Mellat have not yet gone live on the new method of formatting payments, as we have not yet taken on the new business. Bank Mellat are still formatting payments in their usual method, in this instance MPD failed to spot the poor input and did not follow their normal procedure of altering the payment, hence it was blocked. MPD have again confirmed the new formatting method will achieve straight through processing and overcome these difficulties.

I hope the above detail is sufficient for your purposes and you are able to progress this matter forward as intimated in your earlier approval.

Attachment: r120010501 fm MPD to BKBO re formatting.doc.zip

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1923

HSBC-BNI\_E 0055729.txt

From: DENISE A REILLY/HBUS/HSBC  
Sent: 8/31/2001 9:19:30 AM  
To: JOHN L RICHARDS/HSBL/HSBCAPAC@HSBC  
CC: ALAN WILKINSON/HD HTV ASP/HBAP/HSBC@HSBC; QUENTIN R AYLWARD/MDBK/HSBC@HSBC; CAROLYN M WIND/HBUS/HSBC@HSBC;  
MATTHEW J W KING/HGHQ/HSBC@HSBC; ELIZABETH PROTOMASTRO/HBUS/HSBC@HSBC  
Subject: Re: Bank Mell

Thank you for reviewing the document and providing feedback. Given that there is support for the proposal, we recommend that a conference call be scheduled after our meeting with OFAC (6 Sept). Also, Monday is a holiday in the US. Please advise dates the week of 10 September that are convenient for a 10 a.m./3 p.m. meeting and we will then finalize.

John L RICHARDS@HSBC  
30 Aug 2001 11:58

To: Denise A Reilly/HBUS/HSBC@HSBCAMERICAS  
cc: Alan WILKINSON/HD HTV ASP/HBAP/HSBC  
Quentin R AYLWARD/MDBK/HSBC  
Carolyn M Wind/HBUS/HSBC  
Matthew J W KING/HGHQ/HSBC@HSBC  
Elizabeth Protomastro/HBUS/HSBC  
Subject: Re: Bank Mell

Dear Denise

We have reviewed your document and confirm our support of the proposal you make. It will be the first time that an Iranian bank name has been mentioned in a payment message, as far as we are aware but provided you can commit to a same day payment service proposition and OFAC give a green light we can actually use the methodology developed to our competitive advantage. It shows that Iran can hold its head up in international trade, despite the sanctions, rather being forced to operate more furtively.

I will be out of town on Friday but could join a conference call on Monday at the same time.

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Please let me know how you wish to proceed.

Best regards

John L Richards  
Group Representative Iran

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1925

HSBC-BNL\_E 0071494.txt

From: ELIZABETH PROTOMASTRO/HBUS/HSBC  
Sent: 5/5/2005 1:11:13 PM  
To: TERESA PESCE/HBUS/HSBC; DENISE A REILLY/HBUS/HSBC; ANNE LIDDY/HBUS/HSBC; GRACE C SANTIAGO-DARVISH/HBUS/HSBC  
CC: GRACE C SANTIAGO-DARVISH/HBUS/HSBC  
Subject: Fw: Payment rejected re Mellli Bank PLC - USD 362,000

Grace asked me to forward on the attached as an FYI in light of some discussion held earlier today.

----- Forwarded by Elizabeth Protomastro/HBUS/HSBC on  
05/05/2005 02:10 PM -----  
Elizabeth Protomastro on 05 May 2005 13:57  
Note  
05 May 2005 13:57

From: Elizabeth Protomastro Tel: 212-525-6692  
Title: Vice President Location: 452 5th Ave, Floor 07  
WorkGroup: COMP/ANTI-MONEY LAUNDERING Mail Size: 7915

To: John ALLISON/HGHQ/HSBC@HSBC

cc: Susan A WRIGHT/HGHQ/HSBC@HSBC  
Grace C Santiago-Darvish/HBUS/HSBC@HSBC  
Nancy Hedges/HBUS/HSBC@HSBC  
Jose Matias/HBUS/HSBC@HSBC  
Subject: Fw: Payment rejected re Mellli Bank PLC - USD 362,000

Please be advised that we are rejecting/returning the following payment per internal procedure. This payment was originally rejected on 4/19/05 (attached) and re-submitted by PLC on 4/22/05.

22-Apr-2005  
SRN [REDACTED]  
IRN [REDACTED]  
Debit: [REDACTED] HSBC Bank PLC  
Credit: Bank of New York, NY  
3rd party: Credit Suisse, Zurich  
ORG: Mellli Bank PLC  
BBI: Acc/Dur Ref MPAY1710 19Apr05  
USD 362,000

[REDACTED] - Redacted by the Permanent Subcommittee on Investigations

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HSBC-BNL\_E 0071494.txt

On 4/22/05, we suspended the payment and sent a SWIFT to PLC requesting full disclosure of the name and address of the originator and the beneficiary. Two follow-up messages were sent on April 28 and May 4.

To date, no response has been received.

We also wish to remind you that we will be returning the \$6.9 million payment if we do not receive an answer from Credit Suisse within the next few days. A message requesting further details was sent May 3 to Credit Suisse.

----- Forwarded by Elizabeth Protomastro/HBUS/HSBC on

05/05/2005 01:36 PM -----

Elizabeth Protomastro on 19 Apr 2005 12:11

Note

19 Apr 2005 12:11

From: Elizabeth Protomastro Tel: 212-525-6692  
Title: Vice President Location: 452 5th Ave, Floor 07  
WorkGroup: COMP/ANTI-MONEY LAUNDERING Mail Size: 2634

To: John ALLISON/HGHQ/HSBC@HSBC

cc: Susan A WRIGHT/HGHQ/HSBC@HSBC

Grace C Santiago-Darvish/HBUS/HSBC@HSBC

Subject: Payment rejected re Bank Meili and "do not mention our name in New York" - USD 362,000

Please be advised that the following payment has been rejected due to internal reasons. Though the payment does meet the Iranian u-turn requirement, it does not disclose the name of the originator and beneficiary parties and includes in the BBI field the note "do not mention our name in New York". As you know, our procedure is to reject payments with such references.

As you are aware from past discussions of the Iranian payments, such payments should be fully disclosed as to the names of the originator and the beneficiary. FYI, we have confirmed with the other New York correspondent bank that they also require the name of the originator and beneficiary before they will process an Iranian u-turn payment.

Following are details.

Page 2

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HSBC-PSI-PROD-0096171



1927

HSBC-BNI\_E 0071494.txt

19-Apr-2005  
SRN [REDACTED]  
IRN [REDACTED]  
Debit: HSBC Bank PLC, [REDACTED]  
Credit: Bank of NY, NY  
3rd party: Credit Suisse, Zurich  
ORG: Melli Bank PLC, London  
BBI: Pls do not mention our name in New York  
USD 362,000

Please let us know if you have any questions.

Thank you.

**[REDACTED] = Redacted by the Permanent  
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HSBC-PSI-PROD-0096172

1928

From: LESLEY MIDZAIN/HSBC/HSBC  
Sent: 4/27/2008 11:57:48 PM  
To: ALJ S KAZMY/HSBC/HSBC@HSBC02  
CC: ANNE LIDDY/HSBC/HSBC@HSBC02  
Subject: Re: March 2008 Country Risk List Revision

Approved.

Thanks,  
Lesley

Lesley Midzain  
EVP & Chief Compliance Officer | HSBC BANK USA, N.A.  
452 5th Ave. 7th Fl.  
New York, NY 10018

---

Phone 212-525-6410  
Fax 212-525-5769  
Mobile 917-892-4957  
Email Lesley.Midzain@us.hsbc.com

Alj S Kazmy/HSBC/HSBC  
04/25/2008 02:12 PM

To  
Lesley Midzain/HSBC/HSBC@HSBC02  
cc  
Anne Liddy/HSBC/HSBC  
Subject  
March 2008 Country Risk List Revision

Attached for your approval is the revised Country Risk List as of March 31, 2008. It is consistent with Group ratings and has been concurred to by Anne Liddy.

The three changes to the revised matrix are summarized below:

Also attached below is the detailed research conducted against each country and recommendations leading to the ratings allotted. The second tab on the attached file shows the new groups of rating as well as the present rating.

Your consideration to this matter is appreciated.

Thanks and regards,

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03965859  
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC-3580217  
Confidential Treatment Requested HSBC-PSI-PROD-0096398

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**MADE SEALED EXHIBIT**  
**by**  
**Permanent Subcommittee**  
**on Investigations**

HSBC-PSI-PROD-0096399 – HSBC-PSI-PROD-0096441

1930

KYC Banknotes: AL RAJHI BANKING & INVESTMENT CORP

### Know Your Customer Profile - Banknote Information

HSBC Bank USA, N.A.

Reference: [Redacted] Banknote Profile Approval Status: **Approved**

Country Risk Status: High Risk  
High Risk Client Type: Special Category of Client

[Redacted] - Redacted by the Permanent Subcommittee on Investigations

Client Name: AL RAJHI BANKING & INVESTMENT CORP  
Country: SAUDI ARABIA

\* Changes to these fields on "Approved" Profiles require Re-approval.

#### Banknotes Activity

\* For HSBC Office: Hong Kong

* Banknote Activity Status:		Deactivated
Deactivation Date:		10/23/2010
Deactivation Reason:		<input type="radio"/> KYC / Compliance Reason <input checked="" type="radio"/> Business Reason <input type="radio"/> Other
Comments:		HSBC group wide decision to exit the Banknotes business.
Initial Trade date:		01/29/2009
Currencies traded:		<input checked="" type="checkbox"/> Mainly Non USD BRITISH POUND STERLING, EURO, INDIAN RUPEE, INDONESIA RUPIAH, PHILIPPINES PESO, SAUDI RIYAL

#### Monthly Trade Volume Estimates:

Currency:	Sales by HSBC:	Purchases by HSBC:
USD Currency:	0	0
Other Major Currency: BRITISH POUND STERLING	200,000	0
Other Major Currency: INDIAN RUPEE	1,000,000	0
Other Major Currency: SAUDI RIYAL	16,000,000	0

Are there normal or seasonal variations in volume of activity:		<input checked="" type="radio"/> Yes <input type="radio"/> No
if yes, explain:		The volume will be greater during holiday seasons
Please describe the reason for dealing in banknote transactions:		AJ Rajhi Banking & Investment Corp is one of the largest banking companies in the Kingdom of Saudi Arabia and listed on Saudi Arabia Stock Exchange Market. [Redacted] But client still have traded - IDR, INR, PHP, GBP and EUR with us. They sell currencies through their nationwide retail network and those Asian overseas workers, tourists and business-men are the main buyers. They will utilize our services for their retail banknotes activities only. In the meantime, client is one of the

01/23/2012 02:15:44 PM

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Confidential Treatment Requested

HSBC-PSI-PROD-0102304

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KYC Banknotes: AL RAJHI BANKING & INVESTMENT CORP

	counterpart to liquidate our Middle East currencies surpluses that we purchase from other markets. Above figures are obtained from our dealings with client during Mar 2009 - Feb 2010 and are in original currencies. If all currencies included, the monthly average of our sale was about USD4,600,000.
Where will banknotes be shipped to:	Client
Where will banknotes be shipped from:	HBUS
Credit line required (unsecured Client)?	<input checked="" type="radio"/> Yes <input type="radio"/> No
If yes, indicate credit line amount:	\$3,000,000
If yes, credit approval received:	<input checked="" type="radio"/> Yes <input type="radio"/> No
If yes, date credit line approved:	02/02/2009
Please provide any relevant comments on Client's past performance and/or profitability for HSBC:	Client's performance is satisfactory

Method of Settlement

Wire transfers from:	Client
Wire transfers to:	HBUS
Debit/Credit HSBC account number:	via HBUS Nostro A/C

Name of Relationship Manager (RM) for KYC Approval:	Christopher Lok
Date of most recent KYC review:	03/08/2010

Banknotes Signature Section

I have reviewed the Banknote information listed above and the KYC information contained in the Client's KYC Customer Profile. I recommend this Client for Banknotes business.

Banknote Trader (BT) Approval:	Betty F S NG 05/26/2008 10:52 AM
Regional Head of Banknotes (RB) Approval:	Gary C H YEUNG 05/28/2008 09:32 PM
Functional Head of Business (IS) Approval:	David M Wilens 05/29/2008 11:15 AM
Relationship Manager (RM) Approval:	Not Required
Institutional Banking / Team Leader (IB) Approval:	Christopher Lok 05/29/2008 01:23 PM
Regional Money Laundering Control Officer (CO) Approval:	Alan P Williamson 07/18/2008 07:18 PM

APPROVE/DENY HISTORY:

Created: 02/09/2007 04:55:16 PM Betty F S NG

BT Approved: (Old Status In Process), 04/18/2008 04:18 PM: Betty F S NG  
Existing customer with London Office with satisfactory record

RB Denied: (Old Status BT Approved), 04/18/2008 06:13 PM: Gary C H YEUNG  
No Comments

BT Approved: (Old Status RB Denied), 04/21/2008 02:27 PM: John N H NG  
No Comments

RB Approved: (Old Status BT Approved), 04/21/2008 02:51 PM: Gary C H YEUNG  
No Comments

IS Approved: (Old Status RB Approved), 05/01/2008 03:24 PM: David M Wilens  
No Comments

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Confidential Treatment Requested

HSBC-PSI-PROD-0102305

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KYC Banknotes: AL RAJHI BANKING & INVESTMENT CORP

IB Denied: (Old Status IS Approved), 05/22/2008 01:57 PM: Christopher Lok  
Update background info as to why prospect (existing client of HBUS LON) wants to start a relationship with HBUS HKG

BT Approved: (Old Status IB Denied), 05/26/2008 10:51 AM: Betty F S NG  
Profile send for re-approval with update comment

RB Approved: (Old Status BT Approved), 05/26/2008 09:32 PM: Gary C H YEUNG  
No Comments

IS Approved: (Old Status RB Approved), 05/29/2008 11:15 AM: David M Wilens  
No Comments

IB Approved: (Old Status IS Approved), 05/29/2008 01:23 PM: Christopher Lok  
No Comments

Approved: (Old Status IB Approved), 07/18/2008 07:18 PM: Alan P Williamson  
Note that historically we have been and will be careful about expanding exposure to this client. Discussed with management and secured opinion from Business Intelligence Division

Revision History

Editor	Date	Reason for Update
Daniel Jack	11/01/2010 09:39:53 PM	Profile Deactivated
John N H NG	03/08/2010 06:17:49 PM	Marketer endorsed, BT approve and send to next approver
John N H NG	03/08/2010 04:16:56 PM	Annual review update
John N H NG	04/07/2009 05:40:51 PM	BT approve and send to next approver
John N H NG	04/07/2009 10:49:18 AM	Profile review update
John N H NG	01/29/2009 05:31:10 PM	change from "Prospect" to "Active" and update initial trade date
John N H NG	05/23/2008 02:15:04 PM	Info update - reason fro dealing banknotes
John N H NG	05/23/2008 10:48:09 AM	Info update - reasons for dealing banknotes and credit approval date
Betty F S NG	02/09/2007 06:09:51 PM	Info Update - Reasons for dealing banknotes

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HSBC-PSI-PROD-0102306

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HSBC-PSI/PROD-0102340

Entity Case



AMLID

- 1 Add Client
- 2 Entity Search
- 3 My Details
- 4 AMLID Intranet

Case #1434 for GB Global Banking and Markets

**Client**  
 Entity Type Non Personal  
 Name Al Rajhi Banking and Investment Corporation  
 Country SAUDI ARABIA  
 Submission Date Jul 5, 2008 8:40 AM  
 Submitted By AMLID\_System  
 Role Status Client

**AML Threat**  
 Other Reputational Concerns  
 Criminal Links  
**Fraud Threat**

**Status**  
 Risk  
 Calculated Threat Status  
 Threat Status  
 Workflow Step  
 Assignee  
 Assigned Date  
 Status  
 Close Date  
 Next review reminder

**AML**  
 Clear (Calculational)  
 Amber  
 No SCC Required  
 SHWETA PASUPUREDDY  
 Nov 17, 2011 11:53 AM  
 Closed  
 Dec 6, 2011 2:08 PM

Case Details SCC Profile Attachments Entity Links Summary System References

Case Status

Staff Submission Details

Entered By AMLID\_System  
 Your role with this client\* Unspecified  
 Division\* Global Banking and Markets  
 Country UNITED KINGDOM

Client Details

Entity Type Non Personal  
 Role Status Client

Type\* Corporate  
 Nature of Client's Business Banking - Other Monetary Intermediation (eg Banks & Credit Unions)  
 Sector\*  
 Name\* Al Rajhi Banking and Investment Corporation  
 Account Name Al Rajhi Bank  
 Other Name  
 Legal Address Head Office, Al Akariya Building  
 Olaya Street  
 P O Box 28  
 Riyadh  
 Post/Zip Code 11411  
 Country of Office\* SAUDI ARABIA

Transaction or Relationship Details

**Redacted by the Permanent Subcommittee on Investigations**

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Case Status

Staff Submission Details

Entered By AMLID\_System  
 Your role with this client\* Unspecified  
 Division\* Global Banking and Markets  
 Country UNITED KINGDOM

**Redacted by the Permanent Subcommittee on Investigations**

Client Details

Entity Type Non Personal  
 Role Status Client  
 Type\* Corporate  
 Nature of Client's Business Banking - Other Monetary intermediation (eg Banks & Credit Unions)  
 Sector\*  
 Name\* Al Rajhi Banking and Investment Corporation  
 Account Name Al Rajhi Bank  
 Other Name  
 Legal Address Head Office, Al Akariya Building  
 Oleya Street  
 P O Box 28  
 City Riyadh  
 Post/Zip Code 11411  
 Country of Office\* SAUDI ARABIA

Transaction or Relationship Details

TCR Id  
 Code Name  
 Transaction or Activity Summary

Is Inside Information involved?  Yes  No  
 Business Owner  
 HSBC Role

AML Threat

**Criminal Links** Is there any reason to believe that any associated company or individual is or has been linked to crime, however indirectly?

**Al Rajhi Banking and Investment Corporation**

Please explain why this Threat has been updated. Limit your input to factual information.

No WC Hit. Al Rajhi Bank is refusing to assist the US in its investigation of an organization believed to have been supporting a designated Foreign Terrorist Organization. It was served with a subpoena in July, 2009. Pursuant to subpoena, Justice Department sought all records relating to a Mar 2000 deposit of \$151,000 in checks by the now defunct al Haramain Islamic Foundation. <http://www.investigativeproject.org/1753/saudi-bank-refuses-to-cooperate-in-us>

Connected Party

**Other Reputational Concerns** If you can think of any other reason why this proposal may give rise to any reputational concerns, please give brief details here

<https://compliance.systems.uk.hsbc/AMLID/entityCase/tab/summary.action?entityId=1434...> 12/8/2011

Confidential Treatment Requested

HSBC-PSI-PROD-0102341



Al Rajhi Banking and Investment Corporation

Connected Party

Name	Type	Address	City	Country	Threats	Details
Khonian, HH Sheikh Abdullah	Personal		Riyadh	SAUDI ARABIA	Other Reputational Concerns	Details
Al Ghafees, Dr Youssef	Personal		Riyadh	SAUDI ARABIA	Other Reputational Concerns	Details

Fraud Threat

Connected Parties

Guidance: All the Connected Parties to this Case File.

These could be people involved with the client, eg as shareholders, trustees etc, or companies related (but not identical) to it, eg a subsidiary or parent company.

ID	Name	Type	Address	City	Country	Threats	Details
1432	Al-Rajhi, Sulaiman	Personal		Riyadh	SAUDI ARABIA		Details
1433	Al-Rajhi, Saleh	Personal		Riyadh	SAUDI ARABIA		Details
19509	Al Ghafees, Dr Youssef	Personal			SAUDI ARABIA	Other Reputational Concerns	Details
19510	Khonian, HH Sheikh Abdullah	Personal			SAUDI ARABIA	Other Reputational Concerns	Details

Case Status

Risk\* AML

Calculated Threat

Threat Score 10

Threat Override

Threat Override Comment\*

GMO CMP had requested SCC status of major shareholders in Al Rajhi family in view of allegations of terrorist financing.

Screening Record

Case File Summary

06Dec2011: No SCC required as the chairman, the non-executive director and Al Rajhi family does not appear on GMO CMP list (2011). As per previous review - BI confirmed Aug09 that the lawsuit was dismissed in 2005. No new concerns reported on the bank. The bank is regulated by Saudi Arabian Monetary Agency.  
 \*Case discussed with KD.  
 SWIFT: [REDACTED] Contact: Rose D'Silva. Named in the trillion-dollar lawsuit filed by families of victims of the September 11 attacks, accused of financing terrorist activities. The bank denies the charges and BI confirmed Aug09 that the lawsuit was dismissed in 2005. No new

Please limit your input to factual information.

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

<https://compliance.systems.uk.hsbc/AMLID/entityCase/tab/summary.action?entityId=1434...> 12/8/2011

Confidential Treatment Requested

HSBC-PSI-PROD-0102342

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### Know Your Customer Profile

HSBC Bank USA, N.A.

Version 7.0

Reference: [Redacted]

Client Profile Approval Status: Approved

Country Risk Status: Standard Risk

[Redacted] = Redacted by the Permanent Subcommittee on Investigations

Client Name: Hokuriku Bank, Ltd.  
Country: JAPAN

\* Changes to these fields on "Approved" Profiles require Re-approval.

#### I. General Information

Client Name:	Hokuriku Bank, Ltd.
Is this a Client of Global Payments and Cash Management (PCM in Delaware)?	<input type="radio"/> Yes <input checked="" type="radio"/> No
Is this a Client of Corporate and Institutional Banking (CIB)?	<input type="radio"/> Yes <input checked="" type="radio"/> No
If yes, CIB Industry:	Banks & Securities Companies
Client Activity Status:	Active
Client Category:	<input type="radio"/> Domestic Financial Institution <input checked="" type="radio"/> Foreign Financial Institution <input type="radio"/> Investment Advisor or Fund <input type="radio"/> Corporate Client <input type="radio"/> Sole Proprietor or Partnership
Type of Client:	<input checked="" type="radio"/> Bank <input type="radio"/> Non-Bank
Legal entity:	<input type="radio"/> Parent <input type="radio"/> Branch <input checked="" type="radio"/> Subsidiary
Name of Parent:	Hokuhoku Financial Group, Inc.
Country of Parent (head office):	Japan
Is the Client's parent located in a country which is on the "Current Members of the Financial Action Task Force List"? (Refer to FATF website: www.fatf.org/fatf)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Is the Client a Central Bank?	<input type="radio"/> Yes <input checked="" type="radio"/> No
Is Client a "Special Category of Client"? (Refer to Group Policy GCL000074 on SCCs)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Has the Client's name and location been checked against Government lists of known or suspected terrorists or criminals? (e.g. OFAC and World-Check) [This is to be completed for prospects only - existing clients are scanned monthly and when the OFAC list changes.]	<input checked="" type="radio"/> Yes <input type="radio"/> No
Address (Business / Permanent) (A P.O. Box alone is not sufficient for address):	2-10, Nihonbashi Muramachi 3-Chome, Chuoku, 103-0022
City:	Tokyo
Country:	JAPAN
Telephone:	[Redacted]
Email address of Client contact:	[Redacted]

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Know Your Customer: Hokuriku Bank, Ltd.

Client's URL (Web Site)	www.hokugin.co.jp
Fax	
Swift Code	
Taxpayer ID (EIN or SSN)	W-BBEN
New Client or Existing Client	<input type="radio"/> New Prospect <input checked="" type="radio"/> Existing (Group) <input type="radio"/> Agency Arrangements only
Account Number	34738
Date Account Activated	04/25/78
Purpose of Account	Funds Transfer, Cash Letter, DC Reimbursement
Is the Client or its Parent traded on an Exchange?	<input checked="" type="radio"/> Yes <input type="radio"/> No
If yes, Name of Exchange	Tokyo & Sapporo

<p>Is the Client or its Parent a U.S. Person?</p> <p>Is the Client or its Parent a U.S. Person?</p> <p>Is the Client or its Parent a U.S. Person?</p> <p>Is the Client or its Parent a U.S. Person?</p>	<input type="radio"/> No <input type="radio"/> Yes <input type="radio"/> No <input type="radio"/> Yes
---	--

General comments	PENDING - MTS questionnaire - AML questionnaire ----- Company Overview The bank was established as the Kanazawa 12th National Bank on 8/26/1877 with the House of Kaga-Maeda providing 70% of the financing. The Bank was the creation of the family established by Maeda Toshio, the founder of the Kaga clan. The Bank was incorporated on 7/31/1943. This is when four banks, including the 12th National Bank merged to form Hokuriku Bank. In 9/1961 it was listed on the Tokyo Stock Exchange. In 9/2003 Hokugin Financial Group was formed and Hokuriku became a subsidiary of the Group. Then in 9/2004, the Group integrated management with Hokkaido Bank and the Group name changed from Hokugin F.G. to Hokuhoku Financial Group, Inc. Hokuriku Bank, Ltd. provides high quality, integrated financial services *source: 2007 annual report* ----- Support Statement GRM support confirmed by Machiko M Yamashita on 07/17/2008. Email copy in section 13.
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Know Your Customer: Hokuriku Bank, Ltd.

	<p><b>Findings</b> ALE search was conducted by RAU on 7/14/2008. There were no matches found in their database, OFAC, or on World-Check.</p> <p><b>AML Policies</b> AML questionnaire is pending. Client and client's parent are located in a FATF-member country.</p> <p><b>Other Notable Information</b> **Client is a CIB "non-priority" client **MTS questionnaire is pending although no found on Western Union's website not Money Gram's website. **The financial figures published in this KYC are reflective of the Hokuriku Financial Group, Inc. of which Hokuriku Bank is a subsidiary.</p>
--	---

II. Ownership/Management/Business Information

<b>Name of Principals or Beneficial Owners:</b> (List all shareholders with 10% or more ownership. If Corporate Client not publicly traded, Special Category Client or High Risk Country, then list all shareholders with 5% or more ownership)	% of ownership
Hokuhoku Financial Group Inc, Toyama, Japan	100.00
<b>Name of Corporate Officers</b>	(e.g. Chairman, Vice Chairman, President, Chief Executive Officer, Chief Financial Officer, and those Members of the Board or others with direct influence over the operations of the entire organization)
Shigeo Takagi Satoshi Kawai Hidea ki Haska	President Deputy President Senior Managing Director
<b>Total Number of Employees:</b>	2,546 <2007 annual rept>
<b>Where is the Client incorporated:</b>	JAPAN
<b>Year Established:</b>	1877
<b>What is Client's Bank in country (asset based):</b>	30 <bankers almanac>
<b>How many branches/offices does Client have:</b>	189 <2007 annual rept>
<b>Where are the branches/offices located:</b>	Japan, NY, Singapore and China
<b>For Foreign Financial Institutions only - indicate nature of Client's business (select all that apply)</b>	Correspondent Banking, Commercial/Retail Banking, Other Please describe: Regional Banking
<b>Indicate reporting agency or supervisory/regulatory body (ies) in the country (ies) of operation:</b>	Financial Services Agency
<b>List license type</b>	<b>Year of Issuance:</b> 1943 <b>Country of Issuance:</b> JAPAN
BANKING	
<b>Is Client's Shareholders' Equity 25 Million USD or more?</b>	<input checked="" type="radio"/> Yes <input type="radio"/> No
<b>Has the Client been under the same ownership for last 10 years (or 5 years if in a High Risk Country)?</b>	<input type="radio"/> Yes <input checked="" type="radio"/> No
<b>Is the Client or its Parent State Owned? (Answer "Yes" if the government has the largest ownership percentage)</b>	<input type="radio"/> Yes <input checked="" type="radio"/> No
<b>Please list principal affiliates which have relationships with HSBC:</b>	n/a
<b>If the Client or affiliates have other Accounts with HSBC entities - provide the country in which each account is located:</b>	Korea, UK, HK, & Japan

III. Referral Information

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HSBC-PSI-PROD-0102417

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Know Your Customer: Hokuriku Bank, Ltd.

How was the Client introduced to the bank?	LONG STANDING RELATIONSHIP
By whom?	C. WASSERMAN WM. M. REUBEN
Is a GIF form or a CIBM KYC Profile from a referring office in the Client file? (If the client was referred from another HSBC entity/office)	<input checked="" type="radio"/> Yes <input type="radio"/> No
Global Relationship Manager (GRM) or Country Relationship Manager (CRM) recommendation received and in Client file?	<input checked="" type="radio"/> Yes <input type="radio"/> No
If yes, name of GRM or CRM?	Machiko M Yamashita
If yes, date?	07/17/2008
Name of Sales/Marketing/Trading person assigned to Client?	Georgina A Anderson
Name of Relationship Manager (RM) for KYC Approval?	Wen Lu WU

IV. Visitation

General Visitation:

Was a Client Site Visit performed?	<input checked="" type="radio"/> Yes <input type="radio"/> No
------------------------------------	---

Visitation Details:

Date of visitation?	09/12/2008	Prior Site Visitation:	05/24/2005
By Whom?	H. Matsumoto & M. Yamashita		K Tanaka
Purpose - Banking Products/Services discussed:	Purpose: Cash Letter		USD Cash Letter
Is call report in Client file?	<input checked="" type="radio"/> Yes <input type="radio"/> No		<input type="radio"/> Yes <input checked="" type="radio"/> No
Comments - provide other details regarding visitation (e.g., Client contact name and title; documentation reviewed):	Client attendees: T. Takehashi (GM) & K Takarada (DGM)		SK met with Yamasaki, DGM at their office on 5/24/05. SK explained them w/ our USD O/L requirements. Also discussed about check 21 processing.

V. Purpose/Nature of Activity

Transactions*	Expected Frequency	Transactions*	Expected Frequency
ACH (Clearing House)		Money Market	
ARP (Account Reconciliation)		Securities Lending	
Asset Management		Swaps	
Check Collection (Cash Letter)	Daily	Sweep Overnight Investment	
Checks/Demand Drafts		Time Deposits	
Clearing (Funds Transfer)	Daily	Trading - Banknotes *	
Commercial Line		Trading - Bonds	
Commitments		Trading - Derivatives	
Control Disbursement		Trading - Emerging Markets	
Current Account		Trading - Equities	
Derivatives		Trading - Fixed Income	
Factoring		Trading - Foreign Exchange	
Forward Rate Agreements		Trading - Futures	
Globalization		Trading - Securities (Treasury)	
Guarantees (CD offset, Deposits)		Trading/Lending - Precious/Base Metals	
Intra Day Exposure Limit		Zero Balance Account	
Letters of Credit / Bankers Acceptances	Occasionally		
Loans			
Lockbox			

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Confidential Treatment Requested

HSBC-PSI-PROD-0102418

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Know Your Customer: Hokuriku Bank, Ltd.

Other:  
\* Refer to Client's file for anticipated volume of activity.

Managing for Value - Client's Profitability for HSBC (Annualized revenue, actual or anticipated, in USD equivalent):	47,290
This is required for all PCM clients:	

VI. Financial Summary

All financial data reported below should be in USD equivalent for comparison purposes globally (e.g., no non-USD currencies and denominated in actual USD dollars).	
Financial Statement date:	03/31/2007
Currency (Local):	JAPANESE YEN
Exchange rate (per USD):	118.050000
Denomination:	Actual
Assets:	81,644,575,000
Shareholders Equity:	3,869,445,000
Net Income:	344,285,000

VII. Documentation Checklist

List of Authorized Signatories and for Corporate Resolution in Client file?	<input type="radio"/> Yes <input checked="" type="radio"/> No
If no, explain:	Signatures are housed in Buffalo office
Current Annual Report (Form 10-K) or Financial Statement in Client file?	<input checked="" type="radio"/> Yes <input type="radio"/> No
Indicate Banking References and Relationship: (List 3 (Name, Country, Date and Relationship))	The Bank of New York JPMorgan Chase Bank, N.A. Citibank, N.A. <source: CHIPS website>

Bank Client and Not a Central Bank

Copy of Banking License in Client file?	<input type="radio"/> Yes <input checked="" type="radio"/> No
If no, explain:	screenshot from the regulators website on file

Foreign Bank Client and Not a Central Bank

is a USA Patriot Act Certification on file?	<input checked="" type="radio"/> Yes <input type="radio"/> No
If yes, date most recent Certification of Re-Certification was executed/signed by customer? (required by US Treasury every 3 years)	08/04/2010

VIII. Summary of Reasons

We have reviewed the information provided above in the context of the bank's "Know Your Customer" policy and "due diligence" requirements and criteria. Based on the following summary of reasons, we feel comfortable recommending this client for banking business.

Purpose: Explain the purpose of this account / Client relationship and summarize the anticipated activity.  
Purpose: Cash Letter, Funds Transfer, Letter of Credit.

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Confidential Treatment Requested

HSBC-PSI-PROD-0102419

Know Your Customer: Hokuriku Bank, Ltd.

2007 Revenue: \$47,290 (acct 50385-\$19,858 & acct 34738-\$27,422)

**Activity Monitoring:**

Variance Report Results: The June 2008 report of transactional activities (Treasury, Third Party Transfers, Cash Letter, and Drafts) from the dates of 7/2007 - 6/2008 (actual) versus 7/2006 - 6/2007 (expected) showed no variance based on current parameters. A copy of the report is located in the client file.  
\*\*\*\*\*

Per email from Client Services dated 2/9/09, acct 50385 was closed on 02/09/2009 and the balance transferred to 34738.

**Ownership - Comment on the owner's / principal's background, history and reputation:**

Hokuhoku Financial Group Inc.  
The Hokuhoku Financial Group, Inc. was established in 2003 and is composed of the holding company and 15 consolidated subsidiaries and one affiliate. Their core business is banking and they also provide credit cards, leasing services, venture capital, and financing products. The Group is publically traded on the Tokyo & Sapporo Stock Exchanges.

<source: 2007 annual report>

**Management - Comment on the Client's professionalism, expertise, experience, and education of senior officers / executives:**

Shigeo Takagi, President

Mr. Shigeo Takagi has been serving as President and Representative Director of Hokuhoku Financial Group, Inc., as well as President and Representative Director in a subsidiary, Hokuriku Bank, since September 2003. He used to serve as Director of Total Planning, Manager of Secretarial Office and Manager of Pay Master Office in the subsidiary, Hokuriku Bank. In March 1971, Mr. Takagi graduated from Waseda University with a degree in Commerce.

Satoshi Kawai, Deputy President

Mr. Satoshi Kawai has been serving as Director of Hokuhoku Financial Group, Inc. since September 2004. He is also serving as Non-Executive Director in Hokkaido Bank, as well as Executive Vice President, Chief Director of Sales Promotion and Representative Director of Hokuriku Bank. Mr. Kawai joined Hokuriku Bank in April 1971, where his previous titles include Senior Managing Director, Director of Sales, Manager of Branch Offices, Manager of Sales Planning and Director. In March 1971, he graduated from Hitotsubashi University with a degree in commerce.

Hideaki Haoka, Senior Managing Director

Mr. Hideaki Haoka has been serving as Director of Hokuhoku Financial Group, Inc. since September 2003. He is also serving as Senior Managing Executive Officer and Director in Hokuriku Bank, where he has served as Managing Director, Manager of Tokyo Office, Director of Human Resources and Manager of Takefu Office. In March 1973, Mr. Haneoka graduated from Kyoto University with a degree in economics.

<source: www.markets.ft.com>

**Visitation - Summarize information obtained from Client visitations and discussions. (Call Reports, etc.)**

On site visit took place on 9/12/2008 with HSB's attendees Matsumoto-san and Machiko M. Yamashita and Client's attendees Mr. Takahashi, GM and Mr. Takarada, Deputy MGR of International Operations Center

Purpose: Cash Letter

**Discussion:**

We conveyed the message that we understand that AML process is appropriately taken by Hokuriku Bank as Anthony commented and the point we intended to discuss is how we enhance process to avoid unnecessary internal process on our side.

During the discussion, we confirmed again the background of relevant transactions.

Most of their customers related to this issue are used-car dealers for Russian buyers who are cash account holders of Hokuriku Bank through appropriate AML process.

The dealers are doing cash on delivery type of deals with buyers in this market therefore cash or TCs are normally used to accommodate those deals. As such Hokuriku Bank considers it is difficult for its customers to shift their payment method to wire transfers or commercial check from TCs.

HBUS is currently the sole Cash Letter provider for Hokuriku Bank and if we stop providing this service to Hokuriku Bank, it needs reasonable grace period to find out alternative service provider and re-adjust its system which is currently arranged/ designed to meet HBUS's requirement and also make sure the new internal process with all relevant branches/offices.

Since relevant customers are limited around 20 - 25 names and they are all cash account holders of Hokuriku Bank, Hokuriku Bank is well prepared to cooperate with HBUS by providing necessary information / arranging operational process in order to help HBUS to

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Know Your Customer: Hokuriku Bank, Ltd.

streamline the process. As such if there are any measures to reduce your processing burden, they are open to discuss on that. For that, they wish to understand what is exactly the issue in your processing of the TCs in problem. They have already been following your requirement on high value deposit (exceeding USD20k per deposit), under which they have been providing their customers' information including name, address and business as well as amount and number of TCs. If HBUS requires further more information and/or different process, Hokuriku Bank is ready to discuss on that.

Does the Client have KYC and Anti-Money Laundering (AML) policies and procedures documented? If yes, has a copy been filed in the Client file? (Required if Client is in a High Risk Country)	<input checked="" type="radio"/> Yes <input type="radio"/> No
Does the Client's KYC and AML Policies and Procedures require identification documentation and verification when opening an account?	<input checked="" type="radio"/> Yes <input type="radio"/> No
Does the Client have a screening process regarding the procedures for the establishment of new accounts, (including obtaining information on the source of funds)?	<input checked="" type="radio"/> Yes <input type="radio"/> No
Does the Client offer accounts or services to anonymous customers?	<input checked="" type="radio"/> Yes <input type="radio"/> No
Does the Client have an ongoing system in place to monitor and report suspicious activity?	<input checked="" type="radio"/> Yes <input type="radio"/> No
What are the procedures when unusual transactions are detected as a result of the Client's ongoing monitoring process?	questionnaire pending
How are the Client's KYC and AML Policies and Procedures communicated and enforced in the Client's network of domestic and foreign offices?	questionnaire pending
Does the Client have a formal / independent Anti-Money Laundering Compliance function?	<input checked="" type="radio"/> Yes <input type="radio"/> No
If no, why not?	questionnaire pending
Comment on the Client's KYC and AML practices (past, present and/or future)	Japan is a member of FATF therefore adhere to all FATF standards
Does the Country the Client is located in have KYC and AML laws and regulations?	<input checked="" type="radio"/> Yes <input type="radio"/> No
If yes, comment on the country's KYC and AML practices (past, present and/or future) regarding prevention of money laundering and terrorist financing	Japan is the world's second largest economy and a large and important world financial center. Although the Japanese government continues to strengthen legal institutions to permit more effective enforcement of financial transaction laws, Japan still faces substantial risk of money laundering by organized crime and other domestic and international criminal elements. The principal sources of laundered funds are drug trafficking and financial crimes: illicit gambling, loan-sharking, extortion, abuse of legitimate corporate activities, internet fraud activities, and all types of property related crimes, often linked to Japan's criminal organizations. U.S. law enforcement investigations periodically show a link between drug-related money laundering activities in the U.S. and bank accounts in Japan. The number of Internet-related money laundering cases involving Japan is also increasing. In some cases, criminal proceeds were concealed in bank accounts obtained through an Internet market. Laws enacted in 2014 make online sales of bank accounts illegal.  On November 17, 2005, the Japanese government's headquarters for the Promotion of Measures against Transnational Organized Crime and Other Related Issues and the headquarters for International Terrorism agreed that relevant ministries would submit a bill to the 2007 ordinary session of the Diet to enhance compliance with the FATF Forty Recommendations and the FATF Nine Special Recommendations on Terrorist Financing. It is now expected that these recommendations will be promulgated by April 1, 2007, given the probable timing for the Anti-Money Laundering Law currently being drafted by the National Police Agency. In accordance with the FATF Forty Recommendations of 2003, the new Anti-Money Laundering Law will include a wider range of sectors required to submit suspicious transaction reports (STR), including accountants, real estate agents, dealers in precious metals and stones, and certain types of company service



Know Your Customer: Hokuriku Bank, Ltd.

providers. The government of Japan is also considering measures to implement the FATF's Special Recommendation Nine, which recommends cross-border currency reporting requirements.

After September 11, 2001, Japan has regularly searched for and designated for asset freeze any accounts that might be linked to all the suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list.

Underground banking systems operate widely in Japan, especially in immigrant communities. Such systems violate the Banking Law and the Foreign Exchange Law. There have been a large number of investigations into underground banking networks. Reportedly, substantial illicit proceeds have been transferred abroad, particularly to China, North and South Korea, and Peru. In November 2004, the Diet approved legislation banning the sale of bank accounts, in a bid to prevent the use of purchased accounts for fraud or money laundering.

Japan has not enacted laws that allow for sharing of seized narcotics assets with other countries. However, the Japanese government fully cooperates with efforts by the United States and other countries to trace and seize assets, and makes use of tips on the flow of drug-derived assets from foreign law enforcement efforts to trace funds and seize bank accounts.

Japan is a party to the 1988 UN Drug Convention and has signed but not ratified the UN Transnational Organized Crime Convention. Ratification of this convention would require amendments to Japan's criminal code to permit charges of conspiracy, which is not currently an offense. Minority political parties and Japan's law society have blocked this amendment on at least three occasions. Japan is a member of the Financial Action Task Force. JAFIO joined the Egmont Group of FIUs in 2000. Japan is also a member of the Asia/Pacific Group against Money Laundering. In 2002, Japan's FSA and the U.S. Securities and Exchange Commission and Commodity Futures Trading Commission signed a nonbinding Statement of Intent (SOI) concerning cooperation and the exchange of information related to securities law violations. In January 2006 the FSA and the U.S. SEC and CFTC signed an amendment to their SOI to include financial derivatives.

The government of Japan has many legal tools and agencies in place to successfully detect, investigate, and combat money laundering. In order to strengthen its money laundering regime, Japan should stringently enforce the Anti-Organized Crime Law. Japan should also enact penalties for noncompliance with the Foreign Exchange and Trade Law, adopt measures to share seized assets with foreign governments, and enact banker "due diligence" provisions. Japan should continue to combat underground financial networks. Since Japan is a major trading power and the misuse of trade is often the facilitator in alternative remittance systems, Japan should take steps to identify and combat trade-based money laundering. Japan should also become a party to the UN Transnational Organized Crime Convention.

Source: www.state.gov

Sources used for Country KYC, supervisory regime and AML information are set out in the HBUS AML Country Risk List. Please refer to the KYC User Guide.

Has the Client been audited?	<input checked="" type="radio"/> Yes <input type="radio"/> No
If yes, date:	06/27/2007
If yes, by whom (Audit Firm):	Ernst & Young ShinNihon, Deloitte Touche Tohmatsu. Audit was favorable.
Does the Client have a credit rating?	<input checked="" type="radio"/> Yes <input type="radio"/> No

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Know Your Customer: Hokuriku Bank, Ltd.

If yes, who issued it (S&P, Moody's or other):	Fitch
If yes, date issued:	11/02/2007
If yes, credit rating:	Long Term: BBB Short Term: F2 Outlook: Stable

Employing reasonably available information, has due diligence been conducted on the Client's AML record?	<input checked="" type="radio"/> Yes <input type="radio"/> No
Has negative information been identified?	<input type="radio"/> Yes <input checked="" type="radio"/> No

Date of most recent KYC review:	08/04/2008
Department of the Account Manager / Administrator (AM) who prepared this profile:	Global Payments & Cash Mgmt

Signature Section

Account Manager / Administrator (AM) Approval:	Kgomotso X Hargraves 07/22/2008 03:00 PM
Client Services / Manager (CS) Approval:	Not Required
Functional Head of Business / Executive (IS) Approval:	Not Required
Relationship Manager (RM) Approval:	Anthony Julian 08/04/2008 01:21 PM
Institutional Banking / Team Leader (IB) Approval:	Not Required
Regional Money Laundering Control Officer (CO) Approval:	Not Required

APPROVE/DENY HISTORY:

Created: 05/29/2001 10:20:23 AM Converted from Epic

05-23-2001 15:10 PM Created by: <EPIC to KYC Conversion Process>

<Address>

2-26, TSUTSUMICHO-DORI  
1-CHOME TOYAMA-SHI 930  
JAPAN

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<Status> : A - Approved
<Client Name> : HOKURIKU BANK LTD. (THE)
<Acct_offr_code> : 341341
<Acct_offr> :
<Approval_acct_officer> : *** Fisher, Beth *** 3/15/98 13:00:44:153
<Unit_offr_code> : 341575
<Unit_mgr> :
<Approval_unit_mgr> : *** Reuben, Michael *** 2/16/98 01:17:31:496
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<Approval_exec_dept> :
<Legal_dept> :
<Approval_legal_dept> :
<Legal_dep_comments> :
  
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In Process: (Old Status Approved), 11/19/2001 06:14 PM: Nanayo Ryan

Purpose of account changed from: [] to: [Funds Transfer, Cash Letter, DC Reimbursement]  
 Name of principals changed from: [PUBLICLY TRADED (18,430 SHAREHOLDERS), FUJI BANK, YASUDA LIFE INSURANCE CO., THE DAI ICHI KANGYO BANK] to: [FUJI BANK, YASUDA LIFE INSURANCE CO., THE DAI ICHI KANGYO BANK, Dai ichi Mutual Life Insurance, Hokuriku Electric Power Co, Nippon Life Insurance Co, Nichido Fire & Marine Insurance Co, Asahi Mutual Life Insurance Co, Industrial Bank of Japan]  
 Ownership percentage changed from: [3,4,3,1,2,8] to: [3,42,3,11,2,84,2,48,2,1,2,08,1,67,1,62,1,59]

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Know Your Customer: Hokuriku Bank, Ltd.

License Country(1) changed from: [] to: [JAPAN]  
Transaction Activity changed from: [DailySee Banknotes Activity SectionOccasionallyOccasionally] to: [DailyDaily OccasionallySee Banknotes Activity SectionOccasionallyOccasionally]

AM Approved: (Old Status In Process), 11/19/2001 06:15 PM: Nanayo Ryan  
No Comments

RM Denied: (Old Status AM Approved), 11/20/2001 10:08 AM: Beth Fisher  
in financial section, denomination should be "millions".

AM Approved: (Old Status RM Denied), 11/20/2001 11:47 AM: Nanayo Ryan  
Amended

Approved: (Old Status AM Approved), 11/20/2001 11:57 AM: Beth Fisher  
No Comments

In Process: (Old Status Approved), 01/23/2002 02:15 PM: Nanayo Ryan

Other Accounts changed from: [] to: [000034738 Funds Transfer, Cash Letter in Tokyo Japan]

AM Approved: (Old Status In Process), 01/24/2002 12:26 PM: Nanayo Ryan  
Added dda#000034738 to 1. General Information

Approved: (Old Status AM Approved), 02/01/2002 10:13 AM: Beth Fisher  
No Comments

In Process: (Old Status Approved), 12/16/2003 12:58 PM: Nanayo Ryan  
Customer is sent back for re-approval

AM Approved: (Old Status In Process), 02/15/2004 02:37 PM: Nanayo Ryan  
KYC Updated

RM Denied: (Old Status AM Approved), 02/18/2004 03:56 PM: Beth Fisher  
update

AM Approved: (Old Status RM Denied), 02/19/2004 12:24 AM: Nanayo Ryan  
updated

Approved: (Old Status AM Approved), 02/19/2004 05:57 PM: Beth Fisher  
No Comments

In Process: (Old Status Approved), 06/27/2005 06:46 PM: Nanayo Ryan

Name of principals changed from: [Mizuho Corporate Bank,Hokuriku electric Power Co Toyama,YASUDA Mutual LIFE INSURANCE CO,Nichido fire & Marine Insurance Co,Dai ichi Mutual Life Insurance ,Nippon Mutual Life Insurance Co,Sumitomo Mutual life Insurance Co] to: [Hokuhoku Financial Group Inc, Toyama, Japan]  
Ownership percentage changed from: [5,46,2,24,2,24,1,54,1,45,1,41,1,41] to: [100]

AM Approved: (Old Status In Process), 06/27/2005 06:47 PM: Nanayo Ryan  
updated.

Approved: (Old Status AM Approved), 06/30/2005 10:38 AM: Beth Fisher  
CIBM Transaction Sector Managed relationship.

In Process: (Old Status Approved), 07/14/2008 12:04 PM: Kgomotso X Hargraves

Name of principals changed from: [Hokuhoku Financial Group Inc, Toyama, Japan] to: [ Hokuhoku Financial Group Inc, Toyama, Japan]

AM Approved: (Old Status In Process), 07/22/2008 12:25 PM: Kgomotso X Hargraves  
Annual review update

RM Denied: (Old Status AM Approved), 07/22/2008 02:09 PM: Wayne W Ferguson  
No Comments

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Know Your Customer: Hokuriku Bank, Ltd.

AM Approved: (Old Status RM Denied), 07/22/2008 03:00 PM: Kgomotso X Hargraves  
Annual Review

Approved: (Old Status AM Approved), 08/04/2008 01:21 PM: Anthony Julian  
No Comments

Revision History		
Editor	Date	Reason for Update
Shannon M Jones	09/03/2010 06:48:41 AM	updated certification date and business address
Danielle X Fawra	08/18/2010 01:05:58 PM	updated new RM--prev memo incorrect
Danielle X Fawra	08/17/2010 02:00:18 PM	update for potential exit of relationship
Kim Zinszer	02/09/2009 01:56:13 PM	updated closed acct info
Gwendolyn X Morris	12/11/2008 01:01:15 PM	Review Date
Shannon M Jones	11/13/2008 10:04:52 AM	updated visitation summary with AML discussion info
Kim Zinszer	09/25/2008 10:56:59 AM	updated 9/12/2008 visitation details
Kgomotso X Hargraves	09/17/2008 04:22:45 PM	-Annual Review- updated visitation date
Kgomotso X Hargraves	08/04/2008 03:10:28 PM	Updated review date and PAC date
Kgomotso X Hargraves	07/22/2008 02:59:10 PM	Annual Review- Updated RM name to Tony Julian

CRR Revision History			
Last Updated By/On	Update Type(Field/General)	Old Value	New Value
Shannon M Jones - 09/03/2010 6:48:15 AM	rpt_epic_address1 rpt_epic_address2 epic_city	1-2-26, Tsutsumicho-Dori Toyama City	2-10, Nhonbashi Muromachi 3-Chome, Chuoku, 103-0022 Tokyo

**Call Report**

[Global-Links](#) [Forward](#)

Client\* **Social Investment Bank** **Related CAOs and Deals**

▼ Main Details

Date of Call\* 27 September 2009

Products Sub Products

Country of Call\* Bangladesh Location details

Title\* Periodic courtesy call and AML issues

Call type Client Meeting at Client

▼ Attendees

Reported on behalf of RODRIGUES, Virgil D

HSBC attendees			Client attendees		
Name	Job Title	Country	Name	Job Title	Country
REZA, Sadique	MANAGER IB and HSS	Bangladesh	ASHADUZZAMAN, K	Managing Director	Bangladesh
HASAN, Ekramul	ASST. RELATIONSHIP MGR, IB	Bangladesh	FARHAD, A	Executive Vice President	Bangladesh

Other attendees

(not stored in the system)

Client attendees Executive role

Chairman  Chief Executive Officer  Chief Financial Officer

Treasurer  Head of M&A

▼ Detailed description

Existing Attachments

Had a courtesy call with Mr. K.M. Ashaduzzaman, Managing Director and Mr. A.M.M. Farhad, Head of International Division. They are very much in need of a credit line from HSBC. Upon the available credit line SIBL will increase their business share with us. SIBL could be a prospective customer for DAK IB as they are doing a good number of business.

There has been no recent changes in their Senior Management after the last new Deputy Managing Director.

On a question of opening any new exchange house, they informed that they are not in a verge within a short while to open any exchange house or in the process with any other company to start any arrangement of money transfer. They added, they are not seeking for an offshore banking license as they do not intend to do off shore banking within a short while.

When asked about any further changes in their shareholding structure, they informed that there has been no change in the shareholding structure from our last record.

Regarding their AML procedure and policy, there has been no change in the AML policy from last questioner completion. They have not sent any reporting to the Central Bank regarding AML transaction issue. They have an internal quarterly training on AML, ranging from the officer level to Managers. They are also very well aware of the OFAC sanctioned countries and mentioned that they do not have any relationship or business with those countries.

Few other trade related issued and disputes were discussed and both of them agreed to take care of the issues from their end.

▼ Follow up Tasks

[http://clientvision.systems.uk.hsbc/irs/openCallReport.do?\\_wid=1257345269713&objectI...](http://clientvision.systems.uk.hsbc/irs/openCallReport.do?_wid=1257345269713&objectI...) 11/04/2009

Description	Assignee	Priority	Status	Date due
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Global-Links Referrals

Referral Date	Referred By	Referred To
---------------	-------------	-------------

**Security**

Does this document contain any particularly sensitive information?\*

Yes  No

Consent Given: The Client or Client Group has given Consent to share information  
[Click here](#) for client specific consent comments.

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Account Owner

The Deal Team

Client Service Team

Direct Managers (of the people with editor rights)

All of Global Banking globally  All Users

**Named individual readers** HASAN, Ekramul ; RODRIGUES, Virgil D ; REZA, Sadique

**Add the CST to the list?**

**Editor rights**

Editor List\*  Assistants (of the people with Editor Rights)

**History**

http://clientvision.systems.uk.hsbc/rs/openCallReport.do?\_wid=1257345269713&objectl... 11/04/2009

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**Call Report**

[Global-Links](#) [Forward](#)

Client\* **Social Investment Bank** **Related CAOs and Deals**

**▼ Main Details**

Date of Call\* 10 June 2009  
 Products **Sub Products**  
 Country of Call\* Bangladesh **Location details**  
 Title\* Periodic courtesy call  
 Call type Client Meeting at Client

**▼ Attendees**

Reported on behalf of **RODRIGUES, Virgil D**

HSBC attendees			Client attendees		
Name	Job Title	Country	Name	Job Title	Country
RODRIGUES, Virgil D	ASST. RELATIONSHIP MGR, IB	Bangladesh	RAHMAN, Syed	Incharge Treasury Dept	Bangladesh
AHMAD, Ishlaque	RELATIONSHIP MANAGER, IB	Bangladesh	RAHMAN, Ashik	Officer	Bangladesh
			FARHAD, A	Executive Vice President	Bangladesh

**Other attendees**

(not stored in the system)

**Client attendees Executive role**

Chairman  Chief Executive Officer  Chief Financial Officer   
 Treasurer  Head of M&A

**▼ Detailed description**

**Existing Attachments**

It was a periodic courtesy call to Social Islami Bank Limited ,where they wante to discuss some charges that were deducted in their Nostro account without any trace.

Mr. Md. Abul Shahjahan joined SIBL as DMD on 08 March 09.

The meeting was called by Social Islami Bank Ltd for not understanding a charge that was portrayed in the USD Nostro statement held with HSBC, NY. It was found out that they charges mentioned as "Balance shortfall fees" were misinterpreted by them and they were quite annoyed with the issue and they requested us to waive the account maintenance cost.

It was mentioned in the Account Proposal about deduction of charges and we will be informing them about that and we will propose them "Credit Deduct" product. The existing PI charge for SIBL is USD 120 of which USD 30 is provided to SIBL as rebate and the rest USD 90 is shared within DAK and HBUS. We propose that the cost structure as following, PI charge USD 130, Rebate to SIBL USD 35, Soft Rebate to SIBL USD 5, and the rest USD 90 is shared within DAK and HBUS. Which, in turn will encourage them to increase our PI volume and minimize their account maintenance cost?

**▼ Follow-up Tasks**

Existing Tasks [Page 1 of 1](#)

Description	Assignee	Priority	Status	Date due
<a href="http://clientvision.systems.uk.hsbc/rs/openCallReport.do?_wid=1257186064022&amp;objectI...">http://clientvision.systems.uk.hsbc/rs/openCallReport.do?_wid=1257186064022&amp;objectI...</a> 11/02/2009				

Propose Credit deduct product RODRIGUES, Virgil D ; AHMAD, AHMAD, Ishtiaque Normal Requested 07 Oct 2009

Global-Links Referrals

Global-Links Referrals Page 1 of 1

Referral Date	Referred By	Referred To

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Yes No

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- Direct Managers (of the people with editor rights)

**Named Individual readers** RODRIGUES, Virgil D ; AHMAD, Ishtiaque

Add the CST to the list?

- All of Global Banking globally
- All Users

Editor rights

- Editor List\*
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History

http://clientvision.systems.uk.hsbc/rs/openCallReport.do?\_wid=1257186064022&object... 11/02/2009

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**Call Report**

[Forward](#)

Client\* **Social Investment Bank** Related CAOs and Deals

▼ Main Details

Date of Call\* 24 September 2008  
 Products Sub Products  
 Country of Call\* Bangladesh Location details  
 Title\* KYC & AML Issues  
 Call type Client Meeting at Client

▼ Attendees

Reported on behalf of AHMAD, Ishtiaque

HSBC attendees			Client attendees		
Name	Job Title	Country	Name	Job Title	Country
RODRIGUES, Virgil D			IQBAL, Mohammad	Senior Vice President	Bangladesh
SHOHIDUZZAMAN, Muhammad	Division Head	Bangladesh			
AHMAD, Ishtiaque	ASST RELATIONSHIP MANAGER, IB	Bangladesh			

Attendees from other Clients			
Name	Job Title	Country	Client

Other attendees  
 (not stored in the system)

▼ Detailed description

Existing Attachments

The visit was initiated to follow up the present status of IIRO in SIBL's shareholder owners' list. Mr. Iqbal confirmed that nothing has changed so far and they are complying with Bangladesh Bank and Securities Exchange Commission (SEC) directives.

Mr. Iqbal sought our support in TSC related issues. We confirmed that SIBL can count on our service standard and requested him to increase the PCM transactions in both HBUS and INM accounts.

▼ Follow-up Tasks

Existing Tasks				
Description	Assignee	Priority	Status	Date due

▼ Security

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Yes  No

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Jake Houseknecht [http://clientvision.systems.uk.hsbc/rs/openCallReport.do?\\_wid=12315...](http://clientvision.systems.uk.hsbc/rs/openCallReport.do?_wid=12315...) 01/09/2009

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- Client Service Team
- Direct Managers  
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**Named individual readers**      RODRIGUES, Virgil D ; AHMAD, Ishiaque ; SHOHUDUZZAMAN, Muhammad

**Add the CST to the list?**

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Editor List\*

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**History**

Jake Houseknecht [http://clientvision.systems.uk.hsbc/rs/openCallReport.do?\\_wid=12315...](http://clientvision.systems.uk.hsbc/rs/openCallReport.do?_wid=12315...) 01/09/2009

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**PARTICULARS OF DIRECTOR OF SIBL**

• NAME : Abdul Awal Patwary  
• FATHER'S NAME : Redacted  
• MOTHERS'S NAME : Redacted  
• DATE OF BIRTH : Redacted  
• EDUCATIONAL QUALIFICATION : B.A.  
• PRESENT ADDRESS : Redacted  
• PERMANENT ADDRESS : Redacted  
• BUSINESS :  
Name of firms/Companies where the interest is involved : Chairman:  
Patwary Cold Storage Ltd  
Patwary Potato Flakes Ltd  
Greentech GreenHouse Bangladesh Ltd  
Managing Director:  
Foyzal Shopping Complex Ltd  
Proprietor:  
Foyzal Traders  
• PHONE NUMBER :  
HOME :  
OFFICE/BUSINESS : Redacted  
MOBILE :

Signature:   
(Abdul Awal Patwary)


**Particulars of Director of SIBL**

Name	:	Md. Sayedur Rahman
Father's Name	:	Redacted
Mother's Name	:	Redacted
Date of Birth	:	Redacted
Educational Qualification	:	B.A
<b>ADDRESS</b>		
Present	:	Redacted
Permanent	:	Redacted
Business	:	Ex. Director 100% experienced Garments Industry
Name of firms/Companies. Where the interest is involved	:	Managing Director: <ul style="list-style-type: none"> <li>* M/s Lodestar Garments Ltd.</li> <li>* M/s Lodestar fashions Ltd.</li> <li>* M/s Mid Asia fashions Ltd.</li> <li>* M/s Jessore fishery</li> </ul>
<b>Phone Numbers</b>		
Home	:	Redacted
Office/Business	:	Redacted
Mobile	:	Redacted

Signature:

  
(Md. Sayedur Rahman)

-----:Social Investment Bank Ltd.:----- Page 1 of 3







সোশ্যাল ইসলামী ব্যাংক লিমিটেড  
**SOCIAL ISLAMIC BANK LTD.**  
 A Joint Venture Islamic Bank

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 E-Age Banking | Micro Partners | Financial Analysis | SIB Training Institute | SIB Branches

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2. **Mr. Munshi Akhtaruzzam**  
Vice Chairman 
3. **Mr. Md. Sayedur Rahman.**  
Vice Chairman 
4. **Mr. Abdul Awal Patwary.**  
Director 
5. **Mr. Md. Humayun Kabir Khan.**  
Director

[http://www.sibibd.com/html/board\\_of\\_directors.html](http://www.sibibd.com/html/board_of_directors.html)



6. Major (Retd.) Dr. Md. Rezaul Haque.  
Director



7. Alhaj Sultan Mahmood Chowdhury.  
Director



8. Hamdard Laboratories (Waqf) Bangladesh  
Represented by: Mr. Anisul Hoque.  
Director



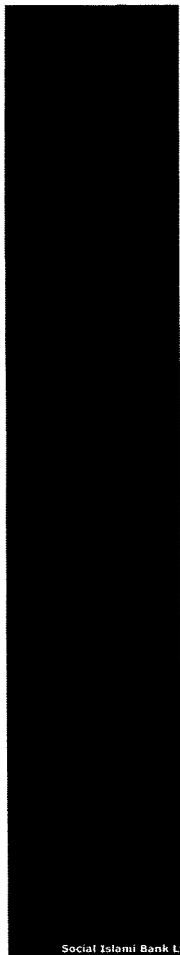
9. Mrs. Nargis Mannan.  
Director



10. Mrs. Zohra Alam.  
Director



[http://www.sibld.com/html/board\\_of\\_directors.html](http://www.sibld.com/html/board_of_directors.html)



11. Mr. Kamaluddin Ahmed.  
Director



12. Alhaj SK. Mohammad Rabban Ali.  
Director



13. Mr. A. Jabbar Mollah  
Director



14. Mr. K. M. Ashaduzzaman.  
Managing Director



Mr. Mahamud Hassan  
Company Secretary

Social Islami Bank Ltd. 15, Dikusha C/A, Dhaka-1000, Bangladesh. Phone PABX: 9550014,9557499, Fax: 880-2-9559013

[http://www.sibbd.com/html/board\\_of\\_directors.html](http://www.sibbd.com/html/board_of_directors.html)

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**SOCIAL INVESTMENT BANK LTD.**  
Head Office, Dhaka  
**DIRECTOR'S BUSINESS INFORMATION**

Sl. No.	Name	Name of Firms/ Companies	Nature of Business
1.	Mr. Abdul Awal Patwary, Chairman	<u>Chairman</u> *Patwary Cold Storage Ltd. <u>Proprietor</u> *Foyzal and Company *Teste, S. Fair. *Foyzal Shipping & Navigation *A.A. Maritime Int'l (BD) Ltd. *Foyzal Marble Corp.  <u>Chairman</u> *Ginza Int'l (BD) Ltd. *Airport Int'l Hotels and Faysal Shopping Mall	*Potato Preserve Center *Petrol Pumps. *Garments *Shipping *Int'l Shipping Lines.  *Importer of Marble, Granite and Sanitary Goods.  *Trading & 5 Star Residential Hotel.
2.	Alhaj Nasir Uddin, Vice Chairman	<u>Managing Director</u> *J.A.N. Corporation Ltd. <u>Proprietor</u> *Nams Trade Corporation. *Nasim Trading Company	*Import And Export  *Trading
3.	Mr. Md. Syedur Rahman, Vice Chairman	<u>Managing Director</u> *M/S Lodestar Garments Ltd. *M/S Lodestar Fashions Ltd. *M/S Mid Asia Fashions Ltd. *M/s Jessore Fishery	*Readymade Garments Industry -do- -do- *Pisciculture
4.	Major (Retd.) Dr. Md. Rezaul Haque, Director	<u>Chairman</u> *Little House Limited. *Forum Co-operative Society <u>Sponsor Director</u> *Continental Hospital Ltd.	*Real Estate Business  *Computer Training and etc  *Hospital Business
5.	Alhaj Sultan Mahmood Chowdhury, Director	<u>Proprietor</u> *Progati Rice, Dal, Flour and Oil Mills <u>Managing Director</u> *Progati Metal Industry	*Industry  *Industry
6.	Hamdard Laboratories (WAQF) Bangladesh Represented by: Mr. Anisul Haque 291/1, Sonargaon Dhaka.	Director Finance & Accounts Hamdard Laboratories & Waqf Bangladesh Ltd.	Herbal Medicine
7.	Mrs. Nargis Mannan, Director	Housewife	-
8.	Mrs. Zohra Alam, Director	House Wife.	-
9.	Mr. Kamal Uddin Ahmed, Director	<u>Proprietor</u> *Alif Commodities House. *Sonali Trading Corporation.	*Import and export. *C&F Firm.

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		<u>Director:</u> *Holy Crescent Hospital Ltd. *FAB Plus (Pvt.) Ltd.	*Hospital *Embroidery.
10.	Mr. Ahmed Akbar Sobhan, Director	<u>Chairman &amp; Managing Director:</u> *Basundhara Group of Companies Sena Kalyan Bhaban (14th floor) 195, Motijheel C/A, Dhaka-1000  *East West Property Dev. (Pvt.) Ltd. *Bashundhara Import Export Ltd. *Frey Schmidt Tissue Ltd. *Meghna Cement Mills Ltd. *Bashundhara Paper Mills Ltd. *Shahjalal Newsprint Industries Ltd.	*Real Estate and Housing *International Trading House *Soft and Special Grade Tissue Paper making  *Clinker Grinding Cement Mills. *Recycle Pulp and Newsprint Making Industries.
11.	Alhaj Sk. Mohd. Rabban Ali, Director	<u>Managing Director:</u> *Rabban Trading Company Ltd. *Shamion Industries Ltd. *Shama Poly Yarn Industries Ltd.	*Import of Petro-Chemical Product/ Chemical., Food Grains etc. *Manufacturer of Nylon *Filament yarn. *Manufacturer of Poly yarn.
12.	Mr. Munshi Akhtaruzzaman, Director	<u>Managing Director</u> Inland Navigation Dev. Corporation Moinamoti Ice & Cold Storage Ltd. <u>Co-owner</u> Rahman Mansion, <u>Proprietor:</u> M/S. Akhter Enterprise	*Coastal Cargo Vessels  *Import of Various Items.
13.	Mr. Md. Humayun Kabir Khan, Director	<u>Chairman</u> Smooth Corporation	Trading
14.	Mr. K.M Asaduzzaman Managing Director		

**2. Al-haj Nasiruddin:**

Al-haj Nasiruddin is the son of late Jamal Ahmad, was born in 1962 at Chittagong. He has completed his graduation in arts. He has long 20 years of business experience. He is a sponsor Director of Social Investment Bank Ltd. He is also the proprietor of M/s. Nasim Trading Company and M/s Nams Trade Corporation. He is the Chairman of the Claims Committee of the Northern General Insurance Co. Ltd. He has attached with various educational and socio-cultural activities.

**3. Ms. Thamina Rahman:**

Ms. Thamina Rahman is the daughter of Alhaj Khalilur Rahman, comes from a respectable Muslim family of Chittagong. She has almost 8 years experience in the different sector of business. She has a pleasant personality.

**4. Mr. S.M. Ayub Ali Chowdhury:**

Mr. S.M. Ayub Ali Chowdhury has a long 25 years of experience in various types of business. He is the Managing Director of City Pharmaceuticals Limited. He is also the Director of Hi-Fashion Limited, K.B.Knit Fashion Limited, Fortune Fashion Limited and the proprietor of M/s Chowdhury Construction. He is a business graduate. He was born in 1949 at Chittagong.

**5. Mr. Abdul Matin:**

Mr. Abdul Matin was born in the year 1944. He has a long 35 years of vast business experience in different field of business. He has obtained diploma in Textile Chemistry. He is the Chairman of Narsingdi Hatchery and fisheries Ltd., Managing Director of Modern Dyeing & Screen Printing Limited, Director of Metropolitan Medical Center Limited, Rupali Life Insurance Co. Limited, and Proprietor of Modern Textile Mills. He is also a member of the Board of Governors of Prime Asia University. He is the president, Institution of Textile Engineers and Technologists Bangladesh. He is a very amiable person.

**6. Al-haj Mohd. Saiful Alam:**

Al-haj Mohd. Saiful Alam was born in the year 1959 in a respectable muslim family of Chittagong. He is a renowned business personality. He is the Chairman of the S. Alam Group and First Security Bank Ltd. He has long 20 years experience as a leader in the industry. Other than Northern General Insurance Co. Ltd. he is the Director of S. Alam Cold Rolled Steel Limited, S. Alam Steels Limited, S. Alam Cement Limited, S. Alam Vegetable Oil Limited, S. Alam Super Edible Oil Limited, S. Alam Bag Manufacturing Mills Limited, S. Alam Hatchery Limited, S. Alam Luxury Chair Coach Service Limited, S. Alam Brothers Limited, S. Alam Poultry Feeds Mills Limited and S. Alam Trading Company (Pvt.) Limited. He has keen interest in various educational and socio-cultural organizations. He has a very pleasant personality.

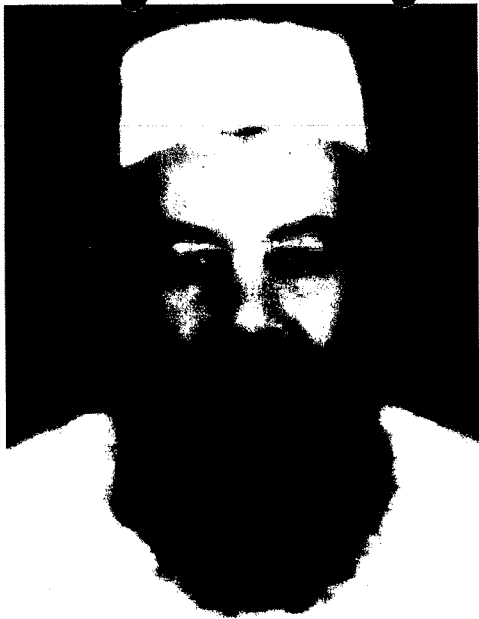
**7. Mr. Arshadul Alam:**

Mr. Arshadul Alam is the son of Al-haj Md. Abdul Maleque, comes from a respectable muslim family of Chittagong. He has completed his BBA. He is the Director of ZESCO Bangladesh Limited. He has interest in various socio-cultural activities.

**8. Mr. Foysal Ahmed Patwary:**

Mr. Foysal Ahmed Patwary is a young, energetic and dynamic entrepreneur and businessman of the country. By birth, he came of an industrialist family. He is engaged in different business such as export, import and shipping since long. Because of his dynamism and excellent leadership in several prestigious sectors, he is popular in the business community. Other than Northern General Insurance Co. Ltd., he is also a director of Patwary Potato Flakes Limited and Greentech Greenhouse Bangladesh Limited, both are 100% export oriented agro-based industry. He is very much active using his tremendous leadership to the progress and development of the insurance

Document Page 1 of 2



01 Name : Mohammad Sayedur Rahman  
02 Father's Name : | *Redacted*  
03. Mother's Name : *Redacted*  
04. Position : Vice-Chairman, RANS Real Estate Ltd.  
05. Address : | *Redacted*  
*Redacted*  
06. Date Of Birth : *Redacted*  
07. Nationality : Bangladeshi by birth.  
*Redacted*

<http://ransrealestate.com/vice%20chairman.htm>

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*Redacted*

10. Qualification:

- a) Passed the S.S.C & H.S.C
- b) Science Graduate

11. Experience: :


- a) Vice Chairman, Social Islamic Bank
- b) Vice Chairman, RANS Real Estate Ltd.
- c) Managing Director, Lodestar Fashions Ltd.
- d) Managing Director, Midasia Fashions Ltd.
- e) Managing Director, Midasia Washing Ltd.
- f) Managing Director, Midasia Embroidery Ltd.
- g) Managing Director, Loadstar Packaging
- h) Managing Director, Blue Bell Shipping.

<http://ransrealestate.com/vice%20chairman.htm>

## Particulars of Director of SIBL

Name	: Md. Sayedur Rahman
Father's Name	: Redacted
Mother's Name	: Redacted
Date of Birth	: Redacted
Educational Qualification	: B.A
<b>Address</b>	
Present	: Redacted
Permanent	: Redacted
Business	: <i>Ex. Director, 100% export oriented Garments Industry</i>
Name of firms/Companies Where the interest is involved	: Managing Director: * M/s Lodestar Garments Ltd. * M/s Lodestar fashions Ltd. * M/s Mid Asia fashions Ltd. * M/s Jessore fishery
<b>Phone Numbers</b>	
Home	: Redacted
Office/Business	: Redacted
Mobile	: Redacted

Signature:

  
 (Md. Sayedur Rahman)

----- Welc



CHITTAGONG STOCK EXCHANGE LTD.

APXSP

- Board of Directors
- Trading Policy
- Trading System
- Listing Requirement
- Rules & Regulations
- Listed Companies
- Market Information
- Incentives
- Members
- Publication
- New Issues (IPO)
- Press Release
- Career @ CSE
- SEC Directives
- Feedback
- Download

applet error

Index for September 15, 2009		
CASPI	10490.7366	-0.0152%
CSE-30	8042.7133	-0.0047%
CSCX	6648.4093	-0.0151%

Issues traded: 160  
 Issues gained: 64  
 Issues incurred loss: 89  
 Issues remain unchanged: 7  
 CASPI = CSE All Share Price Index  
 CSE-30 = Index of 30 selected company  
 CSCX = CSE Selective Categories Index

Get Quote

Fixation of Payment Session | Annual Account Maintenance Fee | Warning on IPO Application | Change Regarding BO

**RECENT NEWS** **RECENT IPO - 2009**

**CSE NEW WEBSITE**

[Book Building Systems \(User Manual\)](#)

**IPO LOTTERY RESULT**

- [Islami Insurance Bangladesh Limited](#)
- [ICB AMCL Second Mutual Fund](#)
- [Marico Bangladesh Limited](#)
- [EBL First Mutual Fund](#)
- [RUPALI LIFE INSURANCE COMPANY LIMITED](#)
- [ASIA INSURANCE LIMITED](#)
- [BAY LEASING & INVESTMENT LIMITED](#)
- [Prime Finance First Mutual Fund](#)
- [BSRM Steels Limited](#)
- [Republic Insurance Company Ltd.](#)
- [MAKSONS SPINNING MILLS LIMITED](#)
- [NATIONAL HOUSING FINANCE AND INVESTMENT LTD.](#)
- [NORTHERN GENERAL INSURANCE](#)

<http://www.csebd.com/cse/start.html>

- \* 14.08.09: SEC Member stressed on honesty and integrity by the Authorized Representatives during brokerage operation. >>
- \* 13.08.09: SEC Chairman urged investors to invest fundamentally good stocks. >>
- \* 14.07.09: CSE Upgraded Trading Software with more modern features. >>
- \* 07.07.09: CSE bifurcate of Insurance Sector, effective from 9th July, 2009. >>
- \* 24.06.09: CSE continues super ceding own records. BDT 163 crore turnover, all time high. >>
- \* 18.06.09: CSE's trade volume hit all time high Over 150 crore trade at CSE. >>
- \* 09.06.09: CSE awarded Certificates. >>
- \* 20.05.09: President of the both bourses pledged best efforts for Capital Market Development told at CSE-DSE Joint Press Conference. >>
- \* 20.05.09: SEC Chairman vows full support to the bourses >>
- \* 19.05.09: Grameenphone shares listing soon. Says Oddvar Hesjedal, CEO-GP at CSE Meeting. >>
- \* 10.05.09: CSE reviewed CSE-30 index. >>
- \* 15.03.09: SAFE 8th AGH held at Abu Dhabi. Adnan Afridi elected as Chairman of SAFE. CSE Vice President Fakhor Uddin Ali Ahmed elected as Senior Vice President of SAFE. >>
- \* 9.03.09: Foreign Ministry will ensure full cooperation to
- \* DHAKA INSURANCE LIMITED (December 05, 2009-December 10, 2009) | [Prospectus\(PDF, 1625 KB\)](#) >>
- \* PROVATI INSURANCE COMPANY LIMITED (November 15, 2009-November 19, 2009) | [Prospectus\(PDF, 3536 KB\)](#) >>
- \* Grameen Phone Limited (October 04, 2009-October 18, 2009) | [Prospectus\(PDF, 2241 KB\)](#) >>
- \* ICB AMCL SECOND MUTUAL FUND (August 09, 2009-August 16, 2009) | [Prospectus\(PDF, 280 KB\)](#) >>
- \* THE DACCA DYING AND MANUFACTURING COMPANY LIMITED (30.08.2009-03.09.2009) | [Prospectus\(PDF, 661 KB\)](#) >>
- \* ISLAMI INSURANCE BANGLADESH LIMITED (16/08/2009-20/08/2009) | [Prospectus\(PDF, 1421 KB\)](#) >>
- \* Marico Bangladesh Limited (August 2-August 6, 2009) | [Prospectus\(PDF, 1714 KB\)](#) >>
- \* EBL FIRST MUTUAL FUND (June 21-June 25, 2009) | [Prospectus\(PDF, 502 KB\)](#) >>
- \* RUPALI LIFE INSURANCE COMPANY LIMITED (May 03-May 07, 2009) | [Prospectus\(PDF, 3.67 MB\)](#) >>
- \* ASIA INSURANCE LIMITED (April 19-April 23, 2009) | [Prospectus\(PDF, 1992 KB\)](#) >>
- \* PRIME FINANCE FIRST MUTUAL FUND (January 4-January 8, 2009) | [Prospectus\(PDF, 351 KB\)](#) >>
- \* BAY LEASING & INVESTMENT LIMITED (January 18-January 22, 2009) | [Prospectus\(PDF, 1503 KB\)](#) >>

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**View Dividend Information of listed companies**

**Download dividend information:**

Excel format (size: 148 KB)

**View Seleted 30 Companies**

[View A List of Companies](#)

[View Company Address](#)

<http://www.csebd.com/cse/companyinfo/company.asp?s=1>

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----- Company Name

1&gt; 2&gt; 3&gt;

## Names of Securites

## Insurance

1. 10001 Delta Life Insurance Company Ltd.
2. 10001 Delta Life Insurance Company Ltd.
3. 10002 National Life Insurance Company Ltd.
4. 10003 Sandhani Life Insurance Company Ltd
5. 10004 Popular Life Insurance Company Ltd.
6. 10005 Fareast Islami Life Insurance Company Ltd.
7. 10006 Meghna Life Insurance Company Ltd.
8. 10007 Progressive Life Insurance Company Ltd.
9. 10008 Pragati Life Insurance Ltd.
10. 10009 Prime Islami Life Insurance Ltd.
11. 10010 Rupali Life Insurance Company Ltd.
12. 11002 Peoples Insurance Company Limited
13. 11003 Green Delta Insurance Company Ltd
14. 11004 Reliance Insurance Ltd.
15. 11005 Janata Insurance Company Ltd.
16. 11006 Central Insurance Company Ltd.
17. 11007 Federal Insurance Company Ltd.
18. 11010 Bangladesh General Ins. Company Ltd.
19. 11011 Pragati Insurance Ltd
20. 11013 Phoenix Insurance Company Ltd
21. 11014 Eastern Insurance Company Ltd
22. 11015 Eastland Insurance Company Ltd
23. 11016 Prime Insurance Company Ltd.
24. 11017 Pioneer Insurance Company Ltd.
25. 11021 Nitoli Insurance Company Ltd.
26. 11022 Asia Pacific General Insurance Company Ltd.
27. 11024 Sonar Bangla Insurance Ltd.
28. 11027 Paramount Insurance Co. Ltd.
29. 11028 City General Insurance Co. Ltd.
30. 11029 Continental Insurance Ltd.
31. 11030 Takaful Islami Insurance Ltd.
32. 11031 Standard Insurance Ltd.
33. 11032 Northern General Insurance Co. Ltd.
34. 11033 Republic Insurance Co. Ltd.
35. 11034 Mercantile Insurance Company Ltd.
36. 11035 Asia Insurance Ltd.

## Textiles &amp; Clothing

1. 12001 GMG Industrial Corporation Ltd
2. 12002 Prime Textile Spinning Mills Ltd
3. 12003 Apex Weaving & Finishing Mills Ltd
4. 12004 Apex Spinning & Knitting Mills Ltd.
5. 12005 M.Hossain Garments Was. & Dy. Ltd
6. 12006 Dulamia Cotton Spinning Mills Ltd
7. 12008 Beximco Synthetics Ltd
8. 12011 Bextex Ltd
9. 12012 Sajib Knitwear and Garments Ltd
10. 12013 Chictex Ltd
11. 12014 Sreepur Textile Mills Ltd
12. 12015 Monno Fabrics Ltd
13. 12016 Eagle Star Textile Mills Ltd
14. 12017 Alltex Industries Ltd
15. 12018 Bangladesh Dyeing & Finishing Ind. Ltd.

<http://www.csebd.com/cse/companyinfo/CompanyName.html>

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----- Company Name

**Banking**

1. 22002 AB Bank Ltd
2. 22003 National Bank Ltd
3. 22004 United Commercial Bank Ltd
4. 22005 Rupali Bank Ltd
5. 22006 The City Bank Ltd
6. 22007 Pubali Bank Ltd
7. 22008 Islami Bank Bangladesh Ltd
8. 22010 IFIC Bank Ltd
9. 22012 Al-Arafah Islami Bank Limited
10. 22013 Prime Bank Ltd.
11. 22014 Dhaka Bank Ltd.
12. 22015 Southeast Bank Ltd.
13. 22016 National Credit & Commerce Bank Ltd.
14. 22017 Dutch- Bangla Bank Ltd.
15. 22018 Mutual Trust Bank Ltd.
16. 22020 Standard Bank Limited
17. 22021 One Bank Ltd.
18. 22022 Bank Asia Ltd.
19. 22023 Mercantile Bank Limited
20. 22024 Uttara Bank Ltd.
21. 22025 Eastern Bank Ltd.
22. 22026 Exim Bank Ltd.
23. 22027 Social Islami Bank Ltd.
24. 22028 Jamuna Bank Ltd.
25. 22029 BRACK Bank Ltd.
26. 22030 Shahjalal Islami Bank Ltd.
27. 22031 The Premier Bank Ltd.
28. 22032 Trust Bank Ltd.
29. 22033 First Security Islami Bank Ltd.

<http://www.csebd.com/cse/companyinfo/CompanyName.html>

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**CIBM - Institutional Banking****Part One - Medium Risk**

OECD FATF web site

KYC Profile Reference Number:

Institutional Client Name:

Social Islami Bank Limited

- Redacted by the Permanent  
 Subcommittee on Investigations

**A Basic Identification Details**

Address: Head Office, 15, Dilkusha Commercial Area  
Dhaka-1000, Bangladesh

Country/Territory: Bangladesh

Telephone: 88 02 9559014, 9568098, 9568275

Facsimile: 88 02 9559013, 9564764

WebSite: www.sibbd.com

HSBC Entity Italy

Industry Sector Banks

Type of Client: Publicly quoted/widely held

What is the client's principal line(s) of business? (Please click here to see Explanatory Note 22)  
Social Investment is a Islami Shariah based bank. The principle lines of business include export-import, credit and investment, deposit collection. The loans are both in the manufacturing and service industry. The manufacturing customers include textiles, garment, chemicals and transportation while distribution makes up the service sector.

Country/Territory in which the client is incorporated: Bangladesh

Confirm that the client is regulated: Yes

By which body is the client regulated Bangladesh Bank

Detail regulatory body role and powers within the broad financial infrastructure of the country (Please click here to see Explanatory Note 31F)  
The Banks in Bangladesh is regulated by the Bangladesh Bank (country's Central Bank). The Central Bank has statutory objectives relating to the financial system: maintaining market confidence; promoting public understanding; protecting consumers; and reducing financial crime. Bangladesh Bank operates a principles based regulatory regime and has authorisation, enforcement, supervision and rule making functions relating to firms. The Central Bank has the power to issue fines for breaches of its regulations both against firms themselves and their senior management and, in extreme cases, could suspend or cancel a firm's license to conduct banking business.

<http://emea-apps.systems.uk.hsbc/coreapps/KYC/ghqkyc.nsf/AdvSearch/776C0BD8F65FCDC80257574005AB4EB?..>

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Confirm that certified copy of banking licence/certificate of incorporation is on file and that there are no restrictions and that this has been reviewed. (Please click here to see Explanatory Note 20)	On file
Confirm that it is not a Shell Bank: (A Shell Bank has no physical presence in any jurisdiction, and no affiliation to a regulated bank which does) (Please click here to see Explanatory Note 4)	Not a Shell Bank.
Confirm that it is not an Offshore Bank: (Please click here to see Explanatory Note 26)	Not an offshore bank
Year in which the client was established:	1995
Client's rank in country:	18th (as per Almanac 2000)
Is the client traded on an exchange? (Please click here to see Explanatory Note 6)	Yes
Which exchange? (Please click here to see Explanatory Note 6)	Dhaka & Chittagong Stock Exchange
Date Relationship with local office commenced (dd/mm/yyyy):	09/01/2006

**B Ownership/Management**

Do the activities and or/reputation of any disclosed shareholder(s) increase the risk profile of the client: (Please click here to see Explanatory Note 1)

No

Confirm that you have verified the identity of each principal owner, and confirm that an appropriate level of due diligence with regard to such owners has been performed: (Please click here to see Explanatory Note 2)

Not applicable, No single individual/entity has more than 10% stake in the bank.  
It's worth mentioning here that, the U.S. Department of the Treasury , on AUG06, designated the Philippine and Indonesian branch offices of the Saudi-based International Islamic Relief Organization (IIRO) in OFAC sanction list.  
Saudi base IIRO is one of the sponsor shareholders of Social Investment Bank, although there is no established connection between IIRO's Dhaka office and offices in Philippine and Indonesia. Based on the feedback from SIBL, IIRO's role remains that of a minority

<http://emea-apps.systems.uk.hsbc/coreapps/KYC/ghqkyc.nsf/AdvSearch/776C0BD8F65FCDCC80257574005AB4EB?..>

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shareholder that does not seek to engage in the management nor to the board of the bank.

Would any of the principal owners/controllers of the client be classified as special category clients (SCC) ? (Please click here to see Explanatory Note 25)

No

Confirm that membership and composition of the Board is appropriate  
Details Chairman and Chief Executive  
If appropriate conduct World Check (or similar) search on the Chairman and Chief Executive (Please click here to see Explanatory Note 29)

Membership and composition of the board is appropriate and as per Bangladesh Bank guidelines.

Worldcheck has been completed on Major Dr. Md Rezaul Haque (Retd.), Chairman, and Mr. K M Ashaduzzaman, Managing Director. No matching entry was found for either names.

#### C Money Laundering Control Policy, Procedures and Controls

Confirm that measures are taken by the client to ensure that they do not provide financial services to listed terrorists and/or sanctioned names notified by competent Authorities (Please click here to see Explanatory Note 23)

Yes

Please provide details:

Social Investment Bank (SIBL) recognizes that terrorist financing needs to be combated and confirm efforts are made to prevent this. SIBL screen potential clients against the terrorist lists as part of the account opening process. They periodically check their customer base against the lists, they have an active Compliance Department, who are monitoring the activities (even during the time of account opening) of the account through out the year.

Confirm that measures are taken by the client to ensure that they do not make funds available to listed terrorists and/or sanctioned names notified by competent Authorities (Please click here to see Explanatory Note 24)

Yes

Please provide details:

SIBL monitors client payments to prevent terrorist financing. Although they don't have real-time payment screening process/system, like other banks in Bangladesh, right at the moment (as their branches are not online), but the branch Compliance Officers are regularly monitoring the payment behavior of their customers, which scans whether any of the listed names appear in payment messages are in the terrorist lists or

<http://emea-apps.systems.uk.hsbc/coreapps/KYC/ghqkyc.nsf/AdvSearch/776C0BD8F65FCDCC80257574005AB4EB?..>

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not. If they find any suspicious name, they immediately take action.

Does the client's country endorse "The Recommendations of the Financial Action Task Force on Money Laundering"? (even though it may not be a member of FATF, see explanatory note 7 and the OECD web site)

Yes

Confirm that FATF principles regarding client identification; anonymous accounts; client activity monitoring; a risk-based approach to products/geographies; employee training; and audits of controls are incorporated in the client's policy, procedures and controls:

Although Bangladesh is not a FATF member, it follows the FATF recommendations. The "Money Laundering Prevention Act 2002" covers the recommendations. All scheduled banks are required to strictly follow the act. All banks check the identity of the clients, their activities and the locations they are operating. SIBL does provide "Anti Money Laundering" training to their staff as and when required. They have Compliance Department, which is located in their head office and they also formed compliance team at the branch level to incorporate the "Anti Money Laundering" policies and procedures. The teams are monitoring the day-to-day activities of their client.

The bank considers Money Laundering as high risk and takes active actions in reducing and eliminating such risk by following their internal guidelines and compliance with administrative requirements enforced by the Bangladesh Bank (Central Bank). We note that more stringent anti money laundering rules were brought by the government in APR02 (2002 Money Laundering Prevention Act).

Describe how the policy, procedures and controls are communicated and enforced effectively in the client's network of domestic and international offices: (Please click here to see Explanatory Note 3)

Like other Bangladeshi Bank, SIBL strictly follows account opening procedure as prescribed by the Bangladesh Bank. Detailed information of the applicant, copies of passport and permanent address are obtained. -Two copies of passport size photographs of the applicant duly attested by the introducer are obtained. -Introduction by a person known as acceptable to the bank. -Account is opened by the bank being satisfied about the information of the applicant mentioned above. - Name of the Nominee is required while opening account. - Besides the above, according to Money Laundering Act and Bangladesh Bank guidelines possible transaction profile of the customer needs to be recorded. Monitoring -SIBL's book of accounts, transaction and records are audited internally annually. Besides this, as per legal requirement an external annual audit has to be undertaken by a Chartered Accountants firm. Bangladesh Bank and other Govt. agencies also undertakes regular/surprise audits. In compliance with the Bangladesh Bank recent circulars in line with the recently enacted Money Laundering Prevention Act, SIBL has already formed an anti ML committee at head office, headed by an Executive Vice President, who is also the board secretary. They also formed compliance team at the branches. As per the AML Act Bangladesh Bank has entrusted with the responsibility of providing training to the banks on ML deterrence. Bangladesh Bank has already issued some guidelines, in line of which

<http://emea-apps.systems.uk.hsbc/coreapps/KYC/ghqkyc.nsf/AdvSearch/776C0BD8F65FCDCC80257574005AB4EB?..>

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SIBL also taken initiative to train their staff. SIBL organizes seminar/training program for their staff semiannually at their head office and regional offices. SIBL states that there are no anonymous account in their book. Also note that Central Bank has already issued circulars disallowing new sale or renewal of existing Bearer Certificate of Deposit (BCD). SIBL is in compliance with this rule of Bangladesh Bank.

Confirm specifically that client's policy prohibits relationships with, and payment processing for, Shell Banks: (Please click here to see Explanatory Note 4)

Yes

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**D Client Visiting**

Confirm that a visit/contact will be made by the Global Relationship Manager, Regional Relationship Manager or a Product Specialist in the first year of the relationship: (Please click here to see Explanatory Note 5)

Once a year

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**E Additional Local Regulatory Requirements**

If applicable: (Please click here to see Explanatory Note 19)

Financial institutions in Bangladesh are under the supervision of Bangladesh Bank and the Ministry of Finance. Regulations and ordinances from these regulatory bodies have suggested the government's power to exercise tight foreign exchange control as well as to supervise the usage of foreign exchange resources. The account activities (current account as well as capital account) are under the strict foreign exchange control and reporting requirement. Bangladesh Banks stringent regulations on FEX flows minimise the possibility of money laundering. At present, Bangladesh Taka (BDT) is not fully convertible. All FEX transaction undertaken by commercial banks are governed by the "Guidelines for Foreign Exchange Transactions" published by Bangladesh Bank. As per the rules incorporated in the guidelines, for inward remittance a return called "From C" has to be submitted to Bangladesh Bank detailing the purpose of the remittance. There are some exceptions, but are subject to submission of proper documents and ceilings. The guidelines also imposed restriction on outward remittance have to be made through opening of Letter of Credits (LC). Banks are mandated to obtain credit report of beneficiary before opening of LC. Banks are also required to check the proforma invoice / indents carefully before opening of LCs. This minimises the possibility of over/under invoicing. For other purposes, like buying books, study materials, medical and travel and training some flexibilities are allowed. Again, these are

<http://emea-apps.systems.uk.hsbc/coreapps/KYC/ghqkyc.nsf/AdvSearch/776C0BD8F65FCDCC80257574005AB4EB?..>

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subject to submission of documents. The guidelines also advise the nature and type of accounts that can be opened by the commercial banks. The guidelines call for proper identification before opening of such accounts. Prior approval is required if an account does not tally with any of the features/criteria mentioned in the Guidelines. Bangladesh Bank gives a separate license (named Authorised Dealership License) to selected bigger commercial bank branches to allow them in dealing with foreign currencies. This license could be subject to suspension or withdrawal on Bangladesh Bank's detection of non-compliance. Bangladesh has passed the AML Act 2002 in APR, where all responsibilities have been entrusted with Bangladesh Bank to investigate and monitor ML cases in the banks. Bangladesh Bank has advised the banks to submit bi-monthly and quarterly returns on ML issues.

---

**F Global Relationship Manager**

Global Relationship Manager      Mahbut Ur Rahman, Senior Corporate Banking Manager, HSBC Bangladesh

---

**Part Two - Transaction Activity**
**A Transactional Details**

Nature of account/relationship (tick where appropriate):      **Trade**

Other, please state:

Is this a Banknote Client?      **No**

Client's stated use/purpose of the account/relationship:      **Trade related services**

Confirm that the client will be the only operator of the relationship. (Please click here to see Explanatory note 21)      **Yes**

---

**B Transactional Activity**

The Know Your Customer policy requires a listing of the client's

<http://emea-apps.systems.uk.hsbc/coreapps/KYC/ghqkyc.nsf/AdvSearch/776C0BD8F65FCDC80257574005AB4EB?..>

---

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approximate business activity with HSBC, and subsequent monitoring of actual business against it.

*Please Note that it is against policy to accept payment instruction from Shelf Banks direct, or via relationships with us.*

Type of Transaction:	Advising of unconfirmed Dcs
Frequency:	Spot transaction
Volume/value:	Usd 390K

---

**C Additional information required for Banknote clients**

---

**D Approval Section**

Name of Relationship Manager recommending: Mauro Polinori

I have reviewed the information provided above, in the context of HSBC's KYC policy and due diligence criteria. I am satisfied that the client's money laundering deterrence policy, procedures and controls are of a sufficient standard for me to recommend this client for banking business and that transactions are consistent with the customer's known legitimate business activity. Please click here to see Explanatory Note 18

If approval is subject to certain conditions, include details here:

Date completed: (dd/mm/yyyy) 09/03/2009

Date for next review (mm/yyyy) Please click here to see Explanatory Note 17: 03/2011

Senior Manager/Regional Manager Institutional Banking approving: Name and date: Gerd C Pircher - Head of Client management

Head of Institutional Banking/Regional Sector Head concurring: (Only required for High Risk countries, where one or more of the principal owners/controllers are classified as an SCC, or for Offshore Banks/Financial Institutions) Name and date: Please click here to see Explanatory Note 26

<http://emea-apps.systems.uk.hsbc/coreapps/KYC/ghqkyc.nsf/AdvSearch/776C0BD8F65FCDCC80257574005AB4EB?..>

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Compliance officer (RMLCO in Asia Pacific) concurring: (Only required for High Risk countries)  
Name and date:

Please indicate if the profile has been declined or approved : **Approved**

Decline Reason : **N/A**

Date form completed: (dd/mm/yyyy) **10/03/2009**

**F Author Details**

Document Edit history

Revision No.	Editor	Date and time
1	Gerd C PIRCHER	03/10/2009 07:43:00 GMT
0	Mauro POLINORI	03/09/2009 17:20:10 GMT

<http://emea-apps.systems.uk.hsbc/coreapps/KYC/ghqkyc.nsf/AdvSearch/776C0BD8F65FCDCC80257574005AB4EB?...>

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1976



Re: Fw: Compliance Conditions : Social Islami Bank Ltd  
Virgil D RODRIGUES to: Jon K Jones  
Cc: Ahmed SAAD, Ishtiaque AHMAD, Sadique REZA, Hersel Mehani 05/18/2010 03:57 AM

Dear Jon,

Please note comments on you mail in GREEN.

Regards

**Virgil D RODRIGUES**  
Assistant Relationship Manager, Institutional Banking | HSBC BANGLADESH  
Dhaka Main Office,Anchor Tower,7th Floor  
108, Bir Uttam C.R Dutta Road,Dhaka-1205

Redacted by the Permanent Subcommittee on Investigations

Phone. +880 2 9660536-43 X 720  
Fax. +880 2 8626560  
Mobile. [Redacted]  
Email. [virgil@rodrigues@hsbc.com.bd](mailto:virgil@rodrigues@hsbc.com.bd)  
Internet. <http://www.hsbc.com.bd>

Sadique REZA/HSS DAK/HBAP/HSBC



Sadique REZA/HSS  
DAK/HBAP/HSBC  
HSS DAK/HBAP  
05/09/2010 03:49 PM  
Phone No. 880 2 9660536 X  
260  
Mail Size: 12916

To Virgil D RODRIGUES/IB DMO/HBAP/HSBC@HSBC03  
cc Ishtiaque AHMAD/IB DAK/HBAP/HSBC@HSBC03, Ahmed  
SAAD/IB DAK/HBAP/HSBC@HSBC03  
Subject Fw: Compliance Conditions: Social Islami Bank Ltd  
Our Ref  
Your Ref

Virgil

Address this issue immediately.

regards

**Sadique REZA**  
Division Head | Institutional Banking & Securities Services | The Hongkong and Shanghai Banking Corporation Limited  
Anchor Tower 7th Fl 108 Bir Uttam C.R. Dutta Road | Dhaka -1205 | Bangladesh.

Phone. 880 2 9660536 X 770  
Fax. 880 2 9660554  
Mobile. [Redacted]  
Email. [sadiquereza@hsbc.com.bd](mailto:sadiquereza@hsbc.com.bd)

Forwarded by Sadique REZA/HSS DAK/HBAP/HSBC on 05/09/2010 03:48 PM



Jon K  
Jones/HBUS/HSBC@HSBC0 To Jon K Jones/HBUS/HSBC@HSBC02  
2  
08 May 2010 02:15 Mail Size: cc Hersel Mehani/HBUS/HSBC@HSBC02, Ishtiaque

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HSBC-PSI-PROD-0102737

1977



9794

Subject AHMAD/IB DAK/HBAP/HSBC@HSBC03, PSRR@HSBC02,  
Sadique REZA/HSS DAK/HBAP/HSBC@HSBC03  
Re: Compliance Conditions: Social Islami Bank Ltd

More Options  
Our Ref  
Your Ref

Hi Ishtiaque:

Were the below issues addressed with Social Islami?

Thanks for your assistance,

Jon K Jones  
Senior Analyst | HSBC Bank USA  
90 Christiana Road, New Castle, DE 19720  
Phone 302-327-2017

Jon K Jones Ishtiaque, Thanks for your help; the KYC for this... 02/09/2010 03:39:17 PM

From: Jon K Jones/HBUS/HSBC  
To: Sadique REZA/HSS DAK/HBAP/HSBC@HSBC03, Hesel Mehani/HBUS/HSBC@HSBC02,  
Ishtiaque AHMAD/IB DAK/HBAP/HSBC@HSBC03  
Cc: Ali S Kazmy/HBUS/HSBC@HSBC02, Gillian E Bachstein/HBUS/HSBC@HSBC02,  
PSRR@HSBC02  
Date: 02/09/2010 03:39 PM  
Subject: Compliance Conditions: Social Islami Bank Ltd

Ishtiaque,

Thanks for your help; the KYC for this account has been fully approved. Compliance, however, has added conditions for approval as is listed below. Please be advised there are 30 days to fulfill these conditions:

- 1 - Pursuant to 3/8/2005 CS condition, annual HSBC CEO approval is required to maintain this relationship. Confirmation is required if this condition has been met. (Please Provide) Will be informed to you shortly.
- 2 - Confirmation required if the Board of the bank has ousted the IIRO as previously confirmed. (Last confirmation was "no" - August 2009) As local law does not permit unilateral offloading of shares ; after relevant approval from the Board of Directors ,the bank has filed a petition with High Court ,in this regard.The matter is currently under judicial process .
- 3 - Fresh confirmation is required that no dividends have been paid to IIRO. (Last confirmation - August 2009)  
All dividend and other benefits arising from the holding has been suspended vide Central Bank Directive dated 10th December,2006

Thanks and regards,

Jon K Jones  
Senior Analyst | HSBC Bank USA

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HSBC-PSI-PROD-0102738

1978

90 Christiana Road, New Castle, DE 19720  
Phone 302-327-2017

----- Forwarded by Jon K Jones/HBUS/HSBC on 02/09/2010 03:32 PM -----

From: Ali S Kazmy/HBUS/HSBC  
To: Jon K Jones/HBUS/HSBC@HSBC02  
Cc: HBUS KYC System Admin  
Date: 02/08/2010 07:28 PM  
Subject: KYC Customer Profile is Approved with Condition: Social Islami Bank Ltd

---

A KYC Customer Profile has been approved with Condition for this client in BANGLADESH.

The Condition :

- 1 - Pursuant to 3/8/2005 CS condition, annual HSBC CEO approval is required to maintain this relationship. Confirmation is required if this condition has been met.
- 2 - Confirmation required if the Board of the bank has ousted the IIRO as previously confirmed.
- 3 - Fresh confirmation is required that no dividends have been paid to IIRO.

You may click on the following link to the profile:



---

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HSBC-PSI-PROD-0102739

1979



**Re: EDD Report of Findings : AB Bank Limited in Bangladesh (PCM)**  
Ali S Kazmy to: Daniel Jack 05/18/2010 09:03 AM  
Cc: Brian R Miloscia, Denis E O'brien, Joanna S Flanagan, Jon K Jones,  
Judy P Stoldt, PSRR

History: This message has been forwarded.

Dan,

Before Jon addresses the issues raised in the report, specifically with regards to the recommendation to "exit" the relationship, lets discuss internally as SAS needs to clarify their stand. Recommending to the business to exit a relationship, without complete and thorough analysis and in the absence of consultation with the LCO is a knee jerk reaction and reflects a silo'd approach to AML risk mitigation. Could you please set up a meeting/conference call.

Regards,

AK.

Daniel Jack Jon, Please review this ROF and provide us with... 05/17/2010 09:09:37 PM

From: Daniel Jack/HBUS/HSBC  
To: Jon K Jones/HBUS/HSBC@HSBC02  
Cc: PSRR@HSBC02, Ali S Kazmy/HBUS/HSBC@HSBC02, Joanna S Flanagan/HBUS/HSBC@HSBC02, Denis E O'brien/HBUS/HSBC@HSBC02, Judy P Stoldt/HBUS/HSBC@HSBC02, Brian R Miloscia/HBUS/HSBC@HSBC02  
Date: 05/17/2010 09:09 PM  
Subject: EDD Report of Findings: AB Bank Limited in Bangladesh (PCM)

Jon,

Please review this ROF and provide us with a response to the negative info on this PCM-only client, including the following:

- "Due to the above red flags identified in this review including the reputational and AML risks associated with AB Bank, its chairman and senior executive management, we recommend that this relationship be exited."

We realize this client is already an SCC due to PEP. KYC profile ----> But we need clarification/resolution on the EDD ROF issues. And due to the reputational risk to HSBC, you should obtain strong management support if PCM plans to continue this relationship.

Thanks and regards,

**Daniel Jack**  
Vice President - Compliance Officer, GTB  
HSBC Bank USA, NA  
452 Fifth Avenue, 7th floor, New York, NY 10018

Phone: 212-525-8698  
Email: [daniel.jack@us.hsbc.com](mailto:daniel.jack@us.hsbc.com)

----- Forwarded by Daniel Jack/HBUS/HSBC on 05/17/2010 08:51 PM -----

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HSBC-PSI-PROD-0102740

1980

From: FIG HBUS@HSBC03  
To: Jon K Jones/HBUS/HSBC@HSBC02  
Cc: Daniel Jack/HBUS/HSBC@HSBC02, FIG HBUS@HSBC02, Ali S Kazmy/HBUS/HSBC@HSBC02  
Date: 05/17/2010 05:13 AM  
Subject: Report of Findings: AB Bank Limited; FRU  
Sent by: Krishna K Pentapelli @ HSBC03

---



Please find attached report of findings on AB Bank Limited.

*\* Please note that for your convenience, space for Compliance Officer and/or Business Unit comments has been reserved at the bottom of this report.*

[attachment "AB Bank Limited-Final.doc.zip" deleted by Ali S Kazmy/HBUS/HSBC]

Please feel free to contact Brian Miloscia (212-5254214) if you have any queries.

---

Daniel Jack	FIG, Please provide us with an updated EDD R...	01/06/2010 12:35:15 AM
-------------	---	------------------------

---

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1981



Compliance Conditions : Social Islami Bank Ltd

Jon K Jones to: Sadique REZA, Hersel Mehani, Ishtiaque AHMAD

02/09/2010 03:39 PM

Cc: Ali S Kazmy, Gillian E Bachstein, PSRR

Ishtiaque,

Thanks for your help; the KYC for this account has been fully approved. Compliance, however, has added conditions for approval as is listed below. Please be advised there are 30 days to fulfill these conditions:

- 1 - Pursuant to 3/8/2005 CS condition, annual HSBC CEO approval is required to maintain this relationship. Confirmation is required if this condition has been met. (Please Provide)
- 2 - Confirmation required if the Board of the bank has ousted the IIRO as previously confirmed. (Last confirmation was "no" - August 2009)
- 3 - Fresh confirmation is required that no dividends have been paid to IIRO. (Last confirmation - August 2009)

Thanks and regards,

Jon K Jones  
Senior Analyst | HSBC Bank USA  
90 Christiana Road, New Castle, DE 19720  
Phone 302-327-2017

----- Forwarded by Jon K Jones/HBUS/HSBC on 02/09/2010 03:32 PM -----

From: Ali S Kazmy/HBUS/HSBC  
To: Jon K Jones/HBUS/HSBC@HSBC02  
Cc: HBUS KYC System Admin  
Date: 02/09/2010 07:28 PM  
Subject: KYC Customer Profile is Approved with Condition: Social Islami Bank Ltd

A KYC Customer Profile has been approved with Condition for this client in BANGLADESH.

The Condition :

- 1 - Pursuant to 3/8/2005 CS condition, annual HSBC CEO approval is required to maintain this relationship. Confirmation is required if this condition has been met.
- 2 - Confirmation required if the Board of the bank has ousted the IIRO as previously confirmed.
- 3 - Fresh confirmation is required that no dividends have been paid to IIRO.

You may click on the following link to the profile:



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HSBC-PSI-PROD-0102742



**International Department**  
Head Office, Dhaka.

Ref: SIBL/HO/ID/F- /2009/ 1102  
Date: 08.03.2009

**Mr. Sadique Reza**  
Division Head  
Institutional Banking & Security Services  
The Hongkong and Shanghai Banking Corporation Limited.  
Dhaka.

**Sub: Information regarding Bank's ownership for KYC purpose.**

Muhtaram.

Assalamu Alikum Wa- Rahmatullah.

Thanks for your letter dated 26.02.2009. Below is our comment on ownership details.

□ Ownership Details :

The current Share holding of International Islamic Relief Organization (IIRO) in our bank is 3.85%. It is of mention that the bank doesn't have any transactions with this organization as share holder except that this organization purchased sponsor shares of the bank when it was floated and received initial bonus shares. An executive Director of this company having listed in the US Sanctions has been viewed with due concern by the management and the Board of the bank. The matter is taken to the notice of Bangladesh Bank and Security Exchange commission for permissions to dispose of the share holdings of this company since the company did not respond to the bank's request to offload their shares. The central bank has issued instruction to withhold application of any bonus shares, issue right shares and pay any cash dividend on the share holdings of the company until further instructions. However, the bank shall obtain authority of the Share holders of the bank in the Annual general Meeting to offload the shares of the company, as per authority of the articles of association of the bank, if the company doesn't come forward to offload their share holding or the bank shall seek for the honorable High Court's permission in this regard. We believe that there should not be any misunderstandings as to the share holdings by the company, which happened by chance for this company for purchasing the sponsor shares at the inception of the bank. We categorically inform this bank is in no way connected to any transactions with this company.

Head Office : 15, Dilkusha C/A, Dhaka-1000, Bangladesh, Phone : PABX : 9559014, 9565647, 9557499, 9568275, 9559276, 9580765  
Telex : 671567-8 SIBL BJ, Email : sibl@bdonline.com, Website : www.sib/bd.com, SWIFT : SOIVBDDH

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1983



As per the Share holding position as on 31.12.2008, one entity, Social Fund Trust holds above 5% share of the bank, which is 6.779% .We, have attached herewith a statement of Share holdings for this entity issued by the Share Department of the bank. Social Fund trust is a social welfare organization sponsored by the Directors of the bank. Social Investment Bank is a publicly traded company and is enlisted with Dhaka Stock Exchange and Chittagong Stock Exchange.

- Management Details- As for the management details we have attached herewith brief bio-datas for Mr. Abdul Awal Patwary Chairman of the board of Directors of the bank and Mr. Md. Syedur Rahman, Vice Chairman of the board of Directors of the Bank as sought for in your letter.
- We have also attached herewith the duly filled MTS Questionnaire.

We believe the above information/ documents shall serve your purpose. Should you need further information / document or clarifications on any point, please do not hesitate to contract me.

We believe the existing excellent relationship between our two organizations shall develop further in the days ahead.

Thanks for your support.

Sincerely yours,

A M M Farhad  
Executive Vice President  
Tel: 7174246

Enclose: As stated above

Head Office : 15, Dilkusha C/A, Dhaka-1000, Bangladesh, Phone : PABX : 9559014, 9565647, 9557499, 9568275, 9559276, 9560785  
Telex : 671557-S SIBL BJ, Email : sibl@bdonline.com, Website : www.sidibd.com, SWIFT : SOIVBDDH

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1984

Shareholding position as on 31.12.2008

Page 1 of 1

SL #	FOLIO	BOID	NAME	FOLIO SHARE	CDBL SHARE	TOTAL	(%)
1			INT. ISLAMIC RELIEF ORGANIZATION P.O. BOX # 14843, JEDDAH-21434, KINGDOM OF SAUDI ARABIA	504,450	0	504,450	3.85112
Total :				504,450	0	504,450	3.8511
Percentage :				100.00 %	0.00 %		

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HSBC-PSI-PROD-0102745

1985

re holding position as on 31.12.2008.

Page 1 of 1

SL#	FOLIO	BOID	NAME	FOLIO SHARE	CDBL SHARE	TOTAL	(%)
1	00070	[REDACTED]	SOCIAL FUND TRUST SOCIAL INVESTMENT BANK LTD., 15 DILKUSHA C/A DHAKA-1000	213,000	674,975	887,975	6.77906
Total :				213,000	674,975	887,975	6.7791
Percentage :				23.99	%	76.01	%

[REDACTED] - Redacted by the Permanent Subcommittee on Investigations




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HSBC-PSI-PROD-0102746

**PARTICULARS OF DIRECTOR OF SIBL**

• NAME : Abdul Awal Patwary  
 • FATHER'S NAME : Redacted  
 • MOTHERS'S NAME : Redacted  
 • DATE OF BIRTH : Redacted  
 • EDUCATIONAL QUALIFICATION : B.A.  
 • PRESENT ADDRESS : Redacted  
 • PERMANENT ADDRESS : Redacted  
 • BUSINESS :  
     Name of firms/Companies where the interest is involved  
     Chairman:  
     Patwary Cold Storage Ltd  
     Patwary Potato Flakes Ltd  
     Greentech GreenHouse Bangladesh Ltd  
     Managing Director:  
     Foysal Shopping Complex Ltd  
     Proprietor:  
     Foysal Traders  
 • PHONE NUMBER :  
     HOME Redacted  
     OFFICE/BUSINESS Redacted  
     MOBILE Redacted

Signature:


  
 (Abdul Awal Patwary)

1987

**PARTICULARS OF DIRECTOR OF SIBL**

Name	:	Md. Sayedur Rahman
Father's Name	:	Redacted
Mother's Name	:	Redacted
Date of Birth	:	Redacted
Educational Qualification	:	B.A
<b>Address</b>		
Present	:	Redacted
Permanent	:	Redacted
Business	:	100% export oriented Garments Industry
Name of firms/Companies Where the interest is involved	:	Managing Director: * M/s Lodestar Garments Ltd. * M/s Lodestar fashions Ltd. * M/s Mid Asia fashions Ltd. * M/s Jessore fishery
<b>Phone Number</b>		
Home	:	Redacted
Office/Business	:	Redacted
Mobile	:	Redacted

Signature:



(Md. Sayedur Rahman)

Customer Name: Social Investment Bank LTD City, Country: 15A Dillisha, Motijhed, Dhaka, Bangladesh  
HSBC Business: \_\_\_\_\_ Date: 08.03.2009  
(BN, PCM, CIB, etc.)

This questionnaire may be used to gain an understanding of how our client manages its AML risk associated with being an agent for a Money Transfer Service company and should be kept in our KYC file.

1. Which non-bank Money Transfer Service company(s) do you act as an agent for: (please list all)  
(i) Lotusforex Ltd Hong Kong (ii) Remit Master Sdn-Bnd, Malaysia (iii) Placid NR Corporation, N.Y. USA

2. Is any of this activity routed through HSBC Bank USA?  Yes  No  
If yes, please describe Current fund comes through HSBC, NY (Nostro A/c) to SIBL, H.O.

3. Can the money transfer services be used by: (check all that apply)

Types of Customers  Yes  No  
Retail / Individuals \_\_\_\_\_  
Wholesale / Businesses \_\_\_\_\_

4. Do you pay out funds as an agent for the money transmitter?  Yes  No

5. Do you send funds through the money transmitter?  Yes  No

6. Does your current AML program apply to these types of transactions?  Yes  No\* (check one)

7. Must the user of these services have an account with your institution?  Yes  No\* (check one)

\* If the response to questions 6 or 7 is "No", please answer the following questions:

What is the maximum U.S. dollar amount that you allow to be paid out?  
\_\_\_\_\_ per day, \_\_\_\_\_ per month, \_\_\_\_\_ per year

Do you obtain identification on the receiver/beneficiary of funds?  Yes  No

Do you obtain identification on the sender of funds?  Yes  No

At what dollar amount do you obtain identification? \$ \_\_\_\_\_

How do you monitor these types of transactions?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Other Comments:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

1989



Hersel Mehani/HBUS/HSBC  
02/23/2009 02:02 PM

To Jacob X Houseknecht/HBUS/HSBC@HSBC02  
cc Ahsan H QUAZI/IB DAK/HBAP/HSBC@HSBC03, Jennifer E  
Kelleher/HBUS/HSBC@HSBC02, Sadique REZA/HSS  
DAK/HBAP/HSBC@HSBC03, Denis E  
bcc

Subject Re: Social Investment Bank Ltd (Bangladesh)

History: This message has been replied to.

Jacob  
We have a big file on this specific shareholder "IIRO".  
The subject shareholder is not officially recognized by Dhaka local central bank, we should cross  
reference the information accordingly  
please see attached email from Denis to Gillian dated Nov 13, 2008

The rest of information requested should be obtained from Dhaka.

**Hersel Mehani**  
Senior Vice President | HSBC Bank USA N.A.  
Global Payments and Cash Management  
452 Fifth Avenue, Floor 21, New York NY 10018, USA

Redacted by the Permanent  
Subcommittee on Investigations

Phone: +1-212-525-6239  
Fax: +1-212-525-5699  
Mobile: [REDACTED]  
Email: [hersel.mehani@us.hsbc.com](mailto:hersel.mehani@us.hsbc.com)  
Internet: [HSBC Global Payments and Cash Management](http://HSBC Global Payments and Cash Management)  
[HSBC Global Site](http://HSBC Global Site)

Forwarded by Hersel Mehani/HBUS/HSBC on 23/02/2009 01:14 PM



Denis E O'Brien/HBUS/HSBC  
13/11/2008 04:11 PM

To Gillian E Bachstein/HBUS/HSBC@HSBC02, Shannon M  
Jones/HBUS/HSBC@HSBC02, Anthony  
Julian/HBUS/HSBC@HSBC02, Hersel  
Mehani/HBUS/HSBC@HSBC02  
cc Daniel Jack/HBUS/HSBC@HSBC02, Alan P  
Williamson/HBUS/HSBC@HSBC02, Anne  
Liddy/HBUS/HSBC@HSBC02, Denis E  
O'Brien/HBUS/HSBC@HSBC02, Denise A  
Reilly/HBUS/HSBC@HSBC02, Donald W  
McPherson/HBUS/HSBC@HSBC02, Gloria  
Strazza/HBUS/HSBC@HSBC02, Jessica  
Dubensky/HBUS/HSBC@HSBC02, Mary A  
Caskin/HBUS/HSBC@HSBC02, Monique  
Codjoe/HBUS/HSBC@HSBC02, Richard  
Salvatore/HBUS/HSBC@HSBC02, Camillus P  
Hughes/HBUS/HSBC@HSBC02  
Subject Fw: Update Re: OFAC Distribution #047-08, Anti-Terrorism  
Designation [SDGT]-Update

While the LN KYC for Social Investment Bank Ltd, Bangladesh clearly identifies rationale for continued  
business, I would appreciate if we can look into updating site visit information; with AML discussion  
included, removal of Beth Fisher as RM and update as to the minority ownership with recertification that  
they exert neither management control nor have board representation.

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HSBC-PSI-PROD-0102750

1990

Mary Anne, please centralize any comments from OFAC as it relates to Social Investment Bank through Me.

**COMPLIANCE'S ACTIONS denoted in the LN KYC:**

As of 08/03/06, client's USD PCM account has been placed on a debit block subject to the receipt of a response from Sr. Management of SIB and HSBC, Dhaka.

On 08/07/06 Compliance's issued an email as follows:

After reviewing the information provided by HSBC Dhaka my provisional decision is that this relationship be allowed to continue. It will be designated as a SCC Category 4 (reputational risk) with immediate effect and will be subject to closer monitoring as a result.

IIRO's shareholding is a minority holding and information received indicates that they exert neither management control nor have board representation. While this entity clearly represents a heightened reputational risk to the bank, I believe that with the knowledge we have today and the controls that are being implemented we have mitigated that risk adequately.

The block on outbound payments that was imposed on 08/03/06 may be lifted and the account returned to normal operation.

**CLIENT'S RESPONSE**

On 9/19/06 client was visited by Hersel Mehani, Ifekhar Alam, Richard Boyle and GRM, Muhammad Shohiduzzaman regarding the US Treasury announcement on IIRO. Client provided the following information regarding their relationship with IIRO:

- they do not have any contact with the IIRO, only a PO Box and therefore referred this matter to their Security Exchange Agency, indicating that they wish to remove them as a shareholder.
- they do not like having an association with a shareholder which is listed OFAC and do not wish to be associated with the IIRO in any way.
- they are not aware of any Nominee shareholders relationship or other ownership structure which would entitle IIRO to hold more than 8% of Social Investment Bank.
- they are not aware of any actions taken by IIRO in response to the US Treasury Department.
- IIRO do not maintain or operate any accounts with the bank.
- IIRO is not involved in the management of the bank or is not represented on the Board of Directors.
- there have been no dividend payout to IIRO
- they seek guidance from the Security Exchange Agency in Bangladesh and they advised they have the power to oust them in the next board of director meeting.

Compliance advised on 09/29/06 that the responses provided were satisfactory and that the fact that IIRO has no involvement in the running of the bank, is not a client of the bank and will likely be ousted as a shareholder give considerable grounds for comfort.

ROF was received on 08/10/06, with no further additional information, that was not already mentioned in the previous findings. The most recent information, was the US Treasury announcement, that was stated above under Important News Release, which Compliance was aware of.

Thanks and regards,

**Denis E O'Brien**

Vice President, Head of Global Transaction Banking Compliance, | HSBC Securities (USA) Inc.  
432 Fifth Avenue, New York, NY 10018

Confidential Treatment Requested

HSBC-PSI-PROD-0102751



1991

Phone. 212 525 1147  
Fax. 917-220-5257  
Mobile. [REDACTED]  
Email. denis.e.o'brien@us.hsbc.com

[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations

----- Forwarded by Denis E O'Brien/HBUS/HSBC on 11/13/2008 03:49 PM -----

Mary A Caskin/HBUS/HSBC  
11/13/2008 03:26 PM

To Denis E O'Brien/HBUS/HSBC@HSBC02, Judy P  
Stoldt/HBUS/HSBC@HSBC02  
cc  
Subject Fw: Update Re: OFAC Distribution #047-08, Anti-Terrorism  
Designation [SDGT]-Update

Mary Ann Caskin  
VP Compliance  
HSBC Bank USA NA  
452 Fifth Ave Floor 7  
NY, NY 10018  
212-525-5530

----- Forwarded by Mary A Caskin/HBUS/HSBC on 11/13/2008 03:25 PM -----

Elizabeth  
Protomastro/HBUS/HSBC  
11/13/2008 01:29 PM

To Andy H Im/HBUS/HSBC@HSBC02  
cc Alan P Williamson/HBUS/HSBC@HSBC02, Anne  
Liddy/HBUS/HSBC@HSBC02, Denis E  
O'Brien/HBUS/HSBC@HSBC02, Denise A  
Reilly/HBUS/HSBC@HSBC02, Donald W  
McPherson/HBUS/HSBC@HSBC02, Gloria  
Strazza/HBUS/HSBC@HSBC02, Jessica  
Dubensky/HBUS/HSBC@HSBC02, Mary A  
Caskin/HBUS/HSBC@HSBC02, Monique  
Codjoe/HBUS/HSBC@HSBC02, Richard  
Salvatore/HBUS/HSBC@HSBC02  
Subject Re: Update Re: OFAC Distribution #047-08, Anti-Terrorism  
Designation [SDGT]-Update

Let me contact OFAC and ask for their view on the Social Investment Bank Ltd, Bangladesh in light of the  
information you've found. Will advise.

Andy H Im/HBUS/HSBC



Andy H Im/HBUS/HSBC  
11/13/2008 11:39 AM

To Donald W McPherson/HBUS/HSBC@HSBC02, Elizabeth  
Protomastro/HBUS/HSBC@HSBC02, Mary A  
Caskin/HBUS/HSBC@HSBC02  
cc Gloria Strazza/HBUS/HSBC, Denise A  
Reilly/HBUS/HSBC@HSBC02, Anne  
Liddy/HBUS/HSBC@HSBC02, Denis E  
O'Brien/HBUS/HSBC@HSBC02, Alan P  
Williamson/HBUS/HSBC@HSBC02, Richard  
Salvatore/HBUS/HSBC@HSBC02, Monique  
Codjoe/HBUS/HSBC@HSBC02, Jessica

Confidential Treatment Requested

HSBC-PSI-PROD-0102752

1992



Dubensky/HBUS/HSBC/HSBC02  
Subject Update Re: OFAC Distribution #047-08, Anti-Terrorism Designation [SDGT]-Update

Hello,

We've searched the systems we have access to and have found the following:

**1) Union of Good**

- member of Union of Good, Mohammed Kahlifa, established the International Islamic Relief Organization (IIRO) and the IIRO has an 8.62% ownership of Social Investment Bank Ltd, Bangladesh (DDA [redacted] open). KYC data mentions Social Investment Bank was designated SCC category 4 (reputational risk).

Please let us know if you have any questions.

Regards,

**[Redacted by the Permanent Subcommittee on Investigations]**

**Andy H Im**

AVP, AML Compliance, HSBC Bank USA, N.A.  
452 Fifth Avenue, Tower 7  
New York, NY, 10018

Phone. 212-525-8139  
Fax. 212-525-5769  
Email. andy.h.im@us.hsbc.com

**Hersel Mehani**

Senior Vice President | HSBC Bank USA N.A.  
Global Payments and Cash Management  
452 Fifth Avenue, Floor 21, New York NY 10018, USA

Phone. +1-212-525-6239  
Fax. +1-212-525-5699  
Mobile. [redacted]  
Email. hersel.mehani@us.hsbc.com  
Internet. HSBC Global Payments and Cash Management  
HSBC Global Site

Jacob X Houseknecht/HBUS/HSBC



Jacob X  
Houseknecht/HBUS/HSBC  
23/02/2009 11:20 AM

To Sadique REZA/HSS DAK/HBAP/HSBC@HSBC03, Ahsan H  
QUAZI/IB DAK/HBAP/HSBC@HSBC03  
cc Hersel Mehani/HBUS/HSBC@HSBC02, Jennifer E  
Kelleher/HBUS/HSBC@HSBC02  
Subject Social Investment Bank Ltd (Bangladesh)

Sadique/Ahsan,

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HSBC-PSI-PROD-0102753

1993

Good morning. We are in the process of the annual review for the client Social Investment Bank Limited in Bangladesh and there is a few items of information/documentation we request your assistance with:

1. Audited Financials - The most recent audited financial statement that includes the independent auditor's report.

2. Ownership Details - According to Banker's Almanac the only owner of the bank with more than 5% ownership is International Islamic Relief Organization IIRO, Jeddah (8.6 %). Please confirm that information is accurate. Also, please indicate if the remaining shares are all privately held with less than 5% ownership or if there is a portion of publicly traded ownership.

3. Management Details - Please provide a brief bio for Mr. Abdul Awal Patwary and Mr. Md. Sayedur Rahman.

4. MTS Questionnaire - In order to stay current with the client's business, please have them fill out the attached MTS Questionnaire.

[attachment "MTS QUESTIONNAIRE REVISED03.07.doc" deleted by Hersel Mehani/HBUS/HSBC]

Thank you,

-----  
Jake Houseknecht  
PSRR  
HSBC Bank USA, N.A.  
90 Christiana Road  
New Castle, DE 19720  
(302) 327-2520  
Jacob X Houseknecht/HBUS/HSBC

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HSBC-PSI-PROD-0102754

1994

*Compliance - email*

Shannon M. Jones  
10/02/2006 07:19:28 AM

Princely P Muro/HBUS/HSBC  
09/29/06 03:55 PM  
To Shannon M Jones/HBUS/HSBC@HSBC  
cc PSRR@HSBC  
bcc  
Subject Fw: Social Investment Bank - IIRO

FYI - Princely

----- Forwarded by Princely P Muro/HBUS/HSBC on 09/29/06 03:52 PM -----

Alan T Ketley/HBUS/HSBC  
09/29/06 03:49 PM  
To Hersel Mehani/HBUS/HSBC@HSBC, Sharyn  
Malone/HBUS/HSBC@HSBC, Gillian E  
Bachstein/HBUS/HSBC  
cc "Andrew Rizkalla" <andrew.rizkalla@us.hsbc.com>,  
"George Tsugranes" <george.tsugranes@us.hsbc.com>,  
Princely P Muro/HBUS/HSBC@HSBC  
Subject Social Investment Bank - IIRO

Hersel, Sharyn, Gillian

I'm satisfied with the answers provided by Social Investment Bank to the questions posed by Hersel on his recent visit. The fact that IIRO has no involvement in the running of the bank, is not a client of the bank and will likely be ousted as a shareholder give considerable grounds for comfort.

Please monitor the ownership of this bank closely - all things being equal, once IIRO ceases to be a shareholder we should be able to drop the SCC status.

Alan T. Ketley  
Senior Vice President, Anti Money Laundering  
Tel: 212 525 6147 / Fax: 212 382 7580  
----- Forwarded by Alan T Ketley/HBUS/HSBC on 09/29/2006 03:44 PM -----

Hersel Mehani/HBUS/HSBC  
09/27/2006 04:22 PM  
To Alan T Ketley/HBUS/HSBC@HSBC  
cc "Andrew Rizkalla" <andrew.rizkalla@us.hsbc.com>,  
Angela Cassell-Bush/HBUS/HSBC@HSBC, Gillian E  
Bachstein/HBUS/HSBC@HSBC, Stephanie L  
Napier/HBUS/HSBC@HSBC  
Subject Re: Compliance issues from Trip Dhaka

Alan  
Note related to KYC  
We asked all the question listed in your email  
Social Investment Bank - International Islamic Relief Organization which is on the OFAC list owns 8%. They are not on the board, do not receive dividends, do not have voting rights and do not exert any control. IIRO never responded to their request to provide a full address rather than a PO

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HSBC-PSI-PROD-0102755

1995

Shannon M. Jones

10/02/2006 07:19:28 AM

box and they will use this to oust them by November which is allowed according to their Articles of Association which I have a copy given by them to me. ( will send it to Stephanie for her files)

1) Please describe what actions bank has taken with respect of the US Dept of Treasury's announcement about IIRO on August 3, 2006?

I was informed that the bank does not have any contact with the IIRO only a PO Box and therefore referred this matter to their Security exchange Agency indicating that they wish to remove them as a shareholder.

2) How does the US Dept of Treasury announcement about IIRO affect the way Social Investment views this entity?

They do not like having an association with a shareholder which is listed by OFAC and do not wish to be associated with the IIRO in any way

3) Is the bank aware of any Nominee shareholder relationship or other ownership structure which would entitle IIRO to hold more than 8% of Social Investment Bank?

No they are not

4. Is the bank aware of any actions taken by IIRO in response to the US Department of Treasury announcement?

No they are not as mentioned they do not have any contact with IIRO

5. Is IIRO a customer of the bank and does the bank conduct any cross border transactions for IIRO?

IIRO has no relationship with the subject bank and do not maintain or operate any account with the bank

6. Given that IIRO is the bank's largest shareholder, please reconfirm that IIRO is not involved in the management of the bank or represented on your Board of Directors.

No representation of any sort

7. When was the last time IIRO received a dividend in respect of its ownership in the bank?

Presently they do not pay them any dividend

8. Prior to the US department of Treasury's announcement, IIRO's name had been linked in the media to terrorist financing issues - how did Social Investment react to those news stories and what actions were taken?

They ask for guidance for the Security exchange Agency in Bangladesh and they have the power to oust them in the next board of director meeting.

Hersel Mehani  
Senior Vice President

Confidential Treatment Requested

HSBC-PSI-PROD-0102756

1996

Shannon M. Jones  
10/02/200607:19:28 AM  
Global Payments and Cash Management  
Alan T Ketley/HBUS/HSBC

Alan T Ketley/HBUS/HSBC  
Tel: 212-525-6147  
09/26/2006 01:52 PM

To Hersel Mehani/HBUS/HSBC@HSBC  
Angela Cassell-Bush/HBUS/HSBC@HSBC, Gillian E  
Bachstein/HBUS/HSBC@HSBC, Stephanie L  
cc Napier/HBUS/HSBC@HSBC, "Andrew Rizkalla"  
<andrew.rizkalla@us.hsbc.com>  
Subject Re: Compliance issues from Trip Dhaka

Hersel

I'd like to see answers to each of the individual questions please.

Thanks

Alan T. Ketley  
Senior Vice President, Anti Money Laundering  
Tel: 212 525 6147 / Fax: 212 382 7580  
Hersel Mehani/HBUS/HSBC

Hersel Mehani/HBUS/HSBC  
09/26/2006 08:47 AM

To Stephanie L Napier/HBUS/HSBC@HSBC  
cc Angela Cassell-Bush/HBUS/HSBC@HSBC, Alan T  
Ketley/HBUS/HSBC@HSBC, Gillian E  
Bachstein/HBUS/HSBC@HSBC  
Subject Compliance issues from Trip Dhaka

I have a few documents with me on Social Invest Bank which I will send as well

Hersel Mehani  
Senior Vice President  
Global Payments and Cash Management  
----- Forwarded by Hersel Mehani/HBUS/HSBC on 09/26/2006 08:40 AM -----  
ialam@hsbc.com.bd

Tel:  
09/26/2006 03:19 AM

hersel.mehani@us.hsbc.com,  
To richard.c.boyle@us.hsbc.com,  
mshohiduzzaman@hsbc.com.bd  
cc  
Subject > Call Report: Social Investment Bank - KYC

Confidential Treatment Requested

HSBC-PSI-PROD-0102757

1997

Shannon M. Jones

10/02/2006 07:19:28 AM

Client: Social Investment Bank

HSBC attendees: MEHANI, Hersel; ALAM, Iftekhar; BOYLE, Richard C; SHOHIDUZZAMAN, Muhammad  
Client attendees: ISLAM, Md.; SOHEL, Abu Sadek; ASADUZZAMAN, K; SHAMSUDDOHA, A  
Attendees from other Clients:

Detailed description:

Hersel discussed few issues related to IIRO, who is one of their sponsor shareholders. HBUS raised some concern in the past & also in recent past. It's worth mentioning here that, on July 2006 US Treasury put IIRO in OFAC sanction list. The meeting was initiated to have the opinion of SIBL's management in this regard. The management informed us that, IIRO doesn't have any representation in their board (not even in the past) and neither they are involved in their management. Management is also with the opinion that, if required, they will arrange to forfeit IIRO's share through AGM/EGM. Their memorandum of articles (copy provided to Hersel) also supports such action.

Click on this link to see this item in ClientVision:

<http://clientvision.systems.uk.hsbc/rs/autoLogin.do?objectId=87BACE6056B-AC19-4944-9780-2122A78606F97D>

[attachment "CallReport.pdf" deleted by Hersel Mehani/HBUS/HSBC]

----- Forwarded by Hersel Mehani/HBUS/HSBC on 09/26/2006 08:40 AM -----

Iftekhar ALAM/IB DAK/HBAP/HSBC

Tel: B80 2 9860536 x 290

09/26/2006 03:39 AM

To Hersel Mehani/HBUS/HSBC@HSBC

cc Richard C Boyle/HBUS/HSBC@HSBC, Muhammad

SHOHIDUZZAMAN/IB DAK/HBAP/HSBC@HSBC

Subject Fw: USD Account with HBUS

Please follow the doclink to the Call Report.



----- Forwarded by Iftekhar ALAM/IB DAK/HBAP/HSBC on 09/26/2006 01:41 PM -----



Basic Information	
Date of Call:	09/19/2006
Description / Purpose:	USD Account with HBUS
Relationship Manager:	Aftab HAIDER/IB DAK/HBAP/HSBC
Bank Representative(s):	Iftekhar ALAM/IB DAK/HBAP/HSBC
Customer Representative(s):	Mr. Abu Hanif Khan, Managing Director, Mr. Md. Mokhlesur Rahman, Additional Managing Director, Mr. Md. Monibur Rahman, First Assistant Vice President & Head of Treasury, Mr.

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HSBC-PSI-PROD-0102758

1998

Shannon M. Jones

10/02/200607:19:28 AM

Hassan Mahmud Tariq, Executive Officer, International Division

Nature of Contact: Meeting on Customer's Premises

Product Discussed:

Summary: [Free format rich text]

Discussed issues raised by Compliance Department of HBUS regarding shareholders and senior managers relationship among themselves, which they clarified. In reply to our query, Mr. Khan informed us that they have internal AML Guideline, which was approved by their board as well. They described us their system of disbursing of inward remittance fund to the customers in Bangladesh.

MD confirmed us that the bank is going for IPO within this year.

Requested OC confirmation limit from HSBC to conduct more business. In reply, we indicated that upon satisfactory share floatation through IPO and conducting of reasonable business through the nostro account (to be opened by HBUS), we will actively consider extending DC confirmation line to Premier Bank.

Doc Link of Referral(s): [Refer to status bar for referral description]

Confidential Treatment Requested

HSBC-PSI-PROD-0102759



1999

*SCC - email*

Shannon M. Jones

08/07/2006 10:24:05 AM

Princely P Muro/HBUS/HSBC  
08/07/06 10:08 AM

To Gillian E Bachstein/HBUS/HSBC@HSBC, Shannon M Jones/HBUS/HSBC@HSBC  
cc PSRR@HSBC  
bcc  
Subject Fw: Social Investment Bank

FYI

----- Forwarded by Princely P Muro/HBUS/HSBC on 08/07/06 10:08 AM -----

Alan T Ketley/HBUS/HSBC  
08/07/06 09:47 AM

To Hersel Mehani/HBUS/HSBC@HSBC, Sharyn Malone/HBUS/HSBC@HSBC  
"Andrew Rizkalla" <andrew.rizkalla@us.hsbc.com>,  
cc "George Tsugranes" <george.tsugranes@us.hsbc.com>,  
Princely P Muro/HBUS/HSBC@HSBC  
Subject Social Investment Bank

Hersel, Sharyn

After reviewing the information provided by HSBC Dhaka my provisional decision is that this relationship be allowed to continue. It will need to be designated as an SCC Category 4 (reputational risk) with immediate effect and will be subject to closer monitoring as a result (George - an ALT of \$50,000 should be applied).

I am not willing to commit to the 6 months suggested by Hersel and we will review activity and determine what further action may be required as events warrant. In this regard, the timing of Hersel's upcoming visit is fortuitous and give the bank some more time to react to the Treasury announcement. We will have some specific questions for Hersel to ask the bank when he visits them next month (George/Andrew please draft appropriate questions). We will review the status of the account in the light of the information Hersel brings back with him as well as any news received in the interim.

By copy of this note would George please confirm that the names contained in the Treasury announcement last week are now in our payment filter.

IIRO's shareholding is a minority holding and information received indicates that they exert neither management control nor have board representation. While this entity clearly represents a heightened reputational risk to the bank, I believe that with the knowledge we have today and the controls that are being implemented we have mitigated that risk adequately.

I see that an EDD RoF is pending and have asked FIG if they can hasten its production.

The block on outbound payments that was imposed on Thursday may be lifted (and teh account returned to normal operation) as soon as George confirms that the names are in the filter.

Alan T. Ketley  
First Vice President, Anti Money Laundering

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HSBC-PSI-PROD-0102760

2000

Shannon M. Jones  
08/07/2006 10:24:05 AM  
Tel: 212 525 6147  
Fax: 212 382 7580

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HSBC-PSI-PROD-0102761

2001

Shannon M. Jones

08/07/2006 10:30:18 AM

Princely P Muro/HBUS/HSBC  
08/07/06 10:08 AM

To Gillian E Bachstein/HBUS/HSBC@HSBC, Shannon M  
Jones/HBUS/HSBC@HSBC  
cc PSRR@HSBC  
bcc  
Subject Fw: Social Investment Bank

FYI

----- Forwarded by Princely P Muro/HBUS/HSBC on 08/07/06 10:08 AM -----

Alan T Ketley/HBUS/HSBC  
08/07/06 09:47 AM

To Hersel Mehani/HBUS/HSBC@HSBC, Sharyn  
Malone/HBUS/HSBC@HSBC  
"Andrew Rizkalla" <andrew.rizkalla@us.hsbc.com>,  
cc "George Tsugranas" <george.tsugranas@us.hsbc.com>,  
Princely P Muro/HBUS/HSBC@HSBC  
Subject Social Investment Bank

Hersel, Sharyn

After reviewing the information provided by HSBC Dhaka my provisional decision is that this relationship be allowed to continue. It will need to be designated as an SCC Category 4 (reputational risk) with immediate effect and will be subject to closer monitoring as a result (George - an ALT of \$50,000 should be applied).

I am not willing to commit to the 6 months suggested by Hersel and we will re-evaluate activity and determine what further action may be required as events warrant. In this regard, the timing of Hersel's upcoming visit is fortuitous and give the bank some more time to react to the Treasury announcement. We will have some specific questions for Hersel to ask the bank when he visits them next month (George/Andrew please draft appropriate questions). We will review the status of the account in the light of the information Hersel brings back with him as well as any news received in the interim.

By copy of this note would George please confirm that the names contained in the Treasury announcement last week are now in our payment filter.

IRO's shareholding is a minority holding and information received indicates that they exert neither management control nor have board representation. While this entity clearly represents a heightened reputational risk to the bank, I believe that with the knowledge we have today and the controls that are being implemented we have mitigated that risk adequately.

I see that an EDD RoF is pending and have asked FIG if they can hasten its production.

The block on outbound payments that was imposed on Thursday may be lifted (and the account returned to normal operation) as soon as George confirms that the names are in the filter.

Alan T. Ketley  
First Vice President, Anti Money Laundering

Confidential Treatment Requested

HSBC-PSI-PROD-0102762

2002

Shannon M. Jones  
08/07/2006 10:30:18 AM  
Tel: 212 525 6147  
Fax: 212 382 7580

---

Confidential Treatment Requested

HSBC-PSI-PROD-0102763

2003

Printed by: Rhonda Lee-Thom



Note  
18 Apr 2005 08:06

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From:	George Tsugranes	Tel:	302-636-2044
Title:	Vice President	Location:	Delaware OPS1/2, Floor 2
WorkGroup:	AML Compliance	Mail Size:	10297

---

To: Rhonda Lee-Thomas

cc: Hersel Mehani/HBUS/HSBC@HSBC  
Nanayo Ryan/HBUS/HSBC@HSBCAMERICAS  
Sharyn Malone/HBUS/HSBC@Republic

Subject: Re: Fw: Social Investment Bank Ltd

Rhonda - HRC designation is fine.  
Rhonda Lee-Thomas on 16 Apr 2005 12:25

Rhonda Lee-Thomas on 16 Apr 2005 12:25

Note  
16 Apr 2005 12:25

---

From:	Rhonda Lee-Thomas	Tel:	302-636-2077
Title:	Officer	Location:	Delaware
WorkGroup:	Client Services - Financial Institutions	Mail Size:	6717

---

To: George Tsugranes, et al  
cc: Nanayo Ryan, et al  
Subject: Fw: Social Investment Bank Ltd

George/Hersel, (KYC Link)---->

Based on the additional support of the CEO and his recommendation, please advise how to proceed with the KYC., whether or not it is okay to "AM Approve".

George, also please confirm if this client must be re-categorized as a SCC, or is the current HRC status satisfactory.

Thanks,  
Rhonda

----- Forwarded by Rhonda Lee-Thomas/HBUS/HSBC on 04/16/2005 09:55 AM -----  
Steve BANNER on 16 Apr 2005 04:09

Memo  
16 Apr 2005 04:09

---

From:	Steve BANNER	Tel:	880 2 9660536 x 511
Title:		Location:	
WorkGroup:		Mail Size:	2639

---

To: Nanayo Ryan  
cc: Rhonda Lee-Thomas, et al  
Subject: Social Investment Bank Ltd

Nanayo,

Confidential Treatment Requested

HSBC-PSI-PROD-0102764

2004

Printed by: Rhonda Lee-Thom...

I refer to your correspondence with Shohid regarding Social Investment Bank Ltd (SIBL).

I have been in Bangladesh for only 2 months and have not yet met any of the executives from SIBL. Based on my discussions with Shohid, however, I can see no reason why we should not continue the relationship as at present.

It would be useful, however, if Hersel were to visit SIBL during his time in Dhaka and provide me with his first hand views.

Thanks and regards,

Steve Banner  
CEO HSBC Bangladesh

---

Confidential Treatment Requested

HSBC-PSI-PROD-0102765

2005

Printed by: Rhonda Lee-Thomson

FIG Investigations

\*\*\*\*\*  
\*\*\*\*\*

Rhonda,

I am providing a copy of our Report of Findings for SOCIAL INVESTMENT BANK LTD, as you requested, which includes my Remarks/Recommendations and a Summary prepared by Laura Spadanuta, and investigator for the FIG. If you have any questions, please do not hesitate to contact Laura or myself.

**FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS**

**SUBJECT: Social Investment Bank Ltd.**

**REMARKS / RECOMMENDATIONS**

Although the allegations presented in this report, primarily against the International Islamic Relief Organization (IIRO) and the Lajnat al -Birr Al Islamiah, are highly adverse, no U.S. or foreign government law enforcement or regulatory body has stated, unconditionally, that these organization are under sanction. The reputational risk is significant, however, and the possibility that further investigations by U.S. authorities may ultimately uncover substantiating proof of a connection to terrorism. The risk of future sanctions and the reputational risk based on the allegations noted in this report should be measured against the current risks involved in our relationship when ultimately deciding a course of action.

Kind Regards,

Peter Javier  
Director, FIG

\*\*\*

**SUMMARY OF FINDINGS**

**INVESTIGATOR: Laura Spadanuta**

**ENTITIES: International Islamic Relief Organization, Islamic Charitable Society Lajnat al-Birr Al Islam, Dr. M.A. Mannan, Mohammad Azam, Late Abdul Majid, Abdul Matin Khan, Rukhsana Habibullah, Late Munshi Fazlur Rahman, Mohammad Ismail**

Confidential Treatment Requested

HSBC-PSI-PROD-0102766

2006

Printed by: Rhonda Lee-Thorr.....

**REQUESTOR: Rhonda Lee-Thomas**

An ALE search was requested for the shareholders of Social Investment Bank Ltd. Enhanced due diligence was performed on the shareholders whose names appeared on the FIG databases and on the World-Check database.

**International Islamic Relief Organization (IIRO)**

IIRO is a Saudi-Arabian charity. The Muslim World League, which is an organization dedicated to spreading Wahhabism that is funded by the Saudi government, is the parent organization of the IIRO. It has been reported that the IIRO claims on its website to have a relationship with the United Nations High Commissioner for Refugees.

The IIRO was named in the 2002 lawsuit brought forward on behalf of family members of victims of the September 11, 2001 terrorist attacks. The IIRO was accused of having "played key roles in laundering of funds to terrorist for the 1998 African embassy bombings" and having been involved in the "financing and aiding and abetting of terrorists in the 1993 World Trade Center bombing." The IIRO has also reportedly funded al-Qaeda directly, as well as several of its satellite groups. Osama bin Laden's brother-in-law, Mohammed Jamal Khalifa, headed the Philippine branch of the IIRO in the 1990's. The Philippine government has charged that the group contributed to terrorist causes there. IIRO opened its U.S. branch (under the name International Relief Organization) in 1991 at the 555 Grove St. complex in Herndon, Virginia that was raided in March 2002 by the F.B.I. in a counter-terrorism investigation. Several other Islamic charities were also raided in the same complex. Money received by the International Relief Organization by the Saudi government was used to set up Sana Bell Inc., which was responsible for investing the money. Sana Bell Inc. was accused of giving \$3.7 million to BMI Inc. from 1992-1998. BMI Inc. was a New Jersey investment company that adhered to Islamic principles. One of BMI's chief investors, Yasin Qadi, was designated by the U.S. and the U.N. as a "specially designated terrorist" for his support of al-Qaeda and Hamas. Another of BMI's major investors was Hamas leader Mousa Abu Marzook. BMI's founder, Soliman S. Biheiri, was indicted in 2003 by the U.S. government for immigration violations.

Furthermore, Israeli forces reportedly found a large collection of documents in the West Bank with the IIRO logo and a list of aid recipients including the highlighted names of families of suicide bombers. Additionally, it has been reported that the IIRO has sent at least \$ 280,000 to the Tulkarm Zakat Committee, a Hamas-affiliated organization in the West Bank. IIRO has also been linked to several other organizations that have been accused of terrorist financing, including Al-Shamal Islamic Bank (which was supported by Osama bin Laden), and the SAAR Foundation, which is related to the al-Rajhi family (who have also been named in the September 11 families lawsuit).

It has been further reported that the Success Foundation is the successor to the U.S. office of the IIRO. The Success Foundation was directed by Abdur Rahman Alamoudi, a Muslim-American activist who was indicted on October 23, 2003 on money laundering, tax, immigration and customs-fraud charges. Mr. Alamoudi is also being investigated for his connections to the bin

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2007

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Mahfouz family and Yaqub Mirza, which have been accused of supporting terrorists.

**Islamic Charitable Society Lajnat A-Birr Al Islam**

Lajnat al-Birr Al Islamiyah was established in 1987. It has been stated that Lajnat al-Birr Al Islamiyah was the original name of the Benevolence International foundation, and that it originally had offices in Saudi Arabia and Pakistan. According to the U.S. government, among the purposes of Lajnat was to "raise funds in Saudi Arabia to provide support to the Mujahadeen then fighting in Afghanistan," as well as to provide "cover for fighters to travel in and out of Pakistan and obtain immigration status." Benevolence International has been tied to terrorism and its director, Enaam Arnaout, was indicted in 2002 with conspiring to defraud his group's donors by secretly providing financial and logistical help to al-Qaeda for a decade. The indictment alleged that the group was originally Lajnat al-Birr Al Islam, although the defense lawyers claimed that the groups are separate. Additionally it has been alleged that Lajnat al-Birr took over a "health project" for Makhtab al-Khidemat, the precursor to al-Qaeda, which was active in the 1980's.

**M/S Rabbani Trading Co.**

Rabbani Trading Co. appears to be a trading company headquartered in Dubai, UAE. No adverse information was found regarding the company. There is a Mohammad Rabbani of Afghanistan who has been designated as a terrorist by the U.N. and the U.K., but there is no evidence that he is linked to the company.

**Dr. M.A. Mannan, Ph. D.**

Dr. M.A. Mannan was the chairman and founder of Social Investment Bank Ltd. He was fired in 2000 after fault was found with his banking procedure. It was alleged that he created an obstacle to the team of Bangladesh Bank during their visit to Social Investment Bank Ltd. Additionally, he was accused of interfering with bank administrative work and with harassing a bank employee. Additionally, an individual named M.A. Mannan was also the Bangladeshi minister of Labor and Employment. He was charged in a 2002 government white paper with illegal spending of government money. Because M.A. Mannan appears to be a common name in Bangladesh, it is unclear whether the two individuals are one and the same. The Social Investment Bank Ltd. has not been mentioned in any articles about the Mannan who was Labor Minister, which might imply that they are separate individuals.

**Mohammad Azam**

There is a Mohammad Azam of Kashmir who is reportedly a leader of the terrorist organization Lashkar-e-Toiba. It is important to note that Mohammad Azam is a fairly common name and there is no evidence linking the terrorist to Social Investment Bank Ltd.

**Late Abdul Majid**

There has been an Abdul Majid from Singapore that is reported to have been arrested by the

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2008

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Singapore government for terrorism -related activities . No adverse information was found regarding a "Late Abdul Majid."

**Rukhsana Habibullah**

Nothing adverse was found regarding any individual named Rukhsana Habibullah . An individual by the name "Habibullah" from Singapore is believed to have been arrested by the Singapore government on terrorism-related charges. There is no evidence that this individual is related to Rukhsana Habibullah.

**Late Munshi Fazlur Rahman**

An individual named Fazlur Rahman from Pakistan was reportedly a pro -Taliban cleric. He was placed under house arrest from 2001 through 2002. There is no evidence that his name was actually "Late Munshi Fazlur Rahman."

**Mohammed Ismail**

A Mohammed Ismail of Connecticut was indicted by the U .S. Attorney's Office for dealing in firearms. This individual does not appear connected to the Social Investment Bank Ltd.

In conclusion, it is of significant concern that the leading shareholder of Social Investment Bank Ltd. ( at 8.62%), International Islamic Relief Organization, has been accused in both the Philippines and in America of funding terrorist groups. The group is currently under investigation by the F.B.I. Another of the bank's shareholders, Lajnat al-Birr Al Islam (at 1.54%) has also been connected to terrorist groups . Additionally, the bank 's founder and chairman was let go on allegations of interference and harassment . Other adverse connections to individuals with the names of the bank shareholders could not be confirmed and were quite possibly merely cases of two individuals having the same name . Finally, it is important to note that Social Investment Bank Ltd. is located in Bangladesh, which was ranked as the world 's most corrupt nation by Transparency International.

Michael Ellis on 08 Mar 2005 15:30

Michael Ellis on 08 Mar 2005 15:30

Note  
08 Mar 2005 15:30

<b>From:</b>	Michael Ellis	<b>Tel:</b>	212-525-8931
<b>Title:</b>	Assistant Vice President	<b>Location:</b>	452 5th Ave, Floor 07
<b>WorkGroup:</b>	COMPIANTI-MONEY LAUNDERING	<b>Mail Size:</b>	8945

To: FIG HBUS

Subject: Fw: Social Investment Bank Ltd Bangladesh AC [REDACTED]

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

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HSBC-PSI-PROD-0102769

2009

Printed by: Rhonda Lee-Thom...

----- Forwarded by Michael Ellis/HBUS/HSBC on 03/08/2006 03:28 PM -----  
Nanayo Ryan on 08 Mar 2005 15:11

Note  
08 Mar 2005 15:11

From:	Nanayo Ryan	Tel:	302-836-2108
Title:	Vice President	Location:	Delaware
WorkGroup:	Client Services - Financial Institutions	Mail Size:	6096

To: Michael Ellis  
cc: Rhonda Lee-Thomas  
Subject: Fw: Social Investment Bank Ltd Bangladesh AC [REDACTED]

Hi Michael,  
Could you please treat this as a special request as we needed this as soon as possible.  
Thanks,  
Nan

----- Forwarded by Nanayo Ryan/HBUS/HSBC on 03/08/2005 03:06 PM -----  
Rhonda Lee-Thomas on 08 Mar 2005 14:32

Note  
08 Mar 2005 14:32

From:	Rhonda Lee-Thomas	Tel:	302-836-2077
Title:	Officer	Location:	Delaware
WorkGroup:	Client Services - Financial Institutions	Mail Size:	2523

To: Financial Intelligence Group  
cc: Nanayo Ryan  
Subject: Social Investment Bank Ltd Bangladesh AC [REDACTED]

As I am updating the KYC, would you please run an "updated" EDD on the Isited "high risk" client.  
I have attached the KYC Link below for your reference:-----> [REDACTED]

**Bank Name:**

Social Investment Bank Ltd, Dhaka, Bangladesh

Best regards,  
Rhonda

[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations

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HSBC-PSI-PROD-0102770

2010

Printed by: Rhonda Lee-Thomas

G



Note  
10 Mar 2005 18:02

From: FIG HBUS

Tel:

Title:

Location:

WorkGroup:

Mail Stop:

30753

Sent by: Bob Powers

To: Rhonda Lee-Thomas/HBUS/HSBC@HSBC  
Nanayo Ryan/HBUS/HSBC@HSBC  
Gloria Strazza/HBUS/HSBC@HSBC

cc: Teresa Pesca/HBUS/HSBC@HSBC  
Alan T Ketley/HBUS/HSBC@HSBC  
Lynda J Cassell/HBUS/HSBC@HSBC  
FIG HBUS@HSBC

Subject: Report of Findings - Social Investment Bank Ltd - FIG (UPDATE)

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\*\*\* FOR INFORMATIONAL PURPOSES ONLY \*\*\*

**FINANCIAL INTELLIGENCE GROUP (FIG)**  
**REPORT OF FINDINGS (UPDATE)**

**SUBJECT: Social Investment Bank Ltd**

**ENTITIES: Social Investment Bank Ltd**

**Redacted by the Permanent  
Subcommittee on Investigations**

**REQUESTOR: Rhonda Lee-Thomas, Nanayo Ryan**

**DEPARTMENT: Banknotes**

**ACCOUNTS: Social Investment Bank Ltd Acct#**

A report of findings in support of enhanced due diligence for Social Investment Bank Ltd was conducted in November of 2003. The text of that report has been pasted below. As of today, March 10, 2005, we have conducted an update review for this bank to determine if there have been any reports of criminal activity surrounding this corporation, or any notable news or changes, since November of 2003. Our findings are as follows:

2011

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**Recommendation**

In consideration of the below -mentioned allegations of terrorist financing against Social Investment Bank's largest shareholder, the International Islamic Relief Organization, we strongly recommend that a relationship with Social Investment Bank not be approved until the matter is discussed with Senior Compliance Management.

**International Islamic Relief Organization (IIRO)**

Of primary concern in the November, 2003 report was the issue of Social Investment Bank's majority shareholder, the International Islamic Relief Organization (IIRO), and the IIRO's alleged connections to terrorist organizations such as Al Qaeda.

According to the Bankers Almanac profile published on Lexis -Nexis on February 14, 2005, the IIRO remains the largest shareholder of the Social Investment Bank, with an 8.62% stake in the bank. The Bankers Almanac profile provides a very specific breakdown of the shareholders, naming dozens of individual shareholders who hold a smaller than 1% stake in the bank. Of all the shareholders named, the IIRO is the only shareholder that claims a 5%-or-larger stake in Social Investment Bank Ltd.

As the November, 2003 report made clear, the International Islamic Relief Organization is alleged to have provided funding to terrorist groups such as Al Qaeda in the past. The group endorses Wahhabism, a strict interpretation of Sunni Islam that values martyrdom. Wahhabism is the school of Islam that Osama Bin Laden is reported to have practiced. While the group has avoided any official sanctions from a governing body, they are still widely reported as being suspected of terrorist financing. Based on the frequency with which the group is connected to terrorist financing in the press, it is likely that their activities will always be under scrutiny, and future government sanctions against the group are highly probable.

As recently as February, 2005, the Associated Press reported that the US expressed concern when the IIRO took part in Tsunami relief efforts in Indonesia. The assistant secretary for terrorist financing at the US Treasury Department was quoted in the article as saying that the IIRO's presence could lead to extremist ideologies gaining a foothold in the region and establishing a foundation for terrorist activity.

Reporting on the IIRO's Tsunami relief efforts on February 25, 2005, the "Associated Press" stated that the IIRO is alleged to have acted as a cover for Al-Qaeda operations in the Philippines. "The Manila Standard" reported on January 22, 2005 that Filipino law enforcement has adopted measures to cut off funding to an alleged new Islamic fundamentalist group that trains its members in terrorism and has already plotted a bombing in Manila, which was foiled by police. Filipino officials believe funding for the group, and other fundamentalist groups in the region, comes from Al-Qaeda linked organizations. The only such organization named specifically in the article was the International Islamic Relief Organization, which is alleged to provide funding for Islamic Fundamentalist groups in the Philippines by channeling the funds to local Islamic non-governmental organizations.

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2012

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The World-Check profile on the IIRO classifies the group as a terrorist entity, based on reports that the IIRO has funded groups that are acknowledged by the federal government and the United Nations as having aided and abetted terrorism.

On January 10, 2005, it was reported that the IIRO had merged with the Muslim World League. World-Check's profile on the Muslim World League classifies the group as a terrorist entity. World-Check claims that the group was initially funded by Osama Bin Laden and, like the IIRO, is alleged to have funded groups that aid and abet terrorism. Additionally, partial funding to the groups responsible for the 1993 World Trade Center bombing has reportedly been traced back to both the IIRO and the Muslim World League.

In conclusion, the IIRO is rarely mentioned in the press without it also being alleged that the group is a source of terrorist financing. Even the frequent reports on the group's charity activities and relief efforts make mention of the group's link to terrorism. These allegations have yet to lead to government sanctions against the group, and none of the reports found have made mention of Social Investment Bank Ltd in any manner.

#### **Social Investment Bank Ltd**

Social Investment Bank Ltd maintains headquarters at 15 Dilkusha Commercial Area, Dhaka 1000, Bangladesh. According to the Bankers Almanac profile published on February 14, 2005, the bank is ranked 12th in its country and 2,257 in the world. In 2003, the bank reported \$ 359.9 million in total assets.

Kamaluddin Ahmed is the current Chairman of the bank, with Kazi Anwarul Mahub listed as the bank's Managing Director. The bank's correspondent banking relationships do not extend far beyond its relationships with the global branches of Standard Chartered Bank and American Express Bank Ltd. Its relationships with these two corporations does extend the bank's presence into most of the global banking regions, but it should be noted that Social Investment Bank Ltd does not appear to have correspondent relationships with many of the other major global banking corporations.

Our review found no evidence of criminal activity directly related to Social Investment Bank Ltd or its management. Social Investment Bank Ltd does not appear on World-Check.

The Bankers Almanac profile of Social Investment Bank Ltd published on February 14, 2005 on Lexis-Nexis reports that the International Islamic Relief Organization (IIRO) is the bank's largest shareholder with an 8.62% stake in the bank. As detailed above, the IIRO is alleged to have provided funding for numerous terrorist organizations, including Al Qaeda.

See below for November, 2003 report of findings. Feel free to contact me with any questions regarding this report.

Bob Powers

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HSBC-PSI-PROD-0102773

2013

Printed by: Rhonda Lee-Thomas



Note  
18 Apr 2005 08:06

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<b>From:</b> George Tsugranes	<b>Tel:</b> 302-636-2044
<b>Title:</b> Vice President	<b>Location:</b> Delaware OPS1/2, Floor 2
<b>WorkGroup:</b> AML Compliance	<b>Mail Size:</b> 10297

---

**To:** Rhonda Lee-Thomas

**cc:** Hersel Mehani/HBUS/HSBC@HSBC  
Nanayo Ryan/HBUS/HSBC@HSCAMERICAS  
Sharyn Malone/HBUS/HSBC@Republic

**Subject:** Re: Fw: Social Investment Bank Ltd

Ronda - HRC designation is fine.  
Rhonda Lee-Thomas on 16 Apr 2005 12:25

Rhonda Lee-Thomas on 16 Apr 2005 12:25

Note  
16 Apr 2005 12:25

---

<b>From:</b> Rhonda Lee-Thomas	<b>Tel:</b> 302-636-2077
<b>Title:</b> Officer	<b>Location:</b> Delaware
<b>WorkGroup:</b> Client Services - Financial Institutions	<b>Mail Size:</b> 6717

---

**To:** George Tsugranes, et al  
**cc:** Nanayo Ryan, et al  
**Subject:** Fw: Social Investment Bank Ltd

George/Hersel, (KYC Link)---->

Based on the additional support of the CEO and his recommendation, please advise how to proceed with the KYC., whether or not it is okay to "AM Approve".

George, also please confirm if this client must be re-categorized as a SCC, or is the current HRC status satisfactory.

Thanks,  
Rhonda

----- Forwarded by Rhonda Lee-Thomas/HBUS/HSBC on 04/16/2005 09:55 AM -----  
Steve BANNER on 16 Apr 2005 04:09

Memo  
16 Apr 2005 04:09

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<b>From:</b> Steve BANNER	<b>Tel:</b> 880 2 9660536 x 511
<b>Title:</b>	<b>Location:</b>
<b>WorkGroup:</b>	<b>Mail Size:</b> 2639

---

**To:** Nanayo Ryan  
**cc:** Rhonda Lee-Thomas, et al  
**Subject:** Social Investment Bank Ltd

Nanayo,

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HSBC-PSI-PROD-0102774

2014

Printed by: Rhonda Lee-Thon

I refer to your correspondence with Shohid regarding Social Investment Bank Ltd (SIBL).

I have been in Bangladesh for only 2 months and have not yet met any of the executives from SIBL. Based on my discussions with Shohid, however, I can see no reason why we should not continue the relationship as at present.

It would be useful, however, if Hersel were to visit SIBL during his time in Dhaka and provide me with his first hand views.

Thanks and regards,

Steve Banner  
CEO HSBC Bangladesh

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HSBC-PSI-PROD-0102775



2015

Angela Cassell-Bush 08/03/2006 05:44:21 PM

Sharyn Malone/HBUS/HSBC  
08/03/06 05:34 PM

To: Angela Cassell-Bush/HBUS/HSBC@HSBC  
cc: PSRR@HSBC, Gillian E Bachstein/HBUS/HSBC@HSBC  
bcc:  
Subject: FW: Social investment bank, Bangladesh

Angela,  
Pls note the attached. The last approval was back in Oct. 2003. Please treat this profile with a priority, advising Princely when he returns from vacation on Monday (I believe Gillian is officially on vacation at the time of this writing).  
Thanks

----- Forwarded by Sharyn Malone/HBUS/HSBC on 08/03/2006 05:30 PM -----  
Sharyn Malone on 03 Aug 2006 17:07

Note  
03 Aug 2006 17:07

From:	Sharyn Malone	Tel:	212-636-2106
Title:	First Vice President	Location:	Delaware OPS1/2, Floor 2
WorkGroup:	Client Services Support	Mail Size:	15230

To: Stephanie L Napier, et al  
cc: Gillian E Bachstein, et al  
Subject: Social Investment Bank, Bangladesh



Redacted by the Permanent Subcommittee on Investigations

To all,

Based on the attached U.S. Treasury announcement designating "the Philippine & Indonesian branch offices of the Saudi-based International Islamic Relief Organization (IIRO) for facilitating fundraising for al Qaeda and affiliated terrorist groups", we have today (8/3/06) placed a debit block on Social Investment Bank account [REDACTED]

IIRO holds a 8.62% stake in Social Investment Bank(SIB), Bangladesh who is a US PCM client of HBUS since Oct. 2003. Their value to US PCM is \$44k annualized, split between BDP income & NII. Also, SIB holds USD accounts with Amex & Stanchart N.Y.



After speaking with Compliance, we have placed a debit block on outgoing payments subject to the

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HSBC-PSI-PROD-0102776

2016

Angela Cassell-Bush08/03/200605:44:21 PM

receipt of a response from Sr. Management of SIB, and HSBC, Dhaka. Stephanie Napier is managing the block, therefore GFT Risk should only accept authorization to release from either Stephanie or myself.

If you have any questions, please let Stephanie or I know.

August 3, 2006  
hp-45

**Treasury Designates Director, Branches of Charity Bankrolling Al Qaida Network**

The U.S. Department of the Treasury today designated the Philippine and Indonesian branch offices of the Saudi-based International Islamic Relief Organization (IIRO) for facilitating fundraising for al Qaida and affiliated terrorist groups. Treasury additionally designated Abd Al Hamid Sulaiman Al-Mujil, the Executive Director of the Eastern Province Branch of IIRO in the Kingdom of Saudi Arabia.

"Abd Al Hamid Sulaiman Al-Mujil, a high-ranking IIRO official in Saudi Arabia, has used his position to bankroll the al Qaida network in Southeast Asia. Al-Mujil has a long record of supporting Islamic militant groups, and he has maintained a cell of regular financial donors in the Middle East who support extremist causes," said Stuart Levey, Treasury's Under Secretary for Terrorism and Financial Intelligence (TFI). "Today we are holding him to account."

The IIRO was established in 1978 and, according to its website, the organization has branch offices in over 20 countries in Africa, Europe, Asia, and the Middle East.

"It is particularly shameful when groups that hold themselves out as charitable or religious organizations defraud their donors and divert funds in support of violent terrorist groups," said Levey. "We have long been concerned about these IIRO offices; we are now taking public action to sever this link in the al Qaida network's funding chain."

Today's action was taken pursuant to Executive Order 13224, which is aimed at detecting and disrupting financial flows to terrorists. Under this authority, U.S. persons are prohibited from engaging in transactions with the designees, and any assets they may have under U.S. jurisdiction are frozen.

**IDENTIFIER INFORMATION**

*Abd Al Hamid Sulaiman Al-Mujil*

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HSBC-PSI-PROD-0102777

2017

Angela Cassell-Bush08/03/200805:44:21 PM

Abd Al Hamid Sulaiman Al-Mujil (Al-Mujil) is the Executive Director of the IIRO Eastern Province (IIRO-EP) branch office in the Kingdom of Saudi Arabia. Al-Mujil has been called the "million dollar man" for supporting Islamic militant groups.

Al-Mujil provided donor funds directly to al Qaida and is identified as a major fundraiser for the Abu Sayyaf Group (ASG) and Jemaah Islamiyah (JI). Both ASG and JI are al Qaida-associated terrorist groups in Southeast Asia designated pursuant to the authorities of E.O. 13224. These terrorist groups are also on the United Nations 1267 Committee's consolidated list of individuals and entities associated with the Taliban, al Qaida and/or Usama Bin Ladin.

In 2004, Al-Mujil invited a Philippines-based JI supporter to Saudi Arabia under the cover of traveling for the hajj (the Muslim pilgrimage), and planned to provide him with cash to carry back to the Philippines to support organizations including JI.

Al-Mujil was also present in Afghanistan in the late 1990s and personally knew Usama Bin Ladin and deceased al Qaida co-founder Abdallah Azzam. Al-Mujil traveled continuously to meet with members of Bin Ladin's organization in Arab countries. In the 1990s, Al-Mujil established a relationship with senior al Qaida operational planner Khalid Shaykh Muhammad.

Al-Mujil has a long history of providing support to terrorist organizations. He has contributed direct financial assistance to ASG leaders, including Abdurajak Janjalani (deceased).

The Indonesian and Philippines branches of IIRO have received support from IIRO-EP, which in turn is controlled by Al-Mujil. Indeed, he is often responsible for authorizing payment transfers for IIRO Philippines (IIRO-PHL) and IIRO Indonesia (IIRO-IDN).

**Name:** Abd al-Hamid Sulaiman Al-Mujil  
**AKAs:** Dr. Abd al-Hamid Al-Mujal  
Dr. Abd Abdul-Hamid bin Sulaiman Al-Mu'jil  
Dr. Abd Al-Hamid Al-Mu'ajjal  
Abd al-Hamid Mu'jil  
A. S. Mujel  
**DOB:** Abu Abdallah  
**Nationality:** Saudi Arabian

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HSBC-PSI-PROD-0102778

2018

Angela Cassell-Bush08/03/200805:44:21 PM

*International Islamic Relief Organization, Philippines Branch Offices*

The IIRO-PHL is a source of funding for the al Qaida-affiliated ASG. IIRO-PHL has served as a liaison for the ASG with other Islamic extremist groups. A former ASG member in the Philippines familiar with IIRO operations in the country reported that a limited amount of foreign IIRO funding goes to legitimate projects and the rest is directed to terrorist operations.

The Philippine branches of the IIRO were founded sometime in the late 1980s or early 1990s by Muhammad Jamal Khalifah, who is Usama bin Laden's brother-in-law and has been identified as a senior al Qaida member. IIRO-PHL's director, Abd al-Hadi Daguit, is a trusted associate of Khalifah.

While working as the director of IIRO-PHL, Khalifah maintained close connections with al Qaida through his relations with senior al Qaida supporters, including Specially Designated Global Terrorist (SDGT) Wa'el Hamza Julaidan. At the time Khalifah directed the IIRO-PHL, he employed an ASG intelligence officer as the provincial director of the IIRO-PHL in the Tawi-Tawi region of the Southern Philippines until that officer's death in 1994.

In the mid 1990s, a major ASG supporter, Mahmud Abd Al-Jalil Afif, served as the director of the IIRO-PHL and used the organization to funnel money to terrorist groups including the ASG. Afif was implicated in the assassination of Father Salvatore Carzeda in San Jose Gusu, Zamboanga City, Philippines on June 20, 1992.

**AKAs:**

- International Islamic Relief Agency
- International Relief Organization
- Islamic Relief Organization
- Islamic World Relief
- International Islamic Aid Organization
- Islamic Salvation Committee
- IIRO
- The Human Relief Committee of the Muslim World League
- World Islamic Relief Organization
- Al Igatha Al-Islamiya
- Hayat al-Aghatha al-Islamia al-Alamiya
- Hayat al-Igatha
- Hayat Al-Igatha
- Ighatha
- Igatha
- Igassa
- Igasa

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HSBC-PSI-PROD-0102779

2019

Angela Cassell-Bush08/03/20 5:44:21 PM

Igase  
Egassa

**Address:** International Islamic Relief Organization, Philippines Offices  
201 Heart Tower Building  
108 Valero Street  
Salcedo Village, Makati City  
Manila, Philippines

**Other Locations:** Zamboanga City, Philippines  
Tawi Tawi, Philippines  
Marawi City, Philippines  
Basilan, Philippines  
Cotabato City, Philippines

*International Islamic Relief Organization, Indonesia Branch Office*

The IIRO Indonesia director has channeled money to two Indonesia-based, II-affiliated foundations. Information from 2006 shows that IIRO-IDN supports II by providing assistance with recruitment, transportation, logistics, and safe-havens. As of late 2002, IIRO-IDN allegedly financed the establishment of training facilities for use by al Qaida associates.

**AKAs:** International Islamic Relief Agency  
International Relief Organization  
Islamic Relief Organization  
Islamic World Relief  
International Islamic Aid Organization  
Islamic Salvation Committee  
IIRO  
The Human Relief Committee of the Muslim World LeagueWorld  
Islamic Relief Organization  
Al Igatha Al-Islamiya  
Hayat al-Aghatha al-Islamia al-Alamiya  
Hayat al-Igatha  
Hayat Al-Igatha  
Ighatha  
Igatha  
Igassa  
Igasa  
Igase  
Egassa

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HSBC-PSI-PROD-0102780

2020

Angela Cassell-Bush08/03/20 5:44:21 PM

**Address:** International Islamic Relief Organization, Indonesia Office  
Jalan Raya Cipinang Jaya No. 90  
East Jakarta, 13410, Indonesia

P.O. Box 3654  
Jakarta, Indonesia 54021

-30-

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HSBC-PSI-PROD-0102781

2021

Know Your Customer: Social Islami Bank Ltd

Redacted by the Permanent Subcommittee on Investigations

### Know Your Customer Profile

HSBC Bank USA, N.A.

Version 7.0

Reference: [Redacted]

Client Profile Approval Status: IS Approved

Country Risk Status: High Risk

High Risk Client Type: Special Category of Client

Needs Re-Approval

Client Name: Social Islami Bank Ltd

Country: BANGLADESH

\* Changes to these fields on "Approved" Profiles require Re-approval.

#### I. General Information

Client Name:	Social Islami Bank Ltd
Is this a Client of Global Payments and Cash Management (PCM in Delaware)?	<input checked="" type="radio"/> Yes <input type="radio"/> No
Is this a Client of Corporate and Institutional Banking (CIB)?	<input checked="" type="radio"/> Yes <input type="radio"/> No
If yes, CIB Industry:	Financials
* Client Activity Status:	Active
* Client Category:	<input type="radio"/> Domestic Financial Institution <input checked="" type="radio"/> Foreign Financial Institution <input type="radio"/> Investment Advisor or Fund <input type="radio"/> Corporate Client <input type="radio"/> Sole Proprietor or Partnership
Type of Client:	<input checked="" type="radio"/> Bank <input type="radio"/> Non-Bank
Legal entity:	<input checked="" type="radio"/> Parent <input type="radio"/> Branch <input type="radio"/> Subsidiary
Is the Client a Central Bank?	<input type="radio"/> Yes <input checked="" type="radio"/> No
* Is Client a "Special Category of Client"? (Refer to Group Policy GCL 000074 on SCCs)	<input checked="" type="radio"/> Yes <input type="radio"/> No
If yes, SCC Type:	4 - Reputational Risk (due to regulatory legal or public/media scrutiny) or Other
What information source was used to categorize this Client as an SCC (e.g., Compliance)?	Compliance - Client's minority shareholder, International Islamic Relief Organization (IIRO), was designated a terrorist funding organization by the U.S. Department of Treasury for facilitating fund-raising for al Qaeda and affiliated terrorist groups.
Has the Client's name and location been checked against Government lists of known or suspected terrorists or criminals (e.g., OFAC and World-Check)? [This is to be completed for prospects only - existing clients are scanned monthly and when the OFAC list changes.]	<input checked="" type="radio"/> Yes <input type="radio"/> No
Address (Business / Permanent): (A PO Box alone is not sufficient for address.)	15, Dilkusha Commercial Area Dhaka 1000
City:	Dhaka
* Country:	BANGLADESH
Telephone:	88029559014

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**Redacted by the Permanent Subcommittee on Investigations**

	88029557499
Email address of Client contact:	sibl@bdonline.com
Client's URL (Web Site):	www.siblbd.com
Fax:	88029559013
Swift Code:	[REDACTED]
Taxpayer ID (EIN or SSN):	W-8BEN
New Client or Existing Client:	<input type="radio"/> New (prospect) <input checked="" type="radio"/> Existing (active) <input type="radio"/> Agency Arrangements only
Account Number:	[REDACTED]
Date Account Activated:	10/21/2003
* Purpose of Account:	USD Clearing Services, Wire Transfer, DC, Trade Activity
Is the Client or its Parent traded on an Exchange?	<input checked="" type="radio"/> Yes <input type="radio"/> No
If yes, Name of Exchange:	Dhaka and Chittagong Stock Exchange
CIP Verification of ID - Has the original customer identification/documentation been verified, as per USA PATRIOT Act regulations for new customers (or new accounts/locations for existing customers)? (Documentary and/or Non-Documentary evidence)	<input checked="" type="radio"/> Yes <input type="radio"/> No
Documentary Evidence for CIP: (this may include banking license, registered articles of incorporation, partnership agreement, etc. - with more detail in Section VII). For the Banking License, indicate "Yes" if you have a copy of the license or a printout/screenshot from their Central Bank's website appropriately listing the client/bank.	
If yes, was documentary evidence verified?	<input checked="" type="radio"/> Yes <input type="radio"/> No
If yes, type of document(s):	Banking License, Screenshot from central bank
Non-Documentary Evidence CIP: (this may include financial statements, references, customer contact/Mailtation, Patriot Act Certification, company website, database searches, etc. - with more detail in other sections)	
Was non-documentary evidence verified?	<input checked="" type="radio"/> Yes <input type="radio"/> No
If yes, indicate verification methods used:	Customer Contact/Visitation, Financial Statements, Third Party Source (eg Banker's Almanac), Website (client's corporate internet site), USA Patriot Act Certification Letter, Stock Exchange
General comments:	<p>I. Company Overview</p> <p>Social Islami Bank Ltd (formerly Social Investment Bank Ltd.) was incorporated on 5th July, 1995 as a result of dedicated efforts of a group of established Bangladeshi entrepreneurs and international import personalities. The bank started commercial operations on 22nd November, 1995, with a clear manifesto to demonstrate the operational meanings of economy, banking and financial activities as an integrated part of Islamic code of life.</p> <p>Social Islami Bank Limited provides various commercial banking services in Bangladesh. It offers banking services through opening of various types of deposit and investment accounts, financing trade, providing letters of guarantee, opening letters of credit, collection of bills effecting domestic and international transfer, leasing of equipment and consumer durables, hire purchase and installment sale for capital goods, investment in low-cost housing, and management of real estates, as well as participatory investment in various industrial, agricultural, transport, educational, and health projects. The company also involves in cash WAQF Certificates, and the development and management of WAQF and MOSQUE properties, and trust funds, as well as provides lockers, debit cards, and online banking</p>

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	<p>services.</p> <p>&lt;source: http://investing.businessweek.com/research/stocks/snapshot/snapshot_article.asp?ticker=SOIN:BD&gt;</p>
	<p>II. Support Statement *****</p> <p>On 02/20/2011, Sadiquo Reza replied, "As GRM, I am supportive for continuing this relationship."</p>
	<p>III. Findings *****</p> <p>EDD ROF Requested on 02/04/2011 - score 32, received 03/03/2011. Report noted:</p> <p>*An updated Report of Findings in support of EDD was performed on Social Islami Bank Limited which is located in Bangladesh, a high risk country as per HSBC CRRT. World Check and other websites searches were conducted on the client and its board of directors and there was no evidence of money laundering and/or terrorist financing and/or AML deficiencies and/or irregularities or any other substantive criminal activity.</p> <p>As per compliance guidance, the client was previously classified as an SCC (Reputational Risk) due to the Client's minority shareholder (1.69%), International Islamic Relief Organization (IIRO), which was designated a terrorist funding organization by the U.S. Department of Treasury for facilitating fund-raising for al Qaeda and affiliated terrorist groups.</p> <p>A fresh reconfirmation on the beneficial ownership with over 5% share has been obtained from the client and there is no evidence of any individual or company that owns more than 5% share. The client continues to be an SCC due to the regulatory legal or public/media scrutiny on International Islamic Relief Organization (IIRO).*</p> <p>An RAU search was conducted on 02/07/2011 and 7/21/2011. "There were no matches found in our databases or on OFAC or on World-Check."</p> <p>Internet Searches for client and officers in conjunction with terms terrorism, money laundering, fraud, embezzlement, and corruption were performed 07/21/2011.</p> <p>*****Social Islami Bank has issued a statement in a letter dated: 02/20/2011*****</p> <p>Reference your email and subsequent conversation with our Senior Executive Vice President and Head of International Department we are providing below some updates on IIRO as desired by your good bank.</p> <p>The current Share holding of International Islamic Relief Organization (IIRO) in our bank is 1.69 %. It is of mention that the bank doesn't have any transactions with this organization as share holder except that this organization purchased sponsor shares of the bank when it was floated and received initial bonus shares. An executive Director of this company having listed in the US Sanctions has been viewed with due concern by the management and the Board of the bank. The matter is taken to the notice of Bangladesh Bank and Security Exchange commission for permission's to dispose of the share holdings of this company since the company did not respond to the bank's request to off-load their shares.</p> <p>To overcome the situation and to safeguard the interest of the Bank the management of our bank placed the issue before the Shareholders of the bank in the 11th Annual General Meeting (AGM) held on 06.11.2006 and adopted a resolution unanimously</p>

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that the whole shares held by International Islamic Relief Organization will be disposed off by way of sale/transfer in accordance with the law of Securities and Exchange Commission (SEC), Bangladesh Bank and in line with the law of the land. Accordingly a Board Memo bearing Memo No. 248 of 2009 dated 23.06.2009 was placed in the Board Meeting held on 30.06.2009 and the Board of Directors unanimously agreed to dispose off the whole shares held by International Islamic Relief Organization (IIRO) after observing the legal/regulatory formalities involved in this behalf. The Board of Directors also agreed to seek permission from the High Court praying for Court's intervention to sell the entire shareholding i.e. 5,49,225 shares of IIRO in the capital market and the proceeds may be deposited in any government account/screw account or as would be determined by the Hon'ble court of justice to save the Bank from any unwanted trouble and for smooth operation of the foreign exchange business of the Bank.

Meanwhile, Ministry of Finance, Government of the Peoples Republic of Bangladesh has issued a circular bearing No. Agle/vAcwce/clm/wewea-9/2008 (Ask-1) dated 31/05/2010 giving IIRO permission to run business/ office legally in this country. A scanned copy of the circular is attached herewith for your information and perusal.

However, the Central Bank has also endorsed the circular issued by the Ministry of Finance, Government of the Peoples Republic of Bangladesh and advised us to take necessary steps in view of the circular vide their Letter No. AMLD-432010-2797 dated 30.06.2010. The content of the letter is as follows:

- a) The Board of Directors of IIRO will be formed mutually by the Governments of Bangladesh and Saudi Arabia.
- b) The Chief Executive Officer of IIRO in Bangladesh will be appointed with the consent of the Government of the Peoples Republic of Bangladesh.
- c) A finance and Accounts Officer shall be appointed in IIRO from the Ministry of Finance, Government of the Peoples Republic of Bangladesh.
- d) The 3 bank accounts of IIRO namely i) Social Islami Bank Ltd. ii) Islami Bank Bangladesh Ltd. iii) Al-Falah Islami Bank Ltd. must be disposed off and transferred to i) Sonal Bank Ltd. ii) BASIC Bank Ltd. and iii) Bank Asia Ltd. respectively.

We enclose herewith a scanned copy of the Letter issued by the Central Bank for your information. Mentionable that so far we have not provided any dividend/ bonus share/ right share to IIRO against their share.

As per the Share holding position as on 31.07.2010, we do not have any shareholder having 5% or above share to any single person/ group. We have attached herewith a statement of Share holdings in this regard issued by the Share Department of the bank. Social Islami Bank is a publicly traded company and is enlisted with Dhaka Stock Exchange and Chittagong Stock Exchange.

\*\*\*\*\*

Updated EDD ROF received May 5, 2009. Report provided no new, or, up to date information.

An RAU search was conducted on 2/27/2009. Due to IIRO's partial ownership (once 8.62%, now 3.85%) of the bank, there was a significant amount of information found on the internal database and on World-Check. "Of primary concern in the November, 2003 report was the issue of Social Investment Bank's majority shareholder, the International Islamic Relief Organization (IIRO), and the IIRO's alleged connections to terrorist organizations such as Al Qaeda."

Social Investment Bank has issued a statement in a letter dated:

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	<p>03/08/2009, to clarify the issue. The bank explains that the IIRO purchased sponsor shares of the bank when it was floated and received initial bonus shares. The IIRO currently has a holding of 3.85% and the bank has no transactions and are in no way connected to the organization. Bank is still seeking to offload shares owned by this organization....</p>
	<p>Compliance advised on 09/29/06 that the responses provided were satisfactory and that the fact that IIRO has no involvement in the running of the bank, is not a client of the bank and will likely be ousted as a shareholder give considerable grounds for comfort.</p> <p>ROF was received on 08/10/06, with no further additional information, that was not already mentioned in the previous findings.</p> <p>The U. S. Department of the Treasury had announced on August 03, 2008, the designation of the Philippine and Indonesian branch offices of the Saudi-based International Islamic Relief Organization (IIRO) for facilitating fundraising for al Qaeda and affiliated terrorist groups. Treasury additionally designated Abd Al Hamid Sulaiman Al-Muji, the Executive Director of the Eastern Province Branch of IIRO in the Kingdom of Saudi Arabia.</p> <p>Compliance Analysis: "IIRO's shareholding is a minority holding and information received indicates that they exert neither management control nor have board representation. While this entity clearly represents a heightened reputational risk to the bank, I believe that with the knowledge we have today and the controls that are being implemented we have mitigated that risk adequately."</p> <p>IV. AML Discussion ***** AML/CDD Discussion took place 08/23/2010, see visitation section for details.</p>
	<p>V. AML Policy ***** Copy of the client's AML policy in the file. AML Questionnaire in file.</p> <p>MTS Questionnaire in file - Client is payout agent for: Lotus Forex; Remit Master; and Placid NK Corporation.</p>
	<p>They do route activity through HSBC Bank USA. "Coverfunds comes through HSBC, NY (Nostr0 A/C) to SIEL, HO." No funds are sent, AML program applies to these funds and user must have an account.</p>
	<p>VI. Other Notable Information ***** NOTE: Client name changed from Social Investment Bank Limited to Social Islami Bank Limited effective 04/08/09.</p> <p>Client notified 8/10/2011 that RM/GRM has been queried several times for a resolution to this issue and the only response we have received is that they are awaiting response from the client. Compliance acknowledged via response.</p> <p>Compliance Notice 7/19/2011:</p> <p>"On 14/Apr/11, approval of the KYC Profile for Social Islami Bank Ltd ("SIBL") was denied pending collection of more information to understand better SIBL's history with the International Islamic Relief Organization (IIRO), a Saudi-based Islamic charity whose name was placed on the OFAC SDN list circa 2004 (exact date not known). Since denying approval of the account in April, Compliance has communicated with PCM and with local Bangladeshi HSBC officers and feels more confident (1) that the ownership of IIRO has been reduced to a non-material level.</p>

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	(1.69%), (2) that the charity has absolutely no board or management influence and (3) that the Bangladeshi government (more specifically, the central bank and Ministry of Finance) is keenly aware that an IRO ownership stake poses difficulty for any Bangladeshi bank with such a relationship and has worked hard to effect a solution.
	IRO was once considered an Ultimate Beneficial Owner of SIBL holding 8.62% ownership stake. As noted in the KYC profile, SIBL states that IRO acquired this "sponsor" share position when they were first issued. By 2009, the IRO stake was reported at 3.85% and declined further to its current 1.68%. Given that shares trade freely in the Bangladesh market, SIBL may not be able to totally eliminate IRO as shareholder. Nevertheless, Compliance is satisfied with the progress made.*

II. Ownership/Management/Business Information

* Name of Principals or Beneficial Owners : (List all shareholders with 10% or more ownership. If Corporate Client not publicly traded, Special Category Client or High Risk Country, then list all shareholders with 5% or more ownership.)	* % of ownership:
Publicly Traded	100.00
Name of Corporate Officers:	Title (e.g. Chairman, Vice/Dputy Chairman, President, Chief Executive Officer, Chief Financial Officer, and those Members of the Board or others with direct influence over the operations of the entire organization)
Kamaluddin Ahmed Anisul Hoque Mohammad Azam Alhaj Nasiruddin Sayedur Rahman	Chairman Vice Chairman Vice Chairman Director Director
Total Number of Employees:	765 <2010 BankersAlmanac>
Where is the Client incorporated:	BANGLADESH
Year Established:	1995
What is Client's Rank in country (asset based):	32 <2010 BankersAlmanac>
How many branches/offices does Client have:	64 <Client Website>
Where are the branches/offices located:	Bangladesh
Products/services sold:	Commercial, Investment Banking, and Foreign Exchange Trade.
For Foreign Financial Institutions only: Indicate nature of Client's business (select all that apply):	Correspondent Banking, Private Banking, Commercial/Retail Banking, Money Service Business Pay Out Agent
Client's Types of Customers:	Commercial, Retail and Individual
Locations of Client's Customers:	Bangladesh
Number of Client's Customers:	moderate
Do any of the Client's customers represent a significant % of its business?	<input type="radio"/> Yes <input checked="" type="radio"/> No
For each beneficial owner indicate: Source of Wealth: Approximate Net Worth: Occupation or Business: Position or Title: Business Name: Business Address:	See Section VIII, Below
Indicate reporting agency or supervisory /regulatory body (ies) in the country (ies) of operation:	Bangladesh Bank
* List license type:	* Year of issuance: 1995 * Country of issuance: BANGLADESH
Is Client's Shareholders' Equity 25 Million USD or more?	<input type="radio"/> Yes <input checked="" type="radio"/> No
Has the Client been under the same ownership for last 10 years?	

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(or 5 years if in a High Risk Country)?	<input type="radio"/> Yes <input checked="" type="radio"/> No
Is the Client or its Parent State-Owned? (Answer "Yes" if the government has the largest ownership percentage)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Please list principal affiliates which have relationships with HSBC:	N/A
If the Client or affiliates have other Accounts with HSBC entities, provide the country in which each account is located:	BDT AC w/HSBC Dhaka; ACU AC w/HSBC India, HSBC, Hong Kong and HSBC Italy

III. Referral Information

How was the Client introduced to the bank?	HSBC Dhaka
By whom?	Itekhhar Alam
Is a GIF form or a CISM KYC Profile from a referring office in the Client file? (If the client was referred from another HSBC entity /office)	<input checked="" type="radio"/> Yes <input type="radio"/> No
Global Relationship Manager (GRM) or Country Relationship Manager (CRM) recommendation received and in Client file?	<input checked="" type="radio"/> Yes <input type="radio"/> No
If yes, name of GRM or CRM:	Sadique Reza
If yes, date:	02/20/2011
Name of Sales/Marketing/Trading person assigned to Client:	Hersel Mehani
Name of Relationship Manager (RM) for KYC Approval:	Tom Lazaridis

IV. Visitation

General Visitation:

Was a Client Site Visit performed?	<input checked="" type="radio"/> Yes <input type="radio"/> No
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Visitation Details:

	Most Recent Site Visitation:	Prior Site Visitation:
Date of visitation:	03/09/2011	11/04/2010
By Whom:	Virgil Rodrigues, Shaqufa Zabin Khan	Virgil Rodrigues, AHMAD, Ishiaque
Purpose - Banking Products/Services discussed:	Regular site Visit	Invitation for Mr. Cam Adams Dinner and meet new Managing Director
Is call report in Client file?	<input checked="" type="radio"/> Yes <input type="radio"/> No	<input checked="" type="radio"/> Yes <input type="radio"/> No
Comments - provide other details regarding visitation (e.g., client contact name and title, documentation reviewed):	Client Attendees : Mr. Md. Mainuddin Hossain (Nobel), Assistant Vice President (MMH) , Mr. M.Mizanur Rahman Talukder, Assistant Vice President (MMRT)	Client Attendees: ALI, Muhammad- Managing Director, FARHAD, A- Executive Vice President

V. Purpose/Nature of Activity

Transactions*	Expected Frequency	Transactions*	Expected Frequency
ACH (Clearing House)		Money Market	
ARP (Account Reconciliation)		Securities Lending	
Asset Management		Swaps	
Check Collection (Cash Letter)		Sweep Overnight Investment	
Checks/Demand Drafts		Time Deposits	
Clearing (Funds Transfer)	Daily	Trading - Banknotes *	
Commercial Line		Trading - Bonds	
Commitments		Trading - Derivatives	
Control Disbursement		Trading - Emerging Markets	
Current Account		Trading - Equities	

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Derivatives		Trading - Fixed Income	
Factoring		Trading - Foreign Exchange	
Forward Rate Agreements		Trading - Futures	
Globalization		Trading - Securities (Treasury)	
Guarantees (CD offset, Deposits)		Trading/Lending - Precious/Base Metals	
Intra Day Exposure Limit		Zero Balance Account	
Letters of Credit / Bankers Acceptances	Occasionally		
Loans			
Lockbox		Other:	

\* Refer to Client's file for anticipated volume of activity.

Managing for Value - Client's Profitability for HSBC (Annualized revenue - actual or anticipated, in USD equivalent): This is required for all PCM clients.	103,014
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VI. Financial Summary

Assets	1,217,275,000
Liabilities	1,217,275,000
Net Income	31,544,122

VII. Documentation Checklist

List of Authorized Signatories and for Corporate Resolution in Client file?	<input type="radio"/> Yes <input checked="" type="radio"/> No
If no, explain:	Signatures are housed in our Buffalo Office.
Current Annual Report (Form 10-K) or Financial Statement in Client file?	<input checked="" type="radio"/> Yes <input type="radio"/> No
Indicate Banking Reference and Relationship (List 3) (Name, Country, Date and Relationship):	Bank of Tokyo-Mitsubishi Ltd Tokyo Dresdner Bank, Frankfurt Standard Chartered NY
Is banking reference documentation in Client file (for Clients located in High Risk Countries)?	<input checked="" type="radio"/> Yes <input type="radio"/> No

Bank Client and Not a Central Bank

Copy of Banking License in Client file?	<input checked="" type="radio"/> Yes <input type="radio"/> No
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Foreign Bank Client and Not a Central Bank

Is a USA Patriot Act Certification on file?	<input checked="" type="radio"/> Yes <input type="radio"/> No
If yes, date received by HSBC:	04/07/2011
If yes, date most recent Certification or Re-Certification was executed/signed by customer? (required by US Treasury every 3 years)	04/07/2011

Know Your Customer: Social Islami Bank Ltd

VIII. Summary of Reasons

We have reviewed the information provided above in the context of the bank's "Know Your Customer" policy and "due diligence" requirements and criteria. Based on the following summary of reasons, we feel comfortable recommending this client for banking business.

**Purpose - Explain the purpose of this account / Client relationship and summarize the anticipated activity:**

The purpose of this account is to clear USD wire transactions and DC Trade related activity. The expected DC volumes are 30-35 DCs per month, valuing from US\$5K to USD 300K. The anticipated activity for MT103/202 type wire transfers is between 10 to 20 transactions per month.

**Section 312 Variance**

The December 2010 report of transactional activities (Treasury, Third Party Transfers, Cash Letter, and Drafts) from the Dates of 11/01/2010-12/31/2010 versus 01/01/2009-12/31/2009 reflected Treasury Variance (71%) in actual vs expected activity (see exhibit 10 in client's file).

When queried 02/20/2011, Virgil D Rodrigues responded, in Bangladesh the banks maintain USD accounts with the Central Bank through which they can settle local USD payments. In the last few years, because of the better quality of backward linkage supply for Ready-made garments (RMG) has significantly risen in the local market it has resulted in a growing need for local DC settlements. Consequently, the banks require adequate funds in their inter bank clearing account to settle those bills and they prefer to maintain funds in their Central Bank accounts to meet those local DC payments. As such, swap transactions are settled through inter bank accounts instead of nostro accounts and as a result such variance of treasury activity in that specific period.

**Ownership - Comment on the owner's / principal's background, history and reputation:**

Social Islami Bank Ltd ownership as of 07/31/2010

Local sponsor's/Director's (all less than 5%)	22.06%
Foreign Sponsor's (all less than 5%)	5.18%
Publicly traded with less than 5% ownership	72.76%
<b>Total</b>	<b>100.00</b>

As per the Share holding position as on 31.07.2010, we do not have any shareholder having 5% or above share to any single person/group.

<source: Email received from Virgil D Rodrigues on 02/20/2011>

Note: Although the IIRO has less than 5% ownership, it is listed here with details due to the nature of the organization.

**International Islamic Relief Organization (IIRO) 1.69% Ownership of Social Islami Bank**

Established in 1978 as a humanitarian nongovernmental organization (NGO) to provide assistance to victims of natural disasters and wars all over the world. IIRO was also created after it was discovered that 80% of refugees and victims were Muslims.

The major part of IIRO's financial contributions come from private donations in Saudi Arabia. An endowment fund (Sanabti Al-Khair) has been established to generate a stable income to finance its various activities. Headquartered in Jeddah, IIRO is structured into various departments according to sector needs: the Department of Urgent Relief & Refugees; the Department of Health Care; the Department of Orphans & Social Welfare; the Department of Education; the Department of Agricultural Affairs; the Department of Architectural & Engineering Consultancy; and the "Our Children project".

The IIRO's relief programs are directed towards the provision of medical, educational and social support of those in desperate need. It also encourages entrepreneurs by sponsoring viable economic projects and small businesses that can help victims find employment and earn a living. To fulfill these objectives, the IIRO has established a wide network of national and international contacts with various Islamic and non-Islamic relief organizations, institutions and individuals, operating in several countries in Europe, Asia and Africa. Preference is given to providing assistance to victims of natural disasters and wars.

<source: www.gm-unced.org/field/ngo/iirro/res.htm>

**Management - Comment on the Client's professionalism, expertise, experience, and education of senior officers / executives:**

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**Kamaluddin Ahmed- Chairman**

Kamaluddin Ahmed has 34 years of business experience to his credit. He is the chairman of Alif Group of Industries, former Vice-President of FBCCI and former President of Chittagong Chamber of Commerce and Industry (CCCI).

<Source: [http://www.thefinancialexpress-bd.com/more.php?date=2011-06-14&news\\_id=139179](http://www.thefinancialexpress-bd.com/more.php?date=2011-06-14&news_id=139179)>

**Ariful Haque- Vice Chairman**

Mr. Ariful Haque B. Com (Hon's) in Accounting from Dhaka University in 1989. He has completed C.A. Course in 1991 from ICAB. He joined Hamdard Laboratories as an Accounts Officer in 1991. He is member of Board of Directors of Social Investment Bank Limited (SIBL) on behalf of Hamdard Laboratories and he also member of Finance & Investment Committee of Social Investment Bank Ltd. He is the Secretary of P.F. Trustee Board and President of Hamdard Officers Kalyan Samity (HOKS). He traveled Holland, Germany, England, Moscow, Singapore, Dubai and USA

<Source: [http://www.hamdard.com.bd/new/index.php?option=com\\_content&view=article&id=129&Itemid=58](http://www.hamdard.com.bd/new/index.php?option=com_content&view=article&id=129&Itemid=58)>

**Mohammad Azam- Vice Chairman**

Mr. Mohd. Azam was born in the year 1964 in a respectable Muslim family at Chittagong. He is an arts graduate. He has 11 years of experience in the various fields of business. He is the proprietor of M/s Zia & Brothers & Bushra Trading and sponsor shareholder of Social Investment Bank Limited. He is attached with many social and cultural organizations.

< Source: [http://www.ngid.com/board\\_directors.php](http://www.ngid.com/board_directors.php)>

**Alhaj Nasiruddin - Director**

Mr. Nasiruddin was elected Vice Chairman of SIBL at the bank's 126th board meeting in Dhaka, on April 26, 2006. He was born in Chittagong in 1962. He has completed his graduation in arts. He has 20 long years of business experience. He is, also, the proprietor of M/s Nasim Trading Company and M/s Nams Trade Corporation. He is the Chairman of the Claims Committee of the Northern General Insurance Co. Ltd. He is involved with various educational and socio-cultural activities.

<source: Northern General Insurance Company Limited Prospectus>

**Md. Sayedur Rahman**

DOB: 01/03/1962

Education: B.A.

Managing Director: Lodestar fashions Ltd., Mid Asia fashions Ltd; Jessore fishery

Sayedur Rahman is the Managing Director of Lodestar Fashions Ltd. and Mid Asia Fashions Ltd. He is related with many social organizations.

<source: Provided by client.<http://www.sibbd.com/php/news/popup.php?yz=45>>

Visitation - Summarize information obtained from Client visitations and discussions. (Call Reports, etc)

**Enhanced Due Diligence Visit- 08/23/2010**

**Client: Social Islami Bank Limited**

**HSBC attendees:**

shtiaque Ahmad, Relationship Manager (IA)

Virgil RODRIGUES, Assistant Relationship Manager (VR)

**Client attendees:**

A.M.M Farhad, Executive Vice President, International Division (AMMF)

**Detailed description:**

The meeting was arranged to administer an enhanced due diligence on the client. During the meeting, the following issues has been discussed and details are given below

**Introduction of New Business and Branch expansion:**

AMMF informed that since June, 2009, Social Islami Bank Ltd did not start any substantial new line of business, there has been only horizontal expansion of products and network which includes 3 new branches and Central Remittance Processing Unit (CRPU) and they are going to launch their Islamic Credit Card very soon.

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**Ownership Changes:**

There has not been no major change in the Banks ownership. AMMF confirmed that no individual, family or institution is holding more than 5% of the Bank's total shareholding.

**Change in AML Policy:**

AMMF advised that they have prepared their Internal AML Policies and Guidelines according to the requirements of those acts which have been outlined by the Central Bank as Money Laundering Prevention Act, 2009 and Anti Terrorism Act, 2009. In the meantime they have not implemented any new AML procedures or transaction monitoring tools.

**Client on-boarding process**

AMMF informed that they have a very regularized and formal way in the form of checklists while opening an account.

Local client on boarding procedure is maintained as per the Central Bank AML guideline. Necessary KYC documents and transaction profile is obtained. For Exchange Houses or Money Exchange accounts, the bank follows Central Bank procedures which require taking approval from Central Bank before establishing such relationships. During this approval process, detail documents of the client are submitted to the Central Bank for their approval.

Social Islami Bank does not have any non resident foreign accounts. For local individuals and corporate entities, all related documents are checked by the Branch Anti Money Laundering Compliance Officer (BAMLCO) checks all documents with the checklist outlined by the Central Bank such as photo ID of the customers like passport, driving license etc. In recent days, copy of National Identification Card is preferred. Two copies of customers' photographs duly attested by the introducer, who is an existing customer/acceptable person to the Bank is obtained. Same procedures are followed while on-boarding local corporate entities for each of the Directors/Sponsors. If (s)he thinks that there is an suspicion and further endorsement they send it to the Chief Anti Money Laundering Compliance Officer (CAMLCO) in the Head Office for endorsement.

**Policy and status regarding Money Business & other high risk customers:**

AMMF informed that Social Islami Bank does not accommodate any shell banks. There are stringent regulatory restrictions in dealing with any shell bank. Social Islami Bank maintains relationships with some Exchange Houses (Placid NK Corporation, Lotus Forex Ltd, Remit Master SDN BHD, Fast Remit SDN BHD, Western Union) to facilitate inward remittances from different countries. These Exchange houses are maintaining these accounts with Social Islami Bank after obtaining endorsement from the Central Bank. Bangladesh Bank considers transacting with money exchange houses as high risk and prescribed specific guidelines to deal with this. It requires the Money Services' license issued by the Central Bank or other appropriate authority of its country of domicile, Credit report from any internationally reputed agency, audited financial of last three years, profile of all the directors etc. Also a certificate of clearance from the Bangladesh Consular Office in the country of domicile of the Money Service is required before commencing the relationship with them. There are no precious metal or gem traders in Social Islami Banks customer-base.

**AML Policy & screening process of restricted clients while on-boarding and transactions**

AMMF added operations related to AML and other updated circulars pertaining to AML are circulated through the branches on a continuous basis. AMMF informed that they have not installed any filtering system for AML recently. The list of restricted counterparties as received from the Central Bank and is distributed electronically to all the branches from the office of the CAMLCO (Chief Anti Money Laundering Compliance Officer). They scan all wire transactions by their names, account numbers and remitting bank details and try to match it with the list provided by the Central Bank. If he thinks that there is any suspicion and further endorsement they send it to the Chief Anti Money Laundering Compliance Officer (CAMLCO) in the Head Office for endorsement. After sending the updated list from the Central Bank to all the branches and SME centers they ask all branches to submit a feedback if there is a match. According to their own policy, if there is a match they are supposed to send a report to the Central Bank. AMMF added operations related to AML and other updated circulars pertaining to AML are circulated through the branches on a continuous basis and they scan transactions from OFAC countries.

**Correspondent banking and payable through accounts:**

Social Islami Bank Ltd is not allowing any of their customers to provide correspondent banking services through their account maintained with HSBC Bank USA, N.A. Payable through account is also not permissible within the Banking guideline of the country.

**CAMLCO:**

Mr. Md. Shafiqul Islam, Executive Vice President is the Chief Anti Money Laundering Compliance Officer. He reports to the Managing Director of the Bank.

**Contact details:**

AMMF requested us to direct the future queries and documentation requests to his attention. His contact details are furnished below:

Mr. Md. Shafiqul Islam  
Executive Vice President & Chief Anti Money Laundering Compliance Officer  
Social Islami Bank Limited  
Telephone: 8802 9556664  
Email: sibi@bdonline.com

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**On Site Visitation -03/09/2011**  
 The main purpose of the visit was to meet Md. Moinuddin Hossain(Nobel), Assistant Vice President (MMH), and introduce Ms. Shagufa Zabin Khan(SK). He joined recently from EXIM Bank, Mouljeeb branch and was happy to see us also providing Correspondent services to SIBL as well. He already has tested our services and requested us to provide the same service and standard. We informed that we will assist them as much as we can, subsequently, we also requested him to route more DC and Payment business in his new bank and bade him best of luck in his new endeavor. MMRT wanted to know whether we have done any development with their Credit Line. I answered we have till date but am working on it and will try our level best to as soon as possible. He added that they are getting a lot of requests for "Confirmed" DC's but unfortunately he cannot provide us those as we don't have any Credit Line facilities with them.

**On site Visitation -11/04/2010**  
 The visit was to invite Mr. Farhad and Mr. Muhammad Ali, Managing Director of SIBL for dinner hosted for Mr. Cam Adams, Regional Head of Financial Institutions Sales, Global PCM, Asia Pacific.  
 Mr. Muhammad Ali joined SIBL as the Managing Director on 01NOV10, hence it was a courtesy visit to me him too.  
 Mr. Farhad and Mr. Muhammad Ali was very much grateful for being invited to the dinner and stressed that HSEC is a world reputed bank and they are very happy to bank with us. Mr. Ali who banked with HSEC from other banks, expressed he will continue to bank with HSEC in the current bank and expected to have a win-win situation from this relationship. We answered we will try our level best to provide the unparalleled service that we have been giving them and try to foster this relationship to higher grounds.

Does the Client have KYC and Anti-Money Laundering (AML) policies and procedures documented?	<input checked="" type="radio"/> Yes <input type="radio"/> No
If yes, has a copy been filed in the Client file? (Required if Client is in a High Risk Country):	<input checked="" type="radio"/> Yes <input type="radio"/> No
Does the Client's KYC and AML Policies and Procedures require identification documentation and verification when opening an account?	<input checked="" type="radio"/> Yes <input type="radio"/> No
Does the Client have a screening process regarding the procedures for the establishment of new accounts (including obtaining information on the source of funds)?	<input checked="" type="radio"/> Yes <input type="radio"/> No
Does the Client offer accounts or services to anonymous customers?	<input type="radio"/> Yes <input checked="" type="radio"/> No
Does the Client have an ongoing system in place to monitor and report suspicious activity?	<input checked="" type="radio"/> Yes <input type="radio"/> No
What are the procedures when unusual transactions are detected as a result of the Client's ongoing monitoring process?	They scan all wire transactions by their names, account numbers and remitting bank details and try to match it with the list provided by the Central Bank. If he thinks that there is any suspicion and further endorsement they send it to the Chief Anti Money Laundering Compliance Officer (CAMLCO) in the Head Office for endorsement. After sending the updated list from the Central Bank to all the branches and SME centers they ask all branches to submit a feedback if there is a match. According to their own policy, if there is a match they are supposed to send a report to the Central Bank.
How are the Client's KYC and AML Policies and Procedures communicated and enforced in the Client's network of domestic and foreign offices?	SIBL's KYC and AML Policies and Procedures are disseminated by way of circulars and internal memos. Audits are performed to ensure the enforcement of AML Policies and Procedures.
Does the Client have a formal / independent Anti-Money Laundering Compliance function?	<input checked="" type="radio"/> Yes <input type="radio"/> No
If yes, does the Client provide Anti-Money Laundering Training to its employees?	<input checked="" type="radio"/> Yes <input type="radio"/> No
If yes, how often is this AML training provided and to whom?	Internal quarterly training on AML, ranging from the officer level to managers
Comment on the Client's KYC and AML practices (past, present and/or future)	The bank considers Money Laundering as high risk and takes action in reducing and eliminating such risk by following their internal guidelines and compliance with administrative requirements enforced by the Bangladesh Bank (Central Bank). Good indicators are: procedures to identify clients at the inception of a relationship, not offering anonymous accounts to clients, identifying the source of opening credits to accounts, operating a risk-based approach to products and geographies, monitoring transactions so that unusual activity can be alerted, and suspicious activity reported to the criminal authorities, providing money laundering control training to its employees, an

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	Internal/external audit or control function that assesses money laundering control practices.
Does the Country the Client is located in have KYC and AML laws and regulations?	● Yes ○ No
If yes, comment on the country's KYC and AML practices (past, present and/or future) regarding prevention of money laundering and terrorist financing.	<p>Bangladesh is not a regional or offshore financial center. Under the caretaker government that declared a state of emergency when it came to power on January 11, 2007, evidence of funds laundered through the official banking system escalated. The new government instituted a stringent anti corruption campaign that netted more than \$180 million in proceeds—a fraction of the estimated total amount of corrupt funds located both domestically and abroad. Fighting corruption is a keystone of the caretaker government under the state of emergency. Money transfers outside the formal banking and foreign exchange licensing system are illegal and therefore not regulated. The principal money laundering vulnerability remains the widespread use of the underground hawala or "hundi" system to transfer money and value outside the formal banking network. The vast majority of hundi transactions in Bangladesh are used to repatriate wages from expatriate Bangladeshi workers.</p> <p>In April and June 2008 the government promulgated the Money Laundering Prevention Ordinance (MLPO 2008) and the Anti-Terrorism Ordinance (ATO 2008). The laws facilitate international cooperation in recovering money illegally transferred to foreign countries and mutual legal assistance in terms of criminal investigation, trial proceedings, and extradition matters. The GOB has formed a national level committee headed by the Law Adviser and an inter-agency Task Force headed by the Governor of the CB to retrieve illegally transferred money.</p> <p>For the past twenty years, corrupt practices became so common that, between 2001 and 2005, Transparency International ranked Bangladesh in its Corruption Perception Index as the country with the highest level of perceived corruption in the world. In 2006, Bangladesh was ranked 147 out of 180 countries surveyed.</p>
	<p>Bangladeshis are not allowed to carry cash outside of the country in excess of the equivalent of \$3,000 in South Asian Association for Regional Cooperation (SAARC) countries and the equivalent of \$5,000 to other countries. Proper documents are required by authorized foreign exchange banks and dealers. The GOB does not place a limit on how much currency can be brought into the country, but amounts over \$5,000 must be declared within 30 days. The Customs Bureau is primarily a revenue collection agency, accounting for 40-50 percent of Bangladesh's annual government income.</p>
	<p>Although positive legislation has been passed and progress has been made, the Government of Bangladesh should continue to strengthen its anti-money laundering/terrorist finance regime so that it adheres to world standards. The GOB should support technology enhancements to reporting channels from outlying districts to the Central Bank. While the FIU is growing steadily, the FIU analysts and investigators need to enhance their ability to conduct analysis, investigations, understand money laundering and terror finance methodologies and guide the ROs. Bangladesh law enforcement and customs should examine forms of trade-based money laundering and initiate money laundering and financial crimes investigations at the "suspect level" instead of waiting for a STR to be filed with the FIU. A crackdown on pervasive customs fraud would add new revenue streams for the GOB. Continued efforts should be made to fight corruption, which is intertwined with money laundering, smuggling, customs fraud, and tax evasion. The GOB should ratify the UN Convention against Transnational Organized Crime.</p>
Source used for Country KYC, supervisory regime and AML information are set out in the HBUS AML Country Risk List. Please refer to the KYC User Guide.	<2009 www.state.gov>

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Has the Client been audited?	<input checked="" type="radio"/> Yes <input type="radio"/> No
If yes, date:	03/16/2011
If yes, by whom (Audit Firm):	Syfal Shamsul Alam & Co.
Does the Client have a credit rating?	<input checked="" type="radio"/> Yes <input type="radio"/> No
If yes, who issued it (S&P, Moody's or other):	CRISL
If yes, date issued:	06/25/2009
If yes, credit rating:	Long Term: A- Short Term: ST-2 Outlook: Stable

Employing reasonably available information, has due diligence been conducted on the Client's AML record?	<input checked="" type="radio"/> Yes <input type="radio"/> No
Has negative information been identified?	<input checked="" type="radio"/> Yes <input type="radio"/> No
Specify how the reputational risk is being controlled:	Compliance has designated client as a SCC, for reputational risk, and placed a monitoring threshold of \$50,000, effective 08/07/06.

Has Enhanced Due Diligence been conducted for this High Risk Client/Country, which includes Compliance (CRO) checking OFAC & public databases for the names of the customer, principals/beneficial owners, and executive officers?	<input checked="" type="radio"/> Yes <input type="radio"/> No
If yes, has Compliance confirmed that there is no direct adverse information to preclude business with this client?	<input checked="" type="radio"/> Yes <input type="radio"/> No
If yes, date:	03/03/2011
Date of most recent KYC review:	07/22/2011
Department of the Account Manager / Administrator (AM) who prepared this profile:	Global Payments & Cash Mgmt

Signature Section

Account Manager / Administrator (AM) Approval:	Jan K Jones	07/22/2011 01:24 PM
Client Services / Manager (CS) Approval:	Greg X Boston	07/25/2011 11:54 AM
Functional Head of Business / Executive (IS) Approval:	Anthony Julian	07/25/2011 01:53 PM
Relationship Manager (RM) Approval:	Not Required	
Institutional Banking / Team Leader (IB) Approval:		
Regional Money Laundering Control Officer (CO) Approval:		

APPROVE/DENY HISTORY:

Created: 10/14/2003 04:22:41 PM Rhonda Lee-Thomas

AM Approved: (Old Status In Process), 10/16/2003 05:35 PM: Rhonda Lee-Thomas  
New Account. Requires immediate attention!

Approved: (Old Status AM Approved), 10/20/2003 05:23 PM: Manwei Huang  
Group intra-net KYC has been completed.

In Process: (Old Status Approved), 12/15/2004 10:12 PM: Rhonda Lee-Thomas  
Customer is sent back for re-approval

AM Approved: (Old Status In Process), 01/31/2005 07:03 PM: Rhonda Lee-Thomas  
Updated Call visit.

CS Denied: (Old Status AM Approved), 03/08/2005 11:46 AM: Sharyn Malone

02/07/2012 10:12:58 AM

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-Update revenue information - actual 2004 i/o anticipated in 2003/2004  
- Obtain HSBC CEO's written approval to retain (annually)  
- Ask for another EDD Report to determine if anything has occurred during the last year.  
Under EDD Section you mention yearly visits (yet only have Dec 04 listed - what happen to the initial visit?)

AM Approved: (Old Status CS Denied), 06/29/2007 03:03 PM: Shannon M Jones  
No Comments

CS Denied: (Old Status AM Approved), 07/03/2007 01:48 PM: Gillian E Bachstein  
Pls provide follow-up on the Banks attempt to/interest in oust(ing) IIRO as a shareholder. Additional revisions required, as discussed.

AM Approved: (Old Status CS Denied), 07/03/2007 04:04 PM: Shannon M Jones  
Updated as required. Will send email to RM to follow-up on the status of IIRO shares.

CS Approved: (Old Status AM Approved), 08/03/2007 06:56 PM: Gillian E Bachstein  
No Comments

IS Approved: (Old Status CS Approved), 08/16/2007 11:51 AM: Bob Shetty  
Agree based on clarifications on EDD, worldwide group relationship.

IB Approved: (Old Status IS Approved), 08/16/2007 03:03 PM: Beth Fisher  
Based on the continued support, knowledge, and monitoring from/by HSBC Bangladesh & HBUS PCM.

Approved: (Old Status IB Approved), 08/17/2007 01:51 PM: Alan T Kelley  
Please include some comment about the current political situation in Bangladesh and how it may impact the business climate in this profile.

The variance between expected and actual volumes of Treasury payments is material but does not represent a high AML risk.

In Process: (Old Status Approved), 03/11/2009 04:44 PM: Jacob X Houseknecht

Ownership percentage changed from: [6.62,6.19,83.19] to: [3.85,6.78,89.37]

AM Approved: (Old Status In Process), 11/04/2009 09:49 AM: Jon K Jones  
No pending items

CS Approved: (Old Status AM Approved), 11/30/2009 02:36 PM: Gillian E Bachstein  
No Comments

IS Approved: (Old Status CS Approved), 11/30/2009 03:39 PM: Bob Shetty  
Relying on GRM support, recent visit and compliance view on the minority owner.

IB Approved: (Old Status IS Approved), 01/08/2010 10:44 AM: Anthony Julian  
No Comments

Approved: (Old Status IB Approved), 02/08/2010 07:25 PM: Ali S Kazmy  
1 - Pursuant to 3/8/2005 CS condition, annual HSBC CEO approval is required to maintain this relationship. Confirmation is required if this condition has been met.  
2 - Confirmation required if the Board of the bank has ousted the IIRO as previously confirmed.  
3 - Fresh confirmation is required that no dividends have been paid to IIRO.

In Process: (Old Status Approved), 03/03/2011 02:14 PM: Jon K Jones

Name of principals changed from: [Social Trust Fund,Publicly Traded; Widely Held - None with 5% or > holdings] to: [Publicly Traded - Widely Held - None with 5% or > holdings]  
Ownership percentage changed from: [6.78,93.22] to: [100]  
License Type(1) changed from: [Commercial Banking License] to: [Banking]

AM Approved: (Old Status In Process), 03/03/2011 02:15 PM: Jon K Jones  
No Comments

CS Approved: (Old Status AM Approved), 03/03/2011 03:25 PM: Gillian E Bachstein  
No Comments

IS Approved: (Old Status CS Approved), 03/04/2011 09:30 AM: Bob Shetty  
No Comments

02/07/2012 10:12:58 AM

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IB Approved: (Old Status IS Approved), 03/29/2011 10:12 AM: Tom Lazaridis  
No Comments

CO Denied: (Old Status IB Approved), 04/15/2011 12:32 PM: R Dale Swift  
It is not clear whether the disposal of the small IIRO stake has been completed. The 20/Feb/2011 letter states that the SIBL Board of Directors voted unanimously on 30/June/10 to dispose of the IIRO stake; however, SIBL has not yet confirmed whether this action has been completed. Furthermore, the letter says that SIBL approached the High Court asking permission to the sell shares on the open market and placing the proceeds in escrow. Again, the outcome of this request is not revealed.

Approval is denied until we receive from SIBL either a statement confirming unequivocally that IIRO no longer holds its ownership stake in SIBL, or until the bank provides us with a firm date by which the disposal of this ownership stake will have been completed.

AM Approved: (Old Status CO Denied), 07/22/2011 01:23 PM: Jon K Jones  
Approved by direction of Compliance

CS Approved: (Old Status AM Approved), 07/25/2011 11:52 AM: Greg X Boston  
Banking references should be more current, followup with IIRO slack to continue

IS Approved: (Old Status CS Approved), 07/25/2011 01:53 PM: Anthony Julian  
Please correct the double negative comment under ownership changes.

**Revision History**

Editor	Date	Reason for Update
Jon K Jones	07/22/2011 01:23:40 PM	Available documentation refreshed to current
Jon K Jones	07/21/2011 05:25:30 PM	minor updates to General Comments
Shannon M Jones	07/21/2011 04:42:59 PM	duplicate
Sunil X Anchan	07/21/2011 10:03:43 AM	Update Management
Jon K Jones	07/20/2011 04:19:52 PM	Update for Compliance decision on IIRO
Sunil X Anchan	07/20/2011 02:39:44 PM	Update Visitation, Financials & Mgmt.
Jon K Jones	06/17/2011 10:49:58 AM	update on CO Denial to General Comments
Shannon M Jones	05/06/2011 09:43:19 AM	updated certification date
Jon K Jones	03/03/2011 02:15:10 PM	Annual Review Complete
Lalitha X Chintalapati	02/22/2011 10:09:32 AM	updated - GRM support.ownership Details

**CRR Revision History**

Last Updated By On	Update Type(Field/General)	Old Value	New Value
Anthony Julian - 07/25/2011 1:53:31 PM	Status	CS Approved	IS Approved

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INVESTIGATIVE CONTROL & REPORTING OFFICE (ICRO)  
 REPORT OF FINDINGS

RESEARCH AS OF: September 8, 2008

INVESTIGATOR: David Wagreich

SUBJECT: Abdul Rahman Saleh Al-Rajhi

ENTITIES: Abdul Rahman Saleh Al-Rajhi, Husna Abdulaziz Mohamed Al Fayyad, Khalid Abdulrahman Saleh Al Rajhi, Badr Abdulrahman Saleh Al Rajhi, Turki Abdulrahman Saleh Al Rajhi, Basma Abdulrahman Saleh Al Rajhi, Sharooq Abdulrahman Saleh Al Rajhi, Arwa Abdulrahman Saleh Al Rajhi

REQUESTOR: Mihaela W. Nistor

DEPARTMENT: Compliance

A report of findings was conducted for Abdul Rahman Saleh Al-Rajhi, the former owner of Al-Rajhi Trading Establishment, as well as his wife, Husna Abdulaziz Mohamed Al Fayya, and his children, Khalid Abdulrahman Saleh Al Rajhi, Badr Abdulrahman Saleh Al Rajhi, Saad Abdulrahman Saleh Al Rajhi, Turki Abdulrahman Saleh Al Rajhi, Basma Abdulrahman Saleh Al Rajhi, Sharooq Abdulrahman Saleh Al Rajhi and Arwa Abdulrahman Saleh Al Rajhi.

This department has completed previous reports on Al Rajhi Banking and Investment Corp., most recently in December of 2007. The text of those previous reports is provided below for your reference.

These previous reports have listed numerous allegations against Al Rajhi Bank of terrorist support, but the bank has reportedly never been officially sanctioned. However, there was a published "Wall Street Journal" article titled "U.S. Tracks Bank Favored By Extremists" which offered a review of previously secret intelligence reports that state plainly that the Bush administration and US agencies have debated whether or not the bank should be sanctioned for what is perceived as a history of support of Muslim extremists.

As is detailed below, no definitive information was found to confirm or deny a link between the subject in question and Al Rajhi Bank or Sulaiman Al Rajhi.

*Please note that there is limited information available in our resources on entities residing outside of the United States. The information which we could find and confirm*

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as involving your client has been included in this report. However, we cannot confirm that all information that involves your client has been uncovered and reported in this report.

#### **Abdul Rahman Saleh Al-Rajhi**

##### **Press**

Bahrain-based Al Rajhi Holdings W.L.L. and Al Rajhi Partners (together "Al Rajhi") represent the business interests of Saudi Arabian royal Sheik Abdulrahman Saleh Al Rajhi and his immediate family. Al Rajhi is a private investment company and has investments in financial services, infrastructure, mining, healthcare, biotechnology, real estate, oil and gas. Key investments include Bank Al Bilad, DanaGas, Saudi Telecom, Saudi Cement and Procure hospitals. Khalid al Rajhi, CEO of Al Rajhi, is a director of each of these companies. In the *Daily Telegraph* article, it was noted that **it is not known whether the sheik is related to Saudi billionaire Sulaiman Al Rajhi**, the 87 year old patriarch of Saudi Arabia's wealthiest non-royal family. Sulaiman Al-Rajhi is one of the richest men in the Middle East and has 31 children. **His Islamic charity network was investigated in 2002 by US federal agents for suspected links to Osama Bin Laden.** (*The Daily Telegraph (Australia)*, load date: 6/1/08; *PR Newswire*, load date: 5/10/08)

There were approximately 5 corporate profiles that listed Abdul Rahman Al Rajhi as the General Manager of Al Rajhi Group, which is located at King Fahad Area, Prince Ahmed-Bin Abdulaziz Street, P.O. Box 55155, Riyadh 11534, Saudi Arabia. The profile also stated that Khaled Saleh Al-Rajhi is the President. (*WWP-Report on Engineering Construct & Plant Operations in the Developing World*, load date: 4/1/04)

According to the website for Al Rajhi Bank, [www.alrajhibank.com.sa](http://www.alrajhibank.com.sa), Abdulrahman Saleh Al Rajhi or any known possible variation of his name was not found on its list of its Board of Directors and Management Team.

As per Muslim naming conventions, the name Abdul Rahman Saleh Al-Rajhi would imply that this individual's father's name is Al Rajhi. We note that a Saleh Al Rajhi is noted in the press as one of Saudi Arabia's richest men and brother to Sulaiman Al Rajhi and the cofounder of Al Rajhi Banking and Investment Corp. He is known to have 61 children. No other information was found in our sources to confirm or deny a link between Abdul Rahman Saleh Al Rajhi and Al Rajhi Bank or Sulaiman Al Rajhi.

Please note that there were multiple articles in the press and on the internet that state that Abdul Rahman Saleh Al-Rajhi is a royal sheik in Saudi Arabia.

No further information of note was found regarding Abdul Rahman Saleh Al-Rajhi in our sources, which include searches of regulatory actions, *World-Check* profiles, corporate affiliations and US legal filings.



**Hussa Abdulaziz Mohamed Al Fayyad**

No information was found regarding Hussa Abdulaziz Mohamed Al Fayyad in our sources, based on the identifying information provided. This includes searches of regulatory actions, *World-Check* profiles, corporate affiliations, US legal filings as well as press and internet searches.

**Khalid Abdulrahman Saleh Al Rajhi**

(Source: <http://www.danagas.ae/charman8.htm>)

A "Khalid Sulaiman Al Rajhi" was listed as a defendant in 16 United States District Court filings related to 9/11/01 in New York. Al Rajhi was one of numerous defendants in each of these suits that are known terrorists including **Osama bin Laden and Saddam Hussein**. Please also note that **Al Rajhi Banking and Investment** was named as a defendant in each of these 15 civil suits. The suits include a \$75,000 personal property civil suit, a **\$9.9 million Racketeering (RICO)** civil suit, 5 personal injury class action civil suits, 2 torts to land civil suits, an airplane personal injury civil suit, an airplane crash statutory action, a **\$9.9 million** personal injury breach of contract civil suit, a **\$50 million** personal injury breach of contract civil suit, a personal injury **Racketeering (RICO)** civil suit, a **\$9.9 million personal injury** class action civil suit and a **\$1 billion personal injury Racketeering (RICO)** civil suit.

Besides a partial name match, no further information was found to link Khalid Sulaiman Al Rajhi to Khalid Abdulrahman Saleh Al Rajhi.

No information was found regarding Khalid Abdulrahman Saleh Al Rajhi in our searches of regulatory actions and *World-Check* profiles.

**Corporate Affiliations**

Khalid Abdulrahman Saleh Al Rajhi, along with individuals who appear to be the subject in question with various name permutations, appear to be affiliated with approximately 30 companies in industries such as telecommunication, oil and gas, banking and construction, among others. These companies were found to be located in Saudi Arabia, Switzerland, Italy, Bahrain and the United Arab Emirates.

**Press**

There are numerous articles found in the press and on the internet that state that Khalid Abdulrahman Al Rajhi is the CEO of Bahrain-based Al Rajhi Holdings W.L.L. and Al Rajhi Partners (together "Al Rajhi"). As mentioned above, Al Rajhi is a private investment company and has investments in financial services, infrastructure, mining, healthcare, biotechnology, real estate, oil and gas. Mr. Al Rajhi was also noted to be the CEO of Abdulrahman Saleh Al Rajhi & Partners Co. Ltd, Saudi Arabia, a member of the Board of Bank Al BiLad, member of the Board of Saudi Cement Company and is a founder of a number of companies in the Gulf Cooperation Council (GCC). It is also

noted in numerous articles that Khalid Abdulrahman Saleh Al Rajhi is a Saudi Arabian royal Sheikh.

**Khalid Sulaiman Al-Rajhi**, who is listed as the Managing Director for Al-Rajhi Group of Industries in Riyadh, Saudi Arabia according to the *U.S. Department of Agriculture Reports*, was noted in numerous articles as a defendant in numerous 9/11 lawsuits. In these articles it was stated that 500 family members and survivors of the September 11th attacks filed legal action against senior Saudi political and business figures, international banks, Islamic foundations, "charities" and their subsidiaries, individual terrorist financiers, the Saudi bin Laden Group, three Saudi princes and the government of Sudan for bankrolling al Qaeda, Osama bin Laden and the Taliban. (*Middle East Economic Digest*, load date: 9/3/02)

A business profile was found for Khalid Abdulrahman Al-Rajhi on the website for DANA Gas, <http://www.danagas.ae/charman8.htm>. The profile stated that Mr. Al-Rajhi was born in 1971 and received a Bachelor's Degree in Finance from the King Fahd University for Petroleum & Minerals, Saudi Arabia.

Please note that no information was found to either confirm or deny that Khalid Abdulrahman Saleh Al-Rajhi and Khalid Sulaiman Al Rajhi, the individual who was identified as a defendant in numerous 9/11 litigation, are the same individual or even related to one another if they are not the same individual.

*However, based on Muslim naming conventions, it would appear that the above individuals have different fathers and are separate individuals.*

**Badr Abdulrahman Saleh Al Rajhi**

Badr Saleh Al Rajhi was listed as a 3<sup>rd</sup> partner and one of the top shareholders for the company, Saleh Abdul Aziz Al Rajhi & Co. Ltd. (*Middle East Newsfile*, load date: 12/11/01)

No further information was found regarding Badr Abdulrahman Saleh Al Rajhi in our sources, based on the identifying information provided. This includes searches of regulatory actions, *World-Check* profiles, corporate affiliations, US legal filings as well as press and internet searches.

**Saad Abdulrahman Saleh Al Rajhi**

No information was found regarding Saad Abdulrahman Saleh Al Rajhi in our sources, based on the identifying information provided. This includes searches of regulatory actions, *World-Check* profiles, corporate affiliations, US legal filings as well as press and internet searches.

**Turki Abdulrahman Saleh Al Rajhi**

**Litigation and US Public Records**

*Please note that due to the limitations of our sources it cannot be confirmed that all actions that involve the entity in question have been included in this report.*

A "Turki A. Alrajhi" (DOB 10/24/74) was listed as the defendant for a traffic citation in Orange County, CA Superior Court on 8/9/01. The status of the case was not disclosed through our sources.

**Press**

Turki A. Alrajhi was listed as the contact name for the company, National Polyester Fiber Factory, in *Nonwovens Industry 2008 International Buyers' Guide*. According to the buyers' guide, National Polyester Fiber Factory is located at P.O. Box 42185, Riyadh 11541, Saudi Arabia and has the website, [www.alrajhigroup.com](http://www.alrajhigroup.com). (*Nonwovens Industry*, load date: 7/31/08)

Turki A. Al Rajhi was listed as the General Manager and contact name for the company, Al Rajhi Foam & Plastic Factories in two directory listings on the websites, <http://www.reckonindia.com/EximPolicy/tradeopp/October12-18,2002.asp> and <http://dgft.delhi.nic.in/zjdgftcal/tradeenq3.asp>. According to the listings, Al Rajhi Foam & Plastic Factories is located at P.O. Box 42185, Riyadh 11541, Saudi Arabia. No further information was listed regarding Mr. Al Rajhi or the company in the directory listings.

Turki Saleh Al Rajhi was listed as one of the top shareholders for the company, Saleh Abdul Aziz Al Rajhi & Co. Ltd. (*Middle East Newsfile*, load date: 12/11/01) No further information was found regarding Turki Abdulrahman Saleh Al Rajhi in our sources, based on the identifying information provided. This includes searches of regulatory actions, *World-Check* profiles, corporate affiliations, US legal filings as well as press and internet searches.

**Basma Abdulrahman Saleh Al Rajhi**

No information was found regarding Basma Abdulrahman Saleh Al Rajhi in our sources, based on the identifying information provided. This includes searches of regulatory actions, *World-Check* profiles, corporate affiliations, US legal filings as well as press and internet searches.

**Sharooq Abdulrahman Saleh Al Rajhi**

No information was found regarding Sharooq Abdulrahman Saleh Al Rajhi in our sources, based on the identifying information provided. This includes searches of regulatory actions, *World-Check* profiles, corporate affiliations, US legal filings as well as press and internet searches.

**Arwa Abdulrahman Saleh Al Rajhi**

No information was found regarding Arwa Abdulrahman Saleh Al Rajhi in our sources, based on the identifying information provided. This includes searches of regulatory actions, *World-Check* profiles, corporate affiliations, US legal filings as well as press and internet searches.

Should you have further questions regarding this request, please contact me.

2042

David Wagreich  
Investigator Financial Intelligence Group (FIG)  
452 Fifth Avenue, Tower 7  
Mail Code (31)  
P. 212-525-8653  
F. 212-525-5769

*This report is confidential and is intended solely for the use of the HSBC business to which it is addressed and those who need to know the information pursuant to that business' internal procedures. This report is not to be disseminated to any other person or entity. Our investigative findings are, in part, based upon information available to us through a variety of third-party providers at the time our search is performed. While every attempt is made to find all substantive information, we make no representation that the information provided to, or gathered by, us is complete. This is not a credit or lien report and should not be used as such. The information contained herein is intended as a supplement to the Know Your Customer information gathered by the HSBC business unit and may not be considered when determining the creditworthiness of a customer (see Regulation B, 12 CFR 202.7) or to determine the lien status of property.*

Confidential Treatment Requested

HSBC-PSI-PROD-0102818

2043

*Text of Report of Findings on Al Rajhi Banking and Investment Corp. (Al Rajhi Bank)  
From December 2007:*

**CONFIDENTIAL**  
**\*\*\*FOR INFORMATIONAL PURPOSES ONLY / FOR INTERNAL USE  
ONLY\*\*\***

**INVESTIGATIVE CONTROL AND REPORTING OFFICE (ICRO)**  
**FINANCIAL INTELLIGENCE UNIT**  
Research as of: 12/04/07 UPDATE

**SUBJECT: Al Rajhi Banking and Investment Corp**

**ENTITIES: Al Rajhi Banking and Investment Corp (AKA Al Rajhi Bank)**

**REQUESTOR: Daniel Jack**

**DEPARTMENT: Banknotes**

A report of findings in support of Enhanced Due Diligence was conducted for **Al Rajhi Banking and Investment Corp**. This department completed previous reports on this bank, most recently in October of 2006. The text of those previous reports is provided below for your reference.

As our previous reports state, there have been numerous allegations of terrorist support against Al Rajhi Bank, but the bank has never been officially sanctioned. Since the previous report of findings, however, there was published a "Wall Street Journal" article titled "U.S. Tracks Bank Favored By Extremists" which offered a review of previously secret intelligence reports that state plainly that the Bush administration and US agencies have debated whether or not the bank should be sanctioned for what is perceived as a history of support of Muslim extremists. A brief summary of this article is provided below, and the full article is appended for your reference.

**While it is not clear that this newly released information will lead to any official sanctions against the bank, it is likely that there will continue to be references in the press to the allegations of terrorist support against the bank, and for this reason there remains a level of reputational risk attached to any relationship with Al Rajhi Bank that should be taken into consideration.**

*Only items impacting adversely on money laundering, terrorist financing or other substantive criminal activity concerns will be detailed in this report.*

Confidential Treatment Requested

HSBC-PSI-PROD-0102819

**Al Rajhi Banking and Investment Corp****Most Current Ownership Breakdown Found:**

Partners of ARCCEC the predecessor 52%  
 New Founders of the Bank 5%  
 Employee's Fund 2%  
 Public 41%  
*(Bankers Almanac, Profile Upload: November 26, 2007)*

**Most Current List of Top Executives Found:**

Sulaiman Bin Abdulaziz Al Rajhi, Chairman & Managing Director  
 Abdullah Sulaiman Al Rajhi, Chief Executive Officer  
 Mr. Saeed Mohd Al Ghamdi, Deputy Chief Executive Officer  
 Mr. Mohammed Fazal Haque, Acting Head Financial Institutions  
*(Bankers Almanac, Profile Upload: November 26, 2007)*

**Notable Information Regarding the Financial Institution, its Ownership or its Top Executives:**

A "Wall Street Journal" article published in July 2007, titled "U.S. Tracks Bank Favored By Extremists," offered a review of previously undisclosed intelligence reports by the Central Intelligence Agency and other US Agencies, detailing for the first time how much the U.S. knew about the use of Al-Rajhi Bank by alleged Muslim extremists and how U.S. officials debated over how to respond to this knowledge. The reports state that the spread of Muslim extremism is dependent upon the Saudi banking structure, and that the Bush administration has repeatedly debated whether to take action against Al Rajhi Bank in particular. Ultimately, the administration would choose to lobby Saudi officials quietly instead of instituting official sanctions. *(The Wall Street Journal, Article-date: July 26, 2007)*

Key excerpts from the July 2007 article are as follows:

- "The U.S. intelligence reports, heretofore secret, describe how Al Rajhi Bank has maintained accounts and accepted donations for Saudi charities that the U.S. and other nations have formally designated as fronts for al Qaeda or other terrorist groups."
- "In addition, Mr. Al Rajhi and family members have been major donors to Islamic charities that are suspected by Western intelligence agencies of funding terrorism, according to CIA reports and federal-court filings by the Justice Department."
- "A 2003 CIA report claims that a year after Sept. 11, with a spotlight on Islamic charities, Mr. Al Rajhi ordered Al Rajhi Bank's board to explore financial

instruments that would allow the bank's charitable contributions to avoid official Saudi scrutiny."

"A few weeks earlier, the report says, Mr. Al Rajhi 'transferred \$1.1 billion to offshore accounts using commodity swaps and two Lebanese banks citing a concern that U.S. and Saudi authorities might freeze his assets.' The report was titled 'Al Rajhi Bank: Conduit for Extremist Finance.'"

*(The Wall Street Journal, Article-date: July 26, 2007)*

The article notes that US agencies have never obtained proof that bank executives knowingly facilitate terrorism, "despite what they describe as extensive circumstantial evidence that some executives are aware the bank is used by extremists." But the article also included the fact that the 2003 CIA report concluded: "Senior Al Rajhi family members have long supported Islamic extremists and probably know that terrorists use their bank." *(The Wall Street Journal, Article-date: July 26, 2007)*

The article goes on to state that US officials considered various actions to take against the bank, including listing or threatening to list the bank as a supporter of terrorism. Ultimately, the Bush administration chose instead to appeal to bank officials privately. *(The Wall Street Journal, Article-date: July 26, 2007)*

The article also provides a history of the bank's relationship with the Saudi Royal Family, as well as a history of the accusations against the bank. We have appended the text of this article to this report, for your reference. *(The Wall Street Journal, Article-date: July 26, 2007)*

***Information Found Regarding this Financial Institution, its Ownership or its Top Executives that Warrants SCC Consideration:***

No additional information was found that would warrant additional SCC consideration.

***\*\*\* Should you find any discrepancies between the ownership and/or executives named in this report and those named in your current, up-to-date KYC information, please let us know so that we may check any differing names for items impacting adversely on money laundering, terrorist financing or other substantive criminal activity concerns.***

Please feel free to contact me with any questions regarding this report. See below for text of the July 2007 "Wall Street Journal" article as well as the text of previous reports on Al Rajhi Banking and Investment Corp.

Bob Powers  
Financial Investigator  
*Investigative Control and Reporting Office (ICRO)*  
452 5th Avenue, Tower 7; New York, NY 10018  
Telephone: (212) 525-8089

Confidential Treatment Requested

HSBC-PSI-PROD-0102821

*This report is confidential and is intended solely for the use of the HSBC business to which it is addressed and those who need to know the information pursuant to that business' internal procedures. This report is not to be disseminated to any other person or entity. Our investigative findings are, in part, based upon information available to us through a variety of third-party providers at the time our search is performed. While every attempt is made to find all substantive information, we make no representation that the information provided to, or gathered by, us is complete. This is not a credit or lien report and should not be used as such. The information contained herein is intended as a supplement to the Know Your Customer information gathered by the HSBC business unit and may not be considered when determining the creditworthiness of a customer or to determine the lien status of property.*

Confidential Treatment Requested

HSBC-PSI-PROD-0102822



*Text of July 26, 2007 "Wall Street Journal" article on newly disclosed intelligence reports concerning Al Rajhi Bank:*

The Associated Press

July 26, 2007 Thursday 2:50 PM GMT

## U.S. tracks Saudi bank favored by extremists

**BYLINE:** By GLENN R. SIMPSON, The Wall Street Journal

**SECTION:** BUSINESS NEWS

**LENGTH:** 2669 words

JIDDA, Saudi Arabia In the 1940s, two Bedouin farm boys from the desert began changing money for the trickle of traders and religious pilgrims in this then-remote and barren kingdom. It was a business built on faith and trust, Sulaiman Al Rajhi once told an interviewer, and for many years he would hand gold bars to strangers boarding flights in Jidda and ask them to give the gold to his brother on their arrival in Riyadh.

Today, Mr. Al Rajhi is a reclusive octogenarian whose fortune is estimated at \$12 billion. And Al Rajhi Bank grew into the kingdom's largest Islamic bank, with 500 branches in Saudi Arabia and more spread across the Muslim world.

Following the Sept. 11, 2001, attacks, the bank also set off an intense debate within the U.S. government over whether to take strong action against its alleged role in extremist finance. Confidential reports by the Central Intelligence Agency and other U.S. agencies, reviewed by The Wall Street Journal, detail for the first time how much the U.S. learned about the use of Al Rajhi Bank by alleged extremists, and how U.S. officials agonized over what to do about it.

After 9/11, the Saudi monarchy pledged its full support in the fight against global terrorism. And following violent attacks inside the kingdom in the next two years, the Saudis did launch major strikes against militants operating on their soil. But the Saudi government has been far less willing to tackle the financial infrastructure essential to terrorism. U.S. intelligence reports state that Islamic banks, while mostly doing ordinary commerce, also are institutions that extremism relies upon in its global spread.

As a result, the Bush administration repeatedly debated proposals for taking strong action itself against Al Rajhi Bank, in particular, according to former U.S. officials and previously undisclosed government documents. Ultimately, the U.S. always chose instead to lobby Saudi officialdom quietly about its concerns.

The U.S. intelligence reports, heretofore secret, describe how Al Rajhi Bank has maintained accounts and accepted donations for Saudi charities that the U.S. and other nations have formally designated as fronts for al Qaeda or other terrorist groups.

Confidential Treatment Requested

HSBC-PSI-PROD-0102823

In addition, Mr. Al Rajhi and family members have been major donors to Islamic charities that are suspected by Western intelligence agencies of funding terrorism, according to CIA reports and federal-court filings by the Justice Department.

A 2003 CIA report claims that a year after Sept. 11, with a spotlight on Islamic charities, Mr. Al Rajhi ordered Al Rajhi Bank's board "to explore financial instruments that would allow the bank's charitable contributions to avoid official Saudi scrutiny."

A few weeks earlier, the report says, Mr. Al Rajhi "transferred \$1.1 billion to offshore accounts using commodity swaps and two Lebanese banks citing a concern that U.S. and Saudi authorities might freeze his assets." The report was titled "Al Rajhi Bank: Conduit for Extremist Finance."

Al Rajhi Bank and the Al Rajhi family deny any role in financing extremists. They have denounced terrorist acts as un-Islamic. The bank declined to address specific allegations made in American intelligence and law-enforcement records, citing client confidentiality.

In 2002, the bank sued The Wall Street Journal Europe after an article said Saudi authorities were monitoring some Al Rajhi Bank accounts at U.S. request, in a bid to prevent them from being used, wittingly or unwittingly, for funneling money to terrorist groups. The bank dropped the suit in 2005 and the Journal published a statement saying its article hadn't reported any allegation that the bank supported or financed terrorism.

Also in 2005, a U.S. judge dismissed Al Rajhi Bank from a lawsuit filed by relatives of Sept. 11 victims. The ruling said banks couldn't be held liable for providing routine services to people who turned out to be terrorists. In a statement in response to questions about suspected terrorists among its clients, the bank noted that "Al Rajhi Bank has a very large branch network, and a very large retail customer base."

U.S. law-enforcement and intelligence agencies acknowledge it is possible that extremists use the bank's far-flung branches and money-transfer services without bank officials' knowledge. The U.S. has never obtained proof that the bank or its owners knowingly facilitate terrorism, according to documents and former officials, despite what they describe as extensive circumstantial evidence that some executives are aware the bank is used by extremists. The 2003 CIA report concluded: "Senior Al Rajhi family members have long supported Islamic extremists and probably know that terrorists use their bank."

Most major banks around the world are bound by a patchwork of treaties and agreements that, in effect, require them to know their customers and report any suspicious activities to regulators. The rules are designed to fight terrorism, money laundering and narcotics trafficking. It's generally acknowledged that Saudi banks are bound by these rules, although experts differ on when compliance became mandatory.

The top counterterrorism official at the U.S. Treasury Department, while declining to comment on Al Rajhi Bank specifically, says Saudi officials haven't met a promise to create a commission to oversee Saudi charities, many of which bank with Al Rajhi. "They are also not holding people responsible for sending money abroad for jihad," says the Treasury official, Stuart Levey. "It just doesn't happen."

The Saudi government maintains it has been working diligently with the U.S. and others to counter terrorism. It cites its arrests of several alleged terrorist fund-raisers in recent years. The Saudis didn't respond to specific questions about their efforts to counter terrorist finance or oversee banks.

A White House statement said that "the Saudis continue to be a strong partner in the War on Terror. ... We have made significant progress on numerous fronts including the freezing of assets and the shutdown of known conduits of (terrorist) funding." A CIA spokesman said "publishing details of how our government seeks to track extremist financing" could undermine those efforts.

For the ruling Saud family, any confrontation with the Al Rajhis could be politically treacherous. To stay in power, the Saudis rely on the tolerance of clerical and business elites, many of whom view the royal family as corrupt. The wealthy Al Rajhis are a clan long at odds with the royal family. And U.S. intelligence files show the Al Rajhis also have close ties to another group critical of the royals: Saudi Arabia's conservative clerics.

The Al Rajhi empire includes hotels, housing developments, commodities trading, shipping, aviation leasing and poultry. Its core is the bank, with more than 500 branches in Saudi Arabia and other offices abroad, from Pakistan to Malaysia. For 2006, the publicly held institution reported \$1.9 billion in profit and \$28 billion in assets.

Sulaiman Al Rajhi grew up in the Nejd desert, the birthplace of a severe form of Islam, called Wahhabism, that forbids birthday parties, musical instruments and photographing people. In the 1940s, he and a brother, Saleh, went to the Saudi capital city. "From literally nothing making change on what were then the dirt streets of Riyadh Sulaiman and Saleh al Rajhi built the Al Rajhi Bank," Sulaiman's lawyers told a U.S. court in New York in 2005.

Sulaiman described the business in a rare interview with Euromoney magazine in 1983. With two other brothers, he and Saleh began changing money for pilgrims taking camel caravans across the desert to the holy cities of Mecca and Medina. When throngs of migrant workers came to Saudi Arabia during the 1970s oil boom, the Al Rajhis helped them send their earnings home to places like Indonesia and Pakistan.

In 1983, the brothers won permission to open Saudi Arabia's first Islamic bank, one that would observe religious tenets such as a ban on interest.

But relations with the ruling family frayed. The government-controlled press in 1992 publicized Al Rajhi Bank's tangential role in an international scandal of that era, that of the bank called BCCI, U.S. diplomats reported. Then in 1994, an infant relative of the Al Rajhis died in a kidnapping. Official press accounts said the kidnapers slit the child's throat, but Saudi dissidents claimed police shot the child. Mr. Al Rajhi blamed the royal family, the CIA report says.

Although Al Rajhi Bank continued to make a show of support for the Saudis annual reports had flowery tributes to the royal family the bank began refusing to make loans to the Saudis or to finance their projects, U.S. diplomats said at the time.

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HSBC-PSI-PROD-0102825

With its Islamic procedures, the bank was a magnet for the clerical establishment, which grew rich from alms amid the oil boom. As the clerics' charities spread, they became entwined with Al Rajhi Bank and the conservative Al Rajhi family's own extensive financial support for Islamic causes.

There is no reliable estimate of how much the Al Rajhis have given to promote Islam over the years, but an endowment holding much of Saleh Al Rajhi's wealth gives an indication of the scale. Its Web site details nearly \$50 million in direct donations within the kingdom to Islamic causes and at least \$12 million in donations abroad. The overseas money went to aid embattled Muslims in Kosovo, Chechnya and the Palestinian territories and to finance Islamic instruction.

There are indications not all the giving was for such purposes. The Al Rajhi name appeared on a list of regular financial contributors to al Qaeda that was discovered in Sarajevo, Bosnia, in 2002. The list was authenticated for the Federal Bureau of Investigation that year by America's top judicial witness against al Qaeda, a onetime al Qaeda business manager named Jamal Al Fadl, who is in the federal witness-protection program. He called the contributor list the "golden chain."

A 2003 German police report said Sulaiman Al Rajhi and other family members had contributed more than \$200,000 in 1993 to a charity that financed weapons for Islamic militants in Bosnia, in addition to providing humanitarian aid.

The 2003 CIA report tells of efforts by two Al Rajhi brothers to keep some giving secret. It says that Sulaiman and Saleh transferred \$4 million to parties in Germany and Pakistan in December 1998 using "a unique computer code to send funds at regular intervals to unspecified recipients, suggesting they were trying to conceal the transactions and that the money may have been intended for illegitimate ends."

The report says extremists "ordered operatives in Afghanistan, Indonesia, Pakistan, Saudi Arabia, Turkey, and Yemen" to use Al Rajhi Bank. Mamduh Mahmud Salim, convicted mastermind of the 1998 embassy bombings in Kenya and Tanzania, was carrying records of an Al Rajhi account (number 001424/4) when arrested in Germany in 1998, German police found.

In 2000, the CIA report says, Al Rajhi Bank couriers "delivered money to the Indonesian insurgent group Kompak to fund weapons purchases and bomb-making activities."

A U.S. intelligence memo dated Nov. 16, 2001, says a money courier for Osama bin Laden's second-in-command, Ayman al-Zawahri, traveled on a visa that the bank had obtained for him. The memo adds, however: "Reporting does not indicate whether bank management was witting" of the courier's terrorist connections.

Al Rajhi Bank maintained at least 24 accounts and handled unusual transactions for Al-Haramain foundation a charity that Treasury officials say has acted as a front for al Qaeda in 13 countries until the Saudi government ordered the charity shut down in late 2004, according to intelligence and law-enforcement reports. The United Nations has designated top officials of Al-Haramain foundation as terrorists, and most of its offices now are closed.

According to a federal indictment in Oregon, a top Al-Haramain official in 2000 carried \$130,000 in \$1,000 traveler's checks from Portland to Riyadh and deposited them with Al Rajhi funds the indictment says were for the ultimate benefit of al Qaeda fighters in Chechnya. The indicted official, Soliman Al-Buthe, now works for the city of Riyadh. In an interview, he confirmed carrying the checks and depositing them with Al Rajhi Bank but said that they weren't for al Qaeda and that he did nothing wrong.

A Jidda-based charity called the International Islamic Relief Organization, or IIRO, arranges for donors to send their donations directly to the Al Rajhi Bank. The IIRO's chairman, Adnan Khalil Basha, says the charity is "absolutely apolitical" and has elaborate spending controls to prevent illicit diversions. The charity says it works with Al Rajhi Bank simply because its fees are low and its service is best.

However, the U.N. has labeled two of the IIRO's branches and some of its officials as al Qaeda supporters. In 2004, the IIRO solicited donations through Al Rajhi Bank for the Iraqi city of Fallujah, then largely under the control of insurgents and the base of the late Abu Musab al Zarqawi, who led al Qaeda in Mesopotamia. The IIRO's workers oversaw construction of a trauma clinic in an insurgent-controlled area of Fallujah. The U.S. saw the clinic as a haven for insurgent fighters, and Marines destroyed it in November 2004. That was "a big tragedy for us," says the IIRO's chairman, Mr. Basha.

He denies the charity had any involvement with the Iraqi insurgency. Charity officials complain that the U.S. has produced no evidence of their alleged ties to terrorism.

Two years earlier, federal agents raided the Virginia offices of a network of charities funded by Sulaiman Al-Rajhi that worked closely with the IIRO and that according to Justice Department court filings provided funds to Palestinian terrorists. No charges have been filed.

A year after the 9/11 attacks, U.S. authorities began to lament the lack of Saudi action in taking down terrorists' financial infrastructure. A November 2002 CIA report said the Saudi government "has made little independent effort to uncover terrorist financiers, investigate individual donors, and tighten the regulation of Islamic charities," largely because of "domestic political considerations."

The report advised against a noisy confrontation: "A key factor for continued successful counterterrorism initiatives with the Saudis, whose society is by tradition private, closed, and conservative, will be to ensure that their cooperation with the United States is handled discreetly and kept as much as possible out of the public eye."

The U.S. began to rethink that approach after an al Qaeda attack in Riyadh in May 2003 that killed 26 people, including nine Americans. Deputies from the National Security Council, CIA, Treasury and State departments debated a proposal for legal and political action against Al Rajhi Bank, including the possibility of covert operations such as interfering with the bank's internal operations, according to Bush administration documents and former U.S. officials.

One idea kicked around was "listing or threatening to list" Al Rajhi Bank as a supporter of terrorism. Such a listing can be done if recommended by a committee representing the Treasury, State and Defense departments and the CIA and NSC, and signed by the

president. The designation bars U.S. companies from doing business with the named entity. A U.S. designation also normally is forwarded to the U.N., and if that body puts the name on its own terrorist-supporter list, all member states are obliged to freeze the entity's assets.

Other ideas U.S. officials discussed included enlisting friendly countries to step up scrutiny and regulatory action against the Al Rajhis. The CIA report said that "a successful effort against the Al Rajhis would encourage efforts against other donors, or at a minimum, would discourage private funding of Al Qaeda."

Ultimately, the Bush administration again chose merely to continue privately exerting pressure on the Saudis to stiffen their oversight.

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HSBC-PSI-PROD-0102828

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*Text of Report of Findings on Al Rajhi Banking and Investment Corp. (Al Rajhi Bank) From October 2006:*

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FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS (UPDATE)  
Research as of: 10/16/06

INVESTIGATOR: Michael Cohen

SUBJECT: Al Rajhi Banking and Investment Corp. (Al Rajhi Bank)

ENTITIES: Al Rajhi Banking and Investment Corp. (Al Rajhi Bank)

REQUESTOR: Gordon Brown

DEPARTMENT: PCM/Banknotes

An updated Report of Findings in support of Enhanced Due Diligence was conducted for the Al Rajhi Banking and Investment Corp. This is an update to previous reports prepared for this bank on 12/04 and 10/03, which are also provided below for your reference. Only items impacting adversely on money laundering, terrorist financing or other substantive criminal activity concerns will be detailed in this updated report.

UPDATE:

Al Rajhi Banking and Investment Corp. (Al Rajhi Bank)

Most Current Ownership Breakdown Found:

Partners of the ARCCEC the predecessor (52%)  
Public (41%)  
New Founders of the Bank (5%)  
Employee's Fund (2%)  
(Bankers' Almanac, Date Accessed: 10/16/06)

No further information was found in our ordinary sources identifying the specific names of the individuals who make up the aforementioned shareholding entities.

Most Current List of Top Executives Found:

Sulaiman Bin Adulaziz Al Rajhi, Chairman and Managing Director  
Abdullah Sulaiman Al Rajhi, Chief Executive Officer  
Fahad Abdullah Al Rajhi, General Manager, Treasury and Financial Institutions

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Cassim Docrat, AGM Head, Financial Institutions  
 Syed Maqbul Qader, General Manager, Corporate Group  
 Rizwan Shakor, General Manager, Finance Group  
 Kishore Dash, General Manager, Investments & Private Banking  
 Anand Anchan, AGM Treasurer, Treasury Department  
 Ismail Odeah, Head of Compliance  
 Saeed Mohd Al Ghamdi, General Manager, Retail Banking  
 (Bankers' Almanac, Date Accessed: 10/16/06)

The following list of executives was found on a Dun & Bradstreet Business Information Report:

Suliman Bin Abdulaziz Al Rajhi, Chief Executive and Managing Director  
 Saleh Bin Abdulaziz Al Rajhi, Chairman  
 Ahmed Al Hosan, Director  
 Abdullah Al Suliman Bin Abdulaziz Al Rajhi, General Manager  
 Fahad Abdullah Al Rajhi, Manager  
 Salah Abdullah Abdulkhail, Deputy General Manager  
 Abdulrahman Bin Oghail, Deputy General Manager  
 Saleh Al Shaity, Branch Manager  
 Nassar Bin Mohammed Al Subaiy, Deputy General Manager  
 Ismail Hussein, Officer  
 (Dun & Bradstreet Business Information Report, Load Date: 8/24/06)

A website for the bank lists the following individuals amongst its board of directors.

World-Check also confirms their positions as follows:

Saleh Abdul Aziz Al Rajhi, Director  
 Saeed Omer Qasim Alesayi, Director  
 Salah Ali Aba Al Khail, Director  
 Mohamed Abdullah Al Rajhi, Director  
 Naser Mohammed Al Subai'y, Director  
 Mohammed Osman Al Bishar, Director  
 Sulaiman Saleh Al Rajhi, Director  
 Mohammed Ibrahim Alissa, Director  
 Mohammed Abdul Aziz Al Rajhi, Director  
 Ali Mohamed Al Rajhi, Director  
 Abdullah Abdul Aziz Al Rajhi, Director  
 Abdullah Yahya Al Mouallimi, Director  
 Ali Ahmed Al Shudy, Director  
 (World-Check, Date Accessed: 10/16/06)

Notable Information Regarding the Financial Institution, its Ownership or its Top Executives, Subsequent to the Previous Report of Findings:

It was recently reported that Al Rajhi Banking and Investment Corporation changed their name to Al Rajhi Bank. The change took place in order to upgrade their brand identity while paving the way for regional and international expansion ("Middle East Company



News Wire," Load Date: 10/16/06). Specifically, the bank has a license to operate in Malaysia and has announced plans to open dozens of branches there ("The Banker," 9/1/06).

It was reported that civil suits were brought in U.S. District Court on behalf of victims of the Sept. 11, 2001 attacks against many Saudi Arabian financial institutions for having involvement in terrorist financing. A U.S. District Court judge overseeing the lawsuits, dismissed Saudi Arabia and Al Rajhi Banking and Investment Corp., amongst others, as defendant's in six civil lawsuits accusing it of providing "massive" financial and logistical support to the Al-Qaeda network (www.aljazeera.com, on World-Check, Date Accessed: 1/19/05).

Sulaiman Abdulaziz Al Rajhi, the bank's Chairman and Managing Director, is listed under the "terrorism" category on World-Check. The report says that he, "financially supports terrorism and its main contributors" (World-Check, Date Accessed: 10/16/06). Details of Sulaiman Abdulaziz Al Rajhi's alleged links to terrorist financing are included in the prior Report of Findings from 10/2003, which is attached below for your reference.

It was also reported by World-Check that Abdullah Abdul Aziz Al Rajhi, a board member, is a Politically Exposed Person (PEP) because of his political involvement as a member in the Northern Borders Provincial Council (World-Check, Date Accessed: 10/16/06). No further, specific information could be found in our ordinary sources that would confirm or detail Abdullah Abdul Aziz Al Rajhi's membership in a political party, therefore, you may wish to clarify this matter with the client.

No additional information impacting adversely on money laundering, terrorist financing or other criminal activity concerns was found subsequent to the previous Report of Findings.

Information Found Regarding this Financial Institution, its Ownership or its Top Executives that Warrants SCC Consideration:

According to its KYC profile, Al Rajhi Banking and Investment Corp. is classified as a SCC type 2 – Connected Entity.

\*\*\* Should you find any discrepancies between the ownership and/or executives named in this report and those named in your current, up-to-date KYC information, please let us know so that we may check any differing names for items impacting adversely on money laundering, terrorist financing or other substantive criminal activity concerns.

This report is confidential and is intended solely for the use of the HSBC business to which it is addressed and those who need to know the information pursuant to that business' internal procedures. This report is not to be disseminated to any other person or entity. Our investigative findings are, in part, based upon information available to us through a variety of third-party providers at the time our search is performed. While every attempt is made to find all substantive information, we make no representation that

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the information provided to, or gathered by, us is complete. This is not a credit report and should not be used as a credit report. The information contained herein is intended as a supplement to the Know Your Customer information gathered by the HSBC business unit and may not be considered when determining the creditworthiness of the customer. (see Regulation B, 12 CFR 202.7).

Please feel free to contact me with any questions.

Sincerely,

Michael Cohen  
Financial Intelligence Group (FIG)

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Update findings sent 7/13/05

Sent by: Bob Powers

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FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS (UPDATE)

SUBJECT: Al Rajhi Commercial Foreign Exchange, Jeddah

ENTITIES: Al Rajhi Commercial Foreign Exchange, Jeddah

REQUESTOR: Kevin O'Donnell

DEPARTMENT: AIM Support

A report of findings in support of enhanced due diligence was requested for Al Rajhi Commercial Foreign Exchange, Jeddah. The most recent update review of the Al Rajhi Trading Establishment in Saudi Arabia was sent in April, 2005. That update provided findings subsequent to the first report regarding Al Rajhi entities that was originally issued from this office in October of 2003. An update was conducted in December of 2004. Text of the more recent update will be pasted at bottom. The text of the original report will be included in the attached PDF file. This current report will address recent information specific to Al Rajhi Commercial Foreign Exchange, Jeddah.

Al Rajhi Commercial Foreign Exchange, Jeddah

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According to "Bankers Almanac," Al Rajhi Commercial Foreign Exchange is located in Jeddah, Saudi Arabia. The bank has correspondent banking relationships with Land Bank of the Philippines and Social Investment Bank in Bangladesh.

Our review found no profiles that would provide insight into the bank's operations. However, the bank's own website (www.bankalrajhi.com) names Mr. Abdul Rahman A.A. Alrajhi, member of the prominent Al Rajhi family, as Vice Chairman, Chief Executive Manager, and President. The chairman is not named on the website.

In 2004 it was announced in numerous press reports that Al Rajhi Commercial Foreign Exchange would be one of eight Saudi money exchangers to merge into the new Al-Bilad Bank, which was expected to launch by mid-2005 with \$800 million in capital. Another of the eight firms involved in the merger was reported to be Al Rajhi Trading Establishment.

"Gulf News" reported on May 2, 2005 that shares in Al Bilad Bank soared to 950 Saudi Riyals (\$253) on its first day of trading.

Our review found no evidence of criminal activity surrounding Al Rajhi Commercial Foreign Exchange or its president Abdul Rahman Al-Rajhi.

Text of previous reports regarding Al Rajhi entities is pasted below and in the attached PDF document.

Please feel free to contact me with any questions regarding this report.

Sincerely,

Bob Powers  
FIG Investigations

Update findings sent 4/12/05

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FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS (UPDATE)

SUBJECT: Al Rajhi Trading Establishment

ENTITIES: Al Rajhi Trading Establishment

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— = Redacted by the Permanent Subcommittee on Investigations

REQUESTOR: Paul DiBenedetto

DEPARTMENT: Client Services -- Financial Institutions

Accounts: Al Rajhi Trading Establishment, Banknotes - [REDACTED]

A report of findings in support of enhanced due diligence was requested for the Al Rajhi Trading Establishment in Saudi Arabia. A report conducted on Al Rajhi entities was originally issued from this office in October of 2003. An update was conducted in December of 2004 for Al-Rajhi Banking and Investment Corp. Text of those previous reports will be pasted at bottom and attached. This current report will address recent information specific to Al Rajhi Trading Establishment.

#### Al Rajhi Trading Establishment

Al Rajhi Trading Establishment has appeared in the news very infrequently in the time since the initial report was conducted on Al Rajhi entities in 2003. Dun and Bradstreet lists Sheikh Abdul Rahman S Al Rajhi as the 100% shareholder in Al Rajhi Trading Establishment.

The most significant recent press report concerning Al Rajhi Trading was published in "Ethnic Newswatch" in August, 2004. This article reported that Al Rajhi Trading was one of eight financial institutions to be merged into Al Bilad Bank, a new banking corporation expected to launch operations in mid-2005. Al Bilad will reportedly have a capital of \$800 million. This press report refers to Al Rajhi Trading as a "Money Changer."

In April, 2005, the "EIU Riskwire" reported that Al Bilad was still waiting to open. Al Bilad will be the 11th commercial bank to base its operations in Saudi Arabia.

As indicated in a chart in our 2003 review of Al Rajhi Banking and Investment, the owner of Al Rajhi Trading, Sheikh Abdul Rahman S Al-Rajhi, is the son of Saleh Abdul Aziz Al-Rajhi, founder and director of Al-Rajhi Banking and Investment Corp. According to business records we've found, Al-Rajhi Trading is not a subsidiary company of Al-Rajhi Banking and Investment, but is 100% owned by Sheikh Abdul Rahman S Al Rajhi.

A review of press found infrequent references to Sheikh Abdul Rahman S Al Rajhi, usually in reports on his various business dealings.

No evidence of criminal activity relating specifically to Al Rajhi Trading Establishment or its owner could be found in our review.

Text of previous reports regarding Al Rajhi entities is pasted below and in the attached PDF document.

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Please feel free to contact me with any questions regarding this report.

Sincerely,

Bob Powers  
FIG Investigations

\*\*\*\*\*

13 Dec 2004 10:04  
From: Steven Pichardo Tel: 212-525-6736  
Subject: Report of Findings - Al-Rajhi Banking & Investment Corp. - FIG

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FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS

SUBJECT: Al-Rajhi Banking & Investment Corporation

ENTITIES: Al-Rajhi Banking & Investment Corporation

REQUESTOR: Sally Lomas

DEPARTMENT: Banknotes

ACCOUNTS: Al-Rajhi Banking & Investment Corporation (Reference [REDACTED])

[REDACTED] - Redacted by the Permanent  
Subcommittee on Investigations

An enhanced due diligence was conducted on Al-Rajhi Banking & Investment Corporation. A report of findings was sent on this company in May 2004. The objective of this report is to procure additional information subsequent to the filing date of the initial report.

Al-Rajhi Banking & Investment Corporation:

In 2004, Al-Rajhi Banking & Investment Corporation (ARAJ) filed a suit against the Wall Street Journal (WSJ). ARAJ alleges that the WSJ defamed the bank by accusing it of supporting of terrorism in article published on 2/6/02. After 30 months of active litigation, a settlement was reached, leading to the paper publishing a "clarification" and a letter from Al-Rajhi's chief executive. The clarification basically states that the article published by WSJ did not intend to imply an allegation that ARAJ supported terrorist activity, or had engaged in the financing of terrorism.

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Under the terms of that settlement the WSJ paid no damages, nor was any order made prohibiting the paper from repeating the same allegations in the future.

In all, no charges stemming from the aforementioned article have been levied against ARAJ. Therefore, no substantially adverse information, subsequent to the previous report provided for this company, was found regarding ARAJ.

If you have any questions, feel free to contact the undersigned.

Sincerely,  
Steven Pichardo  
Financial Investigator (FIG)

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***This Space Reserved for Compliance Officer and/or Business Unit:***

**Comments of the Compliance Officer and/or Business Unit Approver:**

*Comments are required if the Report of Findings contains information to suggest that any subject may be a PEP or other type of SCC, or may present reputational risk to HSBC. Comments must detail whether or not the CO or business-level approver is comfortable with the relationship, as well as the reasons supporting that determination. If comments are entered below, return a copy to ICRO (via email to "FIG HBUS") for its records.*

I have reviewed this Report of Findings and none of the information in the Report requires comment. Signed \_\_\_\_\_ on \_\_\_\_\_  
(Name of Reviewer) (date)

I have reviewed this Report of Findings and comments were required and have been summarized above. Signed \_\_\_\_\_ on \_\_\_\_\_  
(Name of Reviewer) (date)

## FOR COMPANIES INCORPORATED IN THE BRITISH VIRGIN ISLANDS

Ref: PIC NAME (S)

Dear Mr xxxxx:

The registered agent (the "Registered Agent") for the above named company(ies) (the "Company (ies)") has contacted us regarding some important legislative changes in the British Virgin Islands (BVI) affecting companies incorporated in the BVI that have issued bearer shares ("Bearer Share Companies" and each a "Bearer Share Company"). Our records indicate that the Company(ies) a/are Bearer Share Company (ies).

As of December 31, 2009 all bearer shares issued by Bearer Share Companies will need to be held by an authorized custodian recognized by the Financial Services Commission in the BVI. The authorized custodian requires full disclosure of the beneficial owners of the shares. The administrative costs associated with maintaining Bearer Share Companies will increase significantly and will typically exceed the administrative costs associated with maintaining BVI companies that issue registered shares. The annual government fees for a company holding bearer shares will be up to US\$1,350.00 per annum (as compared to US\$350 for a company with registered shares). If the bearer shares are held by an authorized custodian, they cannot be released to you except in exchange for registered shares. After Dec 31st 2009, any bearer shares still in existence and not in custody will be 'disabled'.

Rather than incurring the additional expense associated with maintaining a Bearer Share Company, you may want to consider canceling the bearer shares issued by the Company(ies) and replacing them with registered shares.

Please also note that as of December 31<sup>st</sup> 2009, as a matter of policy, we will no longer maintain accounts for companies that issue bearer shares. This policy reflects increasing concern and scrutiny by regulators of accounts maintained by banks and other financial institutions for bearer share companies. Should you decide not to exchange the Company's(ies') bearer shares for registered shares, as of December 31<sup>st</sup> 2009, you will be required to close any accounts maintained in the name of the Company(ies) with us and transfer assets in those accounts to another financial institution. In this connection, as appropriate, you should contact your Private Bank Relationship Manager as soon as possible to discuss existing credit facilities associated with those accounts.

Please also note that should it be necessary to close the Company(ies) account(s) with HSBC, HSBC will no longer be able to assist you with the administration of the Company(ies) including, without limitation, the payment of government and Registered Agents fees and charges. You will, therefore, need to make alternative arrangements including, possibly, establishing a direct relationship with the Registered Agent, which we can assist you with.

Should you choose to replace the bearer shares issued by the Company(ies) with registered shares, we can assist you. In that connection, we have contacted the Company's(ies') Registered Agent and, subject to your completion of the enclosed form(s) and to receipt of necessary documentation from us, they have agreed to facilitate the exchange of bearer shares of the Company(ies) for registered shares.

In order to proceed with the exchange, please complete the enclosed document(s) and return them to us as soon as possible. We will then send to you the necessary Board of Directors resolution for signature by the Company's(ies') directors. Once the process has been completed, we will send to

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you the newly issued share certificates to be signed by the directors. A copy of the documentation will be maintained by us in our files. There will be a one time charge of \$ 1000.00 (per company) to cover our service charges and the charges of the Registered Agent.

Please note that we are providing an administrative service only and nothing in this letter is intended, or should be construed, as legal advice. Should you have questions with respect to any tax, accounting or legal issues associated with the above or the enclosed documents, you should consult your own tax, accounting and/or legal advisers. We accept no liability whatsoever for any damages, losses, costs or expenses associated with any action taken or not taken by you in connection with this letter or the enclosed documents.

Sincerely,

RM

Encs

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FOR COMPANIES INCORPORATED IN THE BRITISH VIRGIN ISLANDS (BVI)

CONSENT TO SEND RECORDS  
FOR CONVERSION OF COMPANY(IES) (the "Company(ies)")

NAME OF COMPANY(IES) AND/OR ACCOUNT: \_\_\_\_\_

Dear [HSBC Bank USA, N.A.]/[HSBC Private Bank International]:

I/We hereby consent to your delivery of the corporate documents relating to the Company(ies) that you have in your possession to the Company's(ies') Registered Agent, in order to replace the bearer shares of the Company(ies) with registered shares.

In connection with the above:

1) The original Certificate(S) of Title No(S) \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_  
\_\_\_\_\_ are enclosed.

or

2) The original Certificate(S) of Title No(S): \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_

related to the under mentioned shares of the above named Company(ies) have been lost or destroyed and I/We enclose a completed and signed 'Indemnity for Lost Certificate(s)'.

I/We hereby instruct the Registered Agent to issue the following new share(s) certificate(s) for the Company(ies) as follows:

A. A single share certificate in the name of: \_\_\_\_\_

or

B. A single share certificate in the names of (as joint tenants with right of survivorship):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

or

C. Multiple share certificates as follows:

<u>NAME OF HOLDER</u>	<u>NUMBER OF SHARES OR PERCENTAGE</u>
_____	_____

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\_\_\_\_\_  
\_\_\_\_\_

The Registered Agent for the Company(ies) is also authorized to provide you with a complete set of revised corporate documents upon completion of the conversion.

I/We hereby instruct and authorize [HSBC Private Bank International]/[HSBC Bank USA, N.A.] to debit my/our account(s) with \$1000.00 per Company to compensate it for its services and to pay the Registered Agent's charges, which are typically between \$150.00 and \$300.00 per Company.

Accepted and Agreed:

Accepted and Agreed

\_\_\_\_\_  
Name

\_\_\_\_\_  
Name:

\_\_\_\_\_  
Signature:

\_\_\_\_\_  
Signature:

\_\_\_\_\_  
Date:

\_\_\_\_\_  
Date:

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INDEMNITY FOR LOST CERTIFICATES

To the Directors of [Company Name] (the "Company")

The original Certificate of Title No(s): \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_ relating to the under mentioned shares of the above named Company have been lost or destroyed.

Neither the shares nor the Certificate(s) of Title have been transferred, charged, lent, deposited or dealt with in any manner affecting the absolute title thereto and the persons named in the said Certificate(s) is the person entitled to be on the register in respect of such shares.

I/We hereby request that you replace the Certificate(s) of Title with new certificate(s) in accordance with my/our instruction contained in the enclosed "Consent to Send Records for Conversion of Personal Company (PC) dated \* , and in consideration of your doing so, undertake (jointly and severally) to indemnify you and the Company against all claims and any demands (and any expenses thereof) which may be made against you or the Company permitting at any time hereafter a transfer of the said shares or any part thereof without the production of the said original Certificate.

I/We undertake to deliver to the Company for cancellation of said original Certificate should the same ever be recovered.

PARTICULARS OF LOST CERTIFICATE

Cert. No.	Amount & Class of Shares	In favor of
_____	_____	_____
_____	_____	_____
_____	_____	_____

Dated this \_\_\_\_ day of \_\_\_\_\_, 2009 .

Signed: \_\_\_\_\_  
Shareholder

Signed: \_\_\_\_\_  
Shareholder

Signed: \_\_\_\_\_  
Shareholder

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HSBC-PSI-PROD-0197133

From: Paul A THURSTON  
 Sent: Sat Feb 23 03:34:44 2008  
 To: Michael F GREGGHEGAN  
 Cc: Stephen K GREEN; Matthew J W KING; Richard E T BENNETT; David W J BAGLEY  
 Subject: CNBV/FIU Update  
 Importance: Normal

Mike,

An update on this, as promised:

1. Firstly, to answer your question of why is this being raised now? The intelligence that we have been able to gather is that with President Felipe Calderon declaring war on the drug gangs, crime and corruption the judicial authorities have heightened the focus on financial investigations and have been putting increasing pressure on the bank regulators because the banks have been seen as not providing good enough support. All the banks have problems with legacy files, and are having difficulties with the stronger regulations that were put in place a few years ago (e.g. requiring physical visits to homes/offices for new customers, very detailed account opening information, including detailed projections of expected transaction flows). While the CNBV are talking to all of the banks, HSBC has historically, and continues to have, a worse record than the other banks, so we have become a focus of attention. The new Head of the FIU has told us that his staff have told him that HSBC has been the most difficult bank to obtain accurate and timely data from for the past 4 years. While we have been working to address these issues, and the CNBV have generally been on side with our moves, the FIU is not satisfied with the progress is now putting pressure on the CNBV to move more quickly.

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 Permanent Subcommittee on Investigations**

3. Many of the items raised in the CNBV section of the report have been raised before and actions are being progressed. We have taken much more corrective action than they have noted, and we believe that we will be able to provide fairly robust responses to most of them. We should have draft responses to these by Monday, and will then share these with David Bagley.

4. We are investigating some of the new items raised by the FIU and will update David Bagley on these next week. It has to be said that most of these have never been identified in CNBV reports or inspections before, nor have they been raised by us with the FIU (so while the Head of the FIU may say that his staff have complained about HSBC for the past 4 years, this has never been escalated to us, or it appears, to the CNBV).

5. We clearly have problems in ensuring that we have all the information and documents required for new account opening, and it is too easy for branch staff to miss out key documents, or inspection visits without this being identified. We are implementing an image based system through which all new account files will be digitally copied to a central operations site where the documents will be checked - this was developed and piloted in 2007 and is about to be rolled out nationwide, once the final systems capacity tests are completed. New check lists are being put in place to support this and stronger disciplinary procedures will be put in place for branch managers who sign off on account opening without personally

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checking that the check lists have been completed. Once the system goes live this month, we need to do a major clean up exercise to go back through all existing account files, in prioritised order. While the CNBV have been informed of these plans, greater pace will now be required.

6. Dealing with enquiries from the FIU - although this has never been raised with us an issue in the past, it is clear that we have not been sufficiently quick to respond to FIU enquiries nor have we always been very thorough in trying to find all of the items requested. They can, of course always quote examples of extreme delays, and we could counter with examples where we have been much better - but we are undertaking an analysis to get a representative picture. Part of the problem here has been volumes - all enquiries are routed via the CNBV, along with enquiries from every other government agency, be it related to potential police enquiries or tax investigations, etc. We got more than 1000 letters each week from the CNBV asking for account information which can be very detailed (e.g. asking for 10 years transaction records and copies of all related cheques, across multiple accounts). We need a better process to separate out and prioritise the enquiries from different sources, and we need to put more resources into this area. In the meantime, we have offered the FIU a direct contact (as we have in other countries) with our internal security, to provide a fast track if there are urgent cases or those that may need more sensitive investigation. This was welcomed by them.

7. The FIU have expressed concern that some of this work has been outsourced to legal firms which may lead to a breach of confidentiality. This practice (the data is provided by the bank, but the formal legal response letter is prepared by a law firm, under client confidentiality restrictions) has been in place for more than 4 years, to enable us to deal with the volume of enquiries and we have not had a complaint before. However, we will ensure that in future, the more sensitive enquiries (those coming from the FIU) will be handled entirely in house to give them greater comfort. We are reviewing the wider practice of using these law firms.

8. US banknotes - it seems that the pressure from the US authorities is not aimed specifically at HSBC, but is a general concern about the flow of US banknotes from Mexico and the potential linkage to drug related activity. This issue was raised with us by the Bank of Mexico, who were concerned with the accuracy of reporting and, at their request, we have been working on getting more accurate data records of these transactions. We are currently conducting our own analysis of the flows, but initial indications were that our US banknote handling had been slowly declining over recent years, rather than rising. This analysis is continuing and we should have more information next week.

We will be reviewing progress with David Bagley on Tuesday, and he and I will let you have a up to date report in advance of the Holdings Board meeting on Friday.

We will also be preparing our response to the CNBV/FIU reports, which we will present to them the following Monday.

Please will you, and those copied, let me know if you require anything further or have any additional comments.

Regards

Paul

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2069

**From:** Michael F GEOGHEGAN  
**Sent:** Tue Feb 19 22:50:45 2008  
**To:** Paul A THURSTON  
**Cc:** Stephen K GREEN; Matthew J W KING; David W J BAGLEY; Richard E T BENNETT  
**Subject:** Re: HBMX -ML Review  
**Importance:** Normal

Paul

Thanks-very thorough.

Mike

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Subcommittee on Investigations

HSBC Holdings plc  
Registered Office: 8 Canada Square, London E14 5HQ, United Kingdom  
Registered in England number 617987

-----  
Paul A THURSTON

----- Original Message -----

**From:** Paul A THURSTON  
**Sent:** 19/02/2008 14:06 CST  
**To:** Michael F GEOGHEGAN; Richard E T BENNETT; Matthew J W KING  
**Cc:** David W J BAGLEY; Stephen GREEN  
**Subject:** Re: HBMX -ML Review

As promised, this is where we are:

-----  
The regional head of Security (Grecki) has been recalled from a visit to South America and returns tomorrow morning. He will review the information and the initial analysis being made today, and will commence an urgent internal investigation.

- Other new items raised by FIU. Group Audit LAM (Thomson, Bentley) are conducting an initial review of these with HBMX COO (Rendall)

- Update on general issues previously raised by CNBV. Group Audit LAM (Thomson, Bentley) are reviewing progress on actions already taken by HBMX to address these, and working with HBMX COO (Rendall) to prepare a draft response.

- Review meeting. We (Thurston, Thomson, Bentley, Rendall and Grecki) will have a review meeting on Friday to assess the findings of the above. I will circulate a report to you all by Friday night.

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- Group Compliance. David Bagley will come to Mexico on Monday 25th and will stay until at least March 5th. He will review the findings, and provide any guidance from a Group perspective. We will determine the action to be taken against the HBMX head of Compliance, and how to strengthen the function (he is already working on plans for this).

- David and I will produce an update report to Mike ahead of the Board Meeting on Friday next week.

- we are arranging for David Bagley and I to have a follow up meeting with CNBV/FIU on Monday 3rd March (they were unable to do this next week).

We will keep Matthew King updated throughout.

Regards

Paul

Michael F GEOGHEGAN

----- Original Message -----

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Subcommittee on Investigations**

**From:** Michael F GEOGHEGAN  
**Sent:** 02/19/2009 03:36 PM GMT  
**To:** Richard E T BENNETT; Paul A THURSTON; Matthew J W KING  
**Cc:** David W J BAGLEY; Stephen GREEN  
**Subject:** HBMX -ML Review

Gentlemen

I have spoken to each of you individually today and by the end of the day I understand Paul will have laid out what we will be doing by when and by whom.

Talking to the Group Chairman this morning, whilst he was transiting in Paris for Seoul, he asked that David should lead in Mexico the Compliance function review [REDACTED]

This means David you should be prepared to stay in situ in Mexico when you visit this week. You should urgently review which Group resource we put in there on a longer term basis.

It is unlikely that by the Holdings Audit Committee meeting next Tuesday we will have sufficient information to accurately brief the committee but I would hope by the Friday board meeting (29th) a situation report will be available (agreed by Paul and David) for me to brief the board.

The next time I would like to review progress on this is on Saturday on my return to UK

Thanks

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Mike

\*\*\*\*\*  
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Registered in England number 617987  
\*\*\*\*\*

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**From:** Paul A THURSTON  
**Sent:** Wed Feb 27 23:16:08 2008  
**To:** Michael F GEOGHEGAN  
**Cc:** David W J BAGLEY; Matthew J W KING; Richard E T BENNETT; Stephen K GREEN  
**Subject:** Re: CNBV/FIU Update  
**Importance:** Normal

Mike,

Perhaps we can discuss when we meet on Friday.

Paul

---

Michael F GEOGHEGAN

----- Original Message -----

**From:** Michael F GEOGHEGAN  
**Sent:** 02/27/2008 03:22 PM GMT  
**To:** Paul A THURSTON  
**Cc:** David W J BAGLEY; Matthew J W KING; Richard E T BENNETT; Stephen GREEN  
**Subject:** Re: CNBV/FIU Update

Paul

---

I think HBMX have a credibility issue and you are going to need to bring in a third party

---

Also we at Group Level would want to see a very senior person put in to overview this project which frankly appears to have been allowed to go uncared for for some years

Mike

.....  
HSBC Holdings plc  
Registered Office: 8 Canada Square, London E14 5HQ, United Kingdom  
Registered in England number 617987

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Paul A THURSTON

----- Original Message -----

**From:** Paul A THURSTON  
**Sent:** 27/02/2008 09:07 CST

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2073

**Redacted by the Permanent  
Subcommittee on Investigations**

To: Michael F GEOGHEGAN  
Cc: David W J BAGLEY; Matthew J W KING; Richard E T BENNETT; Stephen GREEN  
Subject: Re: CNBV/FIU Update

Mike,

Thanks for your note.

Before answering your specific questions, I should comment that all of the issues raised by the CNBV and FIU relate to practices that have been in place for many years and have not been challenged before 2007. Indeed, in February 2007, we had a totally clean review of our internal controls by the CNBV.

That is not to say that these practices were correct, and there are many weaknesses. Some of these were already identified internally, and we have been working on them. Each time the CNBV has raised a concern in the past 12 months, however, we have responded positively with action plans to address them and we continue to do so. I have always had positive feedback from the Head of the CNBV on the actions I have been taking to improve controls and quality in this business.

Turning to your questions:

- our new COO, who arrived in 2H07 is overseeing the remediation programme and I believe he has the ability to do this effectively. What we need is a goof programme manager, probably with experience of the UK DSC2 type centralisation/process streamlining work, to drive a number of key projects, including centralisation of account opening files and controls, automation of branch transaction processing and transaction voucher storage, and re-engineering of regulatory enquiry handling. We also need to strengthen the Compliance function management. I am reviewing this with David Bagley.

2. When we meet with the CNBV on Monday, we will present a detailed response to all of their points and an action plan for the major projects we are undertaking. I am not convinced that we need an external audit or third party review (and the quality of external firms here is not that great), but we will be better placed to judge this after the meeting on Monday. We will certainly commit that our Group Audit function will be actively involved in monitoring progress on our programme of rectification.

Regards

Paul

Michael F GEOGHEGAN

----- Original Message -----

From: Michael F GEOGHEGAN  
Sent: 02/25/2008 05:14 PM GMT  
To: Paul A THURSTON  
Cc: David W J BAGLEY; Matthew J W KING; Michael F GEOGHEGAN; Richard E T BENNETT; Stephen GREEN

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2074

Subject: Re: CNBV/FIU Update

Paul

Thanks for the update:

The issues are:

1) Who really senior are we going to put in, to take control of this whole process of account opening and back reviewing of accounts already opened- because clearly we have failed to have done that todate?This person needs to be a grade 1, reporting directly to CEO Mexico.

2)Can our review ,in the eyes of the regulators, be seen to be independent ?Does it not need a third party review or a joint audit run by GAO INA and say KPMG or Deloitte .

We need to really spec the size of the problem, agree an action plan with CNBV and then get each part of the action plan signed off by the third party.

Your views please

Best wishes

Mike

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2075



**CNBV/FIU MEETING**

David W J BAGLEY to: Michael F GEOGHEGAN 03/05/2008 01:01 AM

Sent by: Marton O ROACH

Cc: Stephen K GREEN, Richard E T BENNETT, Paul A THURSTON, Matthew J W KING

History: This message has been forwarded.

Mike

Paul and I met with CNBV and the local Financial Intelligence Unit (FIU) yesterday. Key points are:

- Paul presented the detailed written response to all of the points raised.
- Paul ran through the main proposed actions to address the KYC deficiencies, mainly by centralising the account opening process as quickly as safely possible and to handle formal requests for information received from CNBV more promptly and efficiently.
- We made it clear that FIU related enquiries will be handled on a priority basis through a dedicated team. This action has been taken.
- CNBV expressed their thanks for the prompt and full response. They also expressed a wish to work with HBMX to improve the process at their end.
- [REDACTED]
- A further meeting will be held with HD CNBV to review progress in 4-6 weeks.
- There is an outstanding point as to whether the use of an outside law firm has breached banking secrecy. CNBV and HBMX will review this.
- We would normally proactively advise FSA of an incident like this in a managed way. CNBV would like us to do this first and then advise them. CNBV will then speak to FSA.

The meeting was extremely cordial and the prompt response and attention, including at Group level was well received.

I will report fully to GAC.

David Bagley

**[REDACTED]**  
- Redacted by the Permanent  
Subcommittee on Investigations

Confidential Treatment Requested

HSBC-PSI-PROD-0198513

2076

Re: MEXICO BANKNOTES / High-level Timeline

From: Paul LAWRENCE <"cn=paul.lawrence/ou=high/0=hsbc">  
To: michaelgeoghegan@hsbc.com  
Date: Mon, 07 Jun 2010 09:20:35 +0100  
Attachments: MEXICO ATTACHMENT PURCHASE ONLY.xls.zip (5.28 kB)

Mike,

As promised, here's an outline of the key events relating to the Mexican regulators' concerns over USD banknotes, leading up to your meeting in NOV08. Before sending this, I spoke to Paul Thurston (PAT), David Bagley (DB), Luis Pena and Emison Alonso.

October 2007: PAT met alone, at their invitation, with the CNBV. They advise of their concerns over a variety of internal control weaknesses, including credit card fraud, customer service, system instability and weak KYC and have reservations over the persistence of the Bital corporate culture. PAT advises of senior management changes and changes in business model to address their concerns.

February 2008: PAT met with the CNBV and the Head of the Financial Intelligence Unit (FIU) of the Finance Ministry. They revisit the OCT07 issues and acknowledge the progress made on internal controls. However, the FIU has new concerns, being:

- the high levels of banknotes exported by HSBC in 2005 and 2006, which are materially higher than competitors

- failures to respond to FIU enquiries in a timely manner and the use of external firms to handle such requests;

- missing KYC documentation; and

March 2008: DB spends two weeks in Mexico, further to which he and PAT met with the CNBV and FIU, at which we present a detailed written response to all points raised and:

- agree to analyse USD banknote transactions to assess whether controls are effective, with immediate enhanced KYC for all customers depositing over USD100k per month and a review of high volume branches;

- advise actions to address KYC;

- agree to handle all FIU enquiries on a priority basis, wholly in-house; and

Later, the FSA talk to the CNBV, who intimate that they were spurred on by the FIU. The CNBV confirm that they are satisfied with our reaction and remediation plans.

— = Redacted by the Permanent Subcommittee on Investigations

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HSBC-PSI-PROD-0198514

It is apparent that the HBMX head of compliance (Garcia) had not kept the regulators as well-informed as PAT and DB had been given to understand. Additionally, the CNBV had earlier expressed reservations over roles being structured to cover both Mexico and Central America. Management recognise that the Mexico compliance function is not to the same calibre as other departments and a decision is taken to bring in a dedicated head of compliance (Bussety) for LAM, who arrives in January 2009 reflecting the time needed to find a suitably-qualified replacement. Once she is in situ, the head of compliance for HBMX is replaced at the end of May 2009, although Garcia undertook some consultancy work for LAM after that date.

April 2008: PAT and DB meet the CNBV & FIU again to update on progress / actions to address the FIU concerns, which are accepted with consistent feedback that we are now viewed positively. Later in APR08, PAT leaves Mexico.

July 2008: HBMX COO (Rendall) provides a progress report to the regional audit committee, outlining 9 workstreams, with key progress including:

- successful implementation of a process of digitalisation / central account opening for all new accounts opened across the 1,488 branches in Mexico
- initiation of a remedial programme for existing customer KYC files, focused on high risk accounts,
- a 90% reduction (from 34,700 to 3,300) in the backlog of 2008 CAMP alerts,
- implementation of a new process with enhanced KYC for all customers depositing over USD100k per month, and
- process improvements for responses to FIU information requests

November 2008: HBMX COO (Rendall) provides a progress report to the regional audit committee, updating further progress.

- an enhanced process to handle high-priority FIU requests had been implemented;
- 7,911 KYC files for high risk customers had been reviewed & updated, or scheduled for closure;
- work was underway to address the second phase (47,000 accounts with various risk flags) and third phase (83,000 accounts with historic CAMP alert profiles) of KYC files requiring remediation, and
- transaction profiling system, to assist in tracking actual vs. expected account activity, was being implemented.

Your meeting with the CNBV occurs shortly thereafter, the lack of progress in addressing the volume of USD banknotes is exemplified in the graph attached below which shows monthly USD export volumes stayed constant or increased, from Oct 07 through Dec 08.



MEXICO ATTACHMENT PURCHASE ONLY step

Conclusions:

- Throughout the period from October 2007 to November 2008, genuine efforts were made to address the regulators' concerns.

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- These were accelerated in February 2008, when the FIU's concerns were received.
- At that point, the issues were escalated to GAO and ready support for the remedial efforts received.
- A substantial number of remedial actions were taken and tracked and early feedback from the regulator on the remedial plans was positive.
- However, the primary focus of the remedial efforts was upon (1) KYC and (2) responses to FIU enquiries, with a notably lower focus on the FIU's concerns relating to the volume of USD banknotes being handled by HBMX
- In relation to the latter, additional screening of high-volume USD customers was implemented. However, the success or otherwise in reducing overall USD banknote volumes vs. market from FEB08 onwards was not effectively tracked and the graph demonstrates the limited impact of these measures.
- The lack of a KPI related to USD volumes appears to be a major gap in the tracking of remedial efforts.
- We noted a genuine belief that all the problems were being fixed in line with the regulators' expectations; their NOV08 concern that we had a clear disconnect over USD volumes was an evident surprise.

Please let me know if you need anything else or would like to discuss.

Regards,

Paul

Confidential Treatment Requested

HSBC-PSI-PROD-0198516



HSBC HOLDINGS PLC

Minutes of a Meeting of the Board of Directors of HSBC Holdings plc held at The Emirates Tower Hotel, Dubai on Friday 25 April 2008.

PRESENT: Mr S K Green, Chairman  
 The Baroness Dunn, Deputy Chairman  
 Sir Brian Moffat, Deputy Chairman  
 Mr M F Geoghegan, Group Chief Executive  
 The Rt. Hon. The Lord Butler  
 Mr V H C Cheng  
 Mr J D Coombe  
 Mr J L Durán..... Item 08/43 to 08/47 (*by telephone*)  
 Mr D J Flint  
 Dr W K L Fung  
 Mr J W J Hughes-Hallett  
 Mr W S H Laidlaw  
 Sir Mark Moody-Stuart  
 Mr G Morgan  
 Mr S W Newton  
 Mr S M Robertson  
 Sir Brian Williamson

SECRETARY: Mr R G Barber

~~BY INVITATION: Mr R E T Bennett~~  
 Mr D J Shaw

IN ATTENDANCE: Mr S T Gulliver..... Item 08/46  
 Mr B McDonagh..... Item 08/43  
 Mr Y Nasr..... Item 08/45  
 Mr B Robertson..... Items 08/42.2 to 08/42.4  
 Mr P A Stafford

ABSENT WITH  
 APOLOGIES: Mrs R A Fairhead

49.3 Group Audit Committee

In the absence of R A Fairhead, J D Coombe reported on the matters which came before the Group Audit Committee on 18 April 2008.

D W J Bagley, Head of Group Compliance, had updated the Committee on the  
 Page 1 of 2

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HSBC-PSI-PROD-0198539

2080

issues with the banking regulators in Mexico. A robust and full response to the matters raised has been prepared and action plans to address confirmed areas of weakness presented to the regulators, who have expressed their satisfaction with the Group's reaction.

CHAIRMAN

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**HSBC-PSI-PROD-0198540**

2081

HSBC HOLDINGS PLC

Minutes of a Meeting of the Board of Directors of HSBC Holdings plc held in the Boardroom, Level 41, 8 Canada Square, London E14 on Friday, 29 November 2002 at 9.00am.

PRESENT: Sir John Bond, Chairman  
The Baroness Dunn, Deputy Chairman  
Sir Brian Moffat, Deputy Chairman  
Sir Keith Whitson, Group Chief Executive  
The Lord Butler  
Dr R K F Ch'ien  
Mr W R P Dalton  
Mr D G Eldon  
Mr D J Flint  
Dr W K L Fung  
Mr S K Green  
Miss S Hintze  
Mr A W Jebson  
Sir John Kemp-Welch  
The Lord Marshall  
Sir Mark Moody-Stuart  
Mr S W Newton  
Dr H Sohm  
Ms C Taylor

---

BY INVITATION: Mr R E T Bennett  
Mr D J Shaw  
Mr D Moore, Morgan Stanley & Co Ltd - Item 02/106  
Mr M Tory, Morgan Stanley & Co Ltd - Item 02/106

IN ATTENDANCE: Mr R G Barber, Secretary  
Mr S D King - Item 02/107.1  
Mr M B McPhee - Item 02/117

ABSENT WITH APOLOGIES: Mr C F W de Croisset  
Sir Brian Williamson

109.3 Minute No 02/87.4: Grupo Financiero Bital

The tender offer for the acquisition of Grupo Financiero Bital closed on 22 November. The Group now owns 99.59 per cent of Bital.

CHAIRMAN

Page 1 of 1

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HSBC-PSI-PROD-0198570

HSBC HOLDINGS PLC

Minutes of a Meeting of the Board of Directors of HSBC Holdings plc held in the Boardroom, Grupo Financiero HSBC, S.A. de C.V., Paseo de la Reforma 243, Cuauhtemoc, Mexico on Friday, 30 January 2004 at 8.30am

PRESENT: Sir John Bond, Chairman  
The Baroness Dunn, Deputy Chairman  
Sir Brian Moffat, Deputy Chairman  
Mr S K Green, Group Chief Executive  
Mr W F Aldinger  
The Lord Butler  
Dr R K F Ch'ien  
Mr W R P Dalton  
Mr C F W de Croisset  
Mr D G Eldon  
Mr D J Flint  
Dr W K L Fung..... by telephone (Items 04/1 to 04/8)  
Miss S Hintze  
Mr A W Jebson  
Sir John Kemp-Welch  
The Lord Marshall  
Sir Mark Moody-Stuart  
Mr S W Newton  
Dr H Sohmen  
Ms C Taylor  
Sir Brian Williamson

BY INVITATION: Mr D J Shaw

ABSENT WITH APOLOGIES: Mr R E T Bennett

IN ATTENDANCE: Mr R G Barber, Secretary

From the 16 December 2003 Group Executive Committee Meeting:

2.8 Minute No. 03/214.1: Key business losses and setbacks

The Office of Foreign Assets Control (OFAC) of the US State Treasury Department administers and enforces economic and trade sanctions against targeted foreign countries, terrorists, drug traffickers and those engaged in activities related to the proliferation of weapons of mass destruction. No transactions in or with countries or persons proscribed by OFAC may, therefore, be allowed to pass through systems based in the USA. Consequently, to avoid contravening the OFAC restrictions on processing credit card transactions in certain countries it will be necessary to establish a separate installation of WHIRL in the UK. This is likely to cost about

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HSBC-PSI-PROD-0198571

2083

USD20 million but will not cause the loss of any jobs in the USA. Similarly, alternative arrangements will also have to be made to avoid processing internet transactions from those countries in the USA.

04/7 GROUP AUDIT COMMITTEE MATTERS

Sir Brian Moffat reported on the matters which were considered by the Group Audit Committee at its Meeting on 27 January 2004.

The Committee received a routine report from the Group General Manager Internal Audit; this included reports on high-risk audits and matters arising from the minutes of subsidiary audit committees and from regulatory and external auditors' reviews. There were no frauds reported. The Committee had talked a little about the internal controls within GF HSBC (formerly GF Bital) which, after being part of the Group for some 15 months, was making very significant progress in raising the standards of its controls. It will, however, probably take another two years to fully reach Group standards. From experience with other acquisitions this is not unexpected. Sir Brian had met the previous day with the KPMG Audit Partner in Mexico, who wholly supported these conclusions and acknowledged the achievements of A A Flockhart and his team.

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CHAIRMAN

Page 2 of 2

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HSBC-PSI-PROD-0198572

2084

Banknotes Trading  
A Global Reach  
Organizational Chart  
As of November 2006

2006

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HSB00000060

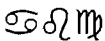
Confidential & non-public OCC information

OCC-PSI-00000501

# Overview

- World's leading banknotes specialists with over 30 years of experience
- Global reach from trading offices in New York, London, Hong Kong, Singapore, Tokyo, and Taipei
- Representative offices in Beijing and Manila.
- Products and Services
  - Competitive two-way prices for all currencies for which legal markets exist
  - Choice of good condition counterfeit-free used banknotes or brand new banknotes
  - Collection/delivery of banknote shipments on a same day or next day basis
  - Door-to-door collection/delivery with HSBC insuring the in-transit risks in most markets
  - Consignment program in selected markets whereby clients pay only for the banknotes they resell and can return unsold notes
  - Tailor-made service to meet each client's specific needs
  - Business conducted with the utmost discretion
- Value Added Services\*
  - Exchange/collection of out-of-circulation and mutilated banknotes
  - Comprehensive currency manual with regular updates
  - Counterfeit banknotes detection seminars covering all major currencies with a focus on the US\$
  - Banknotes supplied in pre-packs of same or mixed denominations
  - Our own security escort to collect/deliver shipments
  - Cash available on request

*\*Please note that some or all of these value-added services are only available on a regional basis*



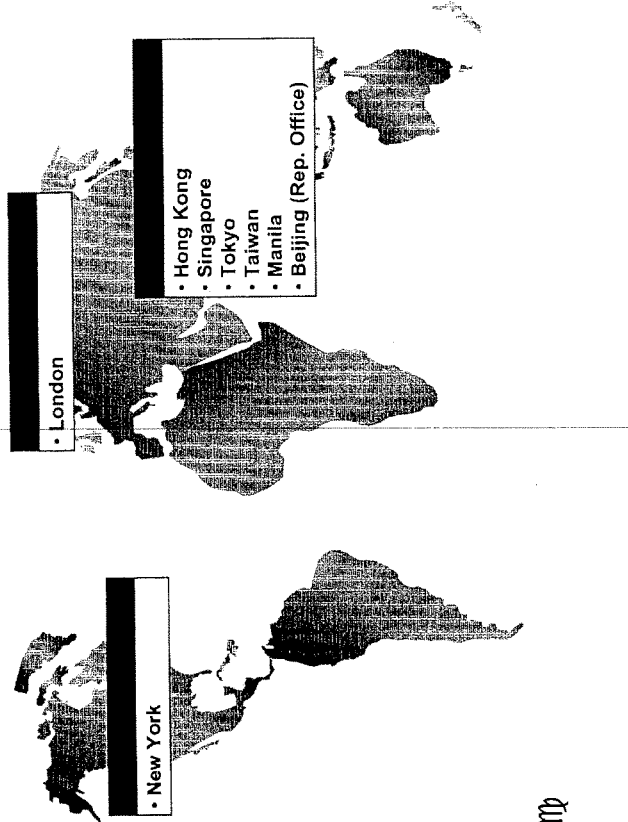
CONFIDENTIAL

HSB000000061

Confidential & non-public OCC information

OCC-PSI-00000502

# Banknotes - Global Network



2008

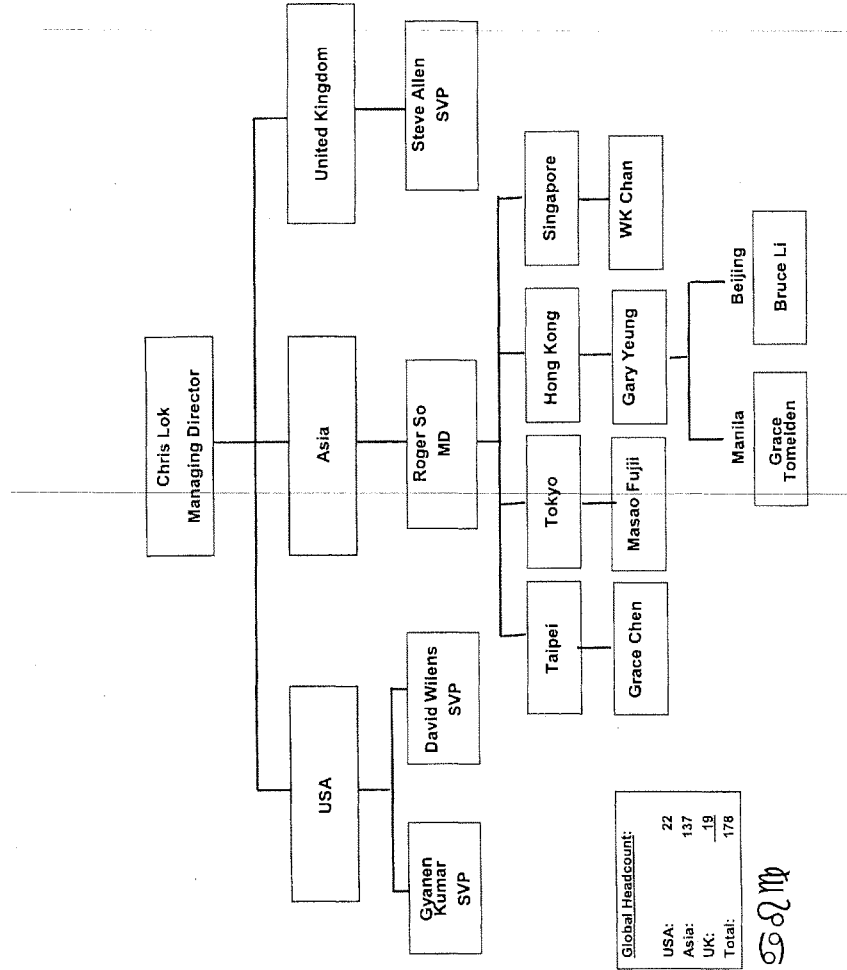
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Confidential & non-public OCC information

OCC-PSI-00000503





Global Headcount:	
USA:	22
Asia:	137
UK:	19
Total:	178

*Handwritten signature*

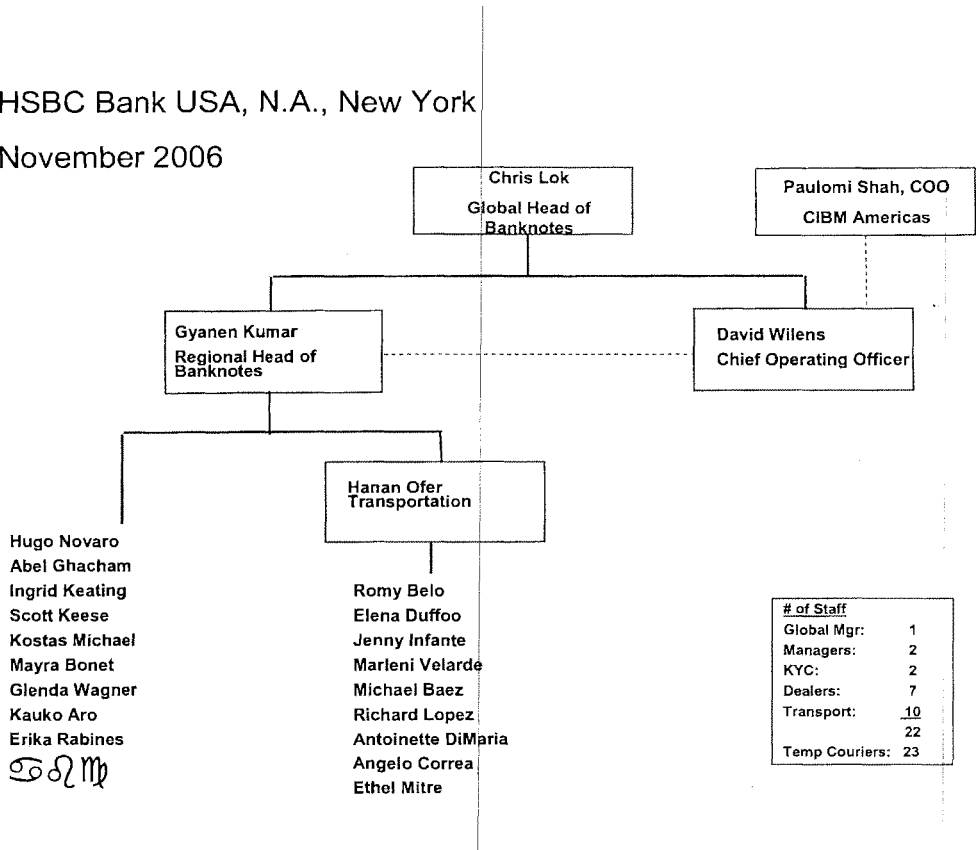
CONFIDENTIAL

HSB0000063

Confidential & non-public OCC information

OCC-PSI-0000504

HSBC Bank USA, N.A., New York  
November 2006



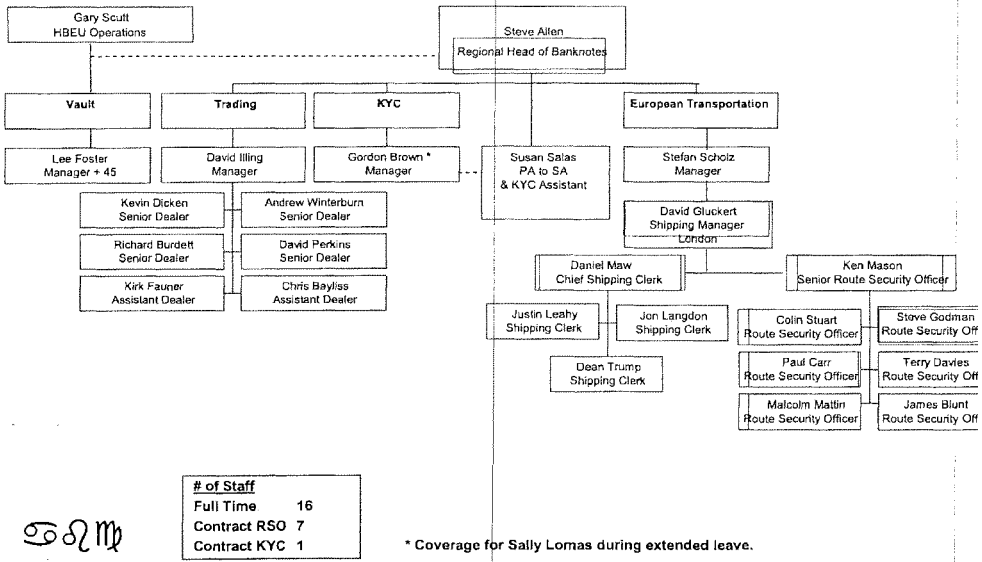
CONFIDENTIAL

Confidential & non-public OCC information

HSB00000064

OCC-PSI-00000505

## HSBC Bank USA, N.A., London Branch November 2006



9282

\* Coverage for Sally Lomas during extended leave.

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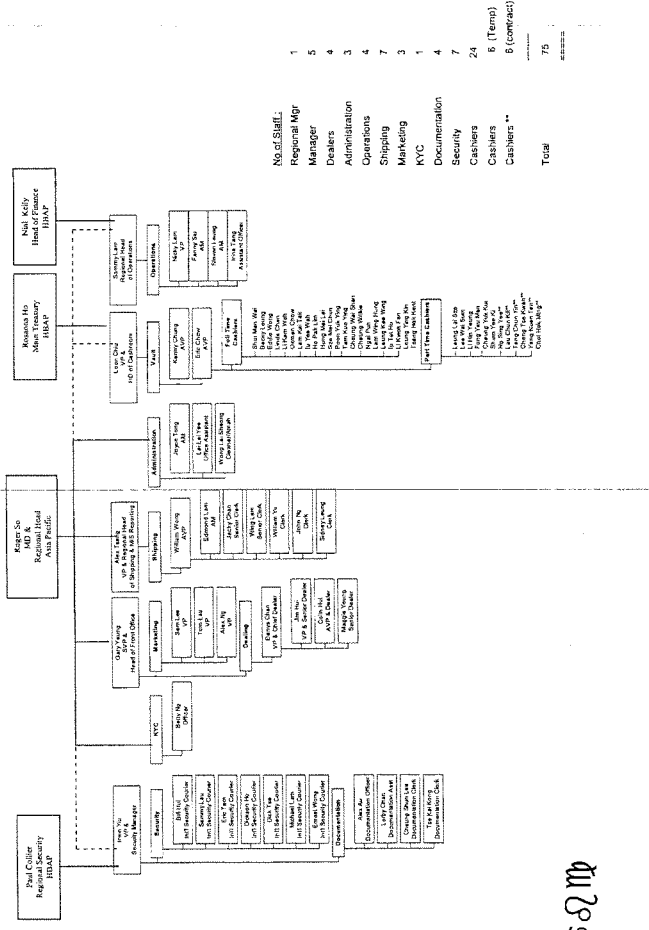
Confidential & non-public OCC information

HSB00000065

OCC-PSI-00000506

2089

HSBC Bank USA, N.A., Hong Kong Branch  
November 2006



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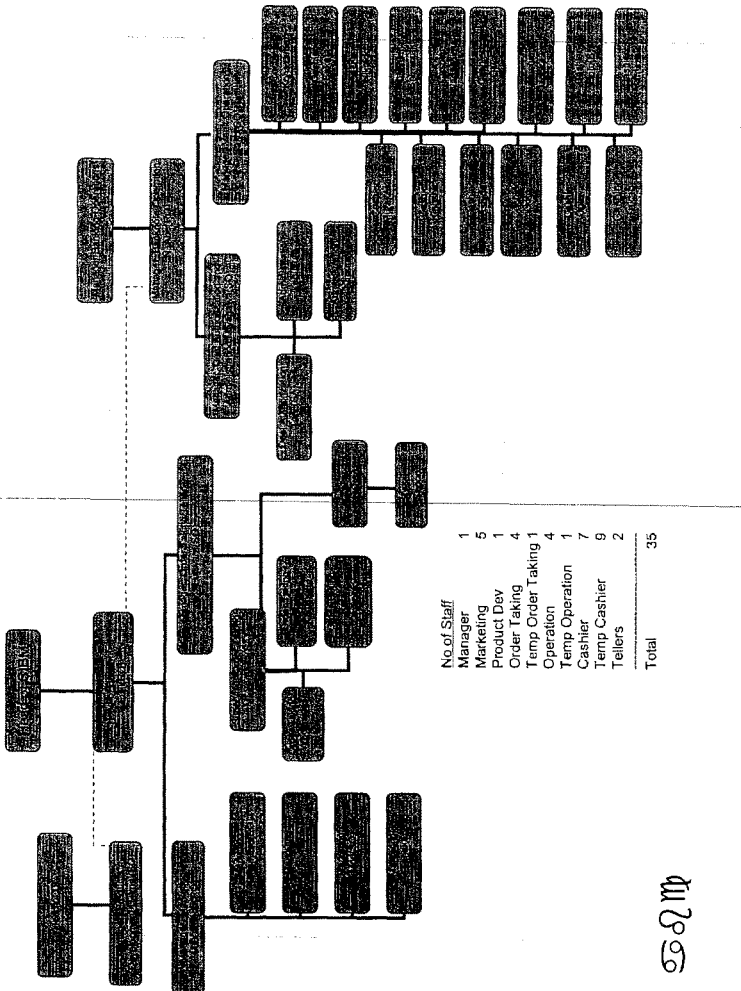
HSB00000066

Confidential & non-public OCC information

OCC-PSI-00000507

2091

Tokyo Banknotes (HBAP) — November 2006



5000

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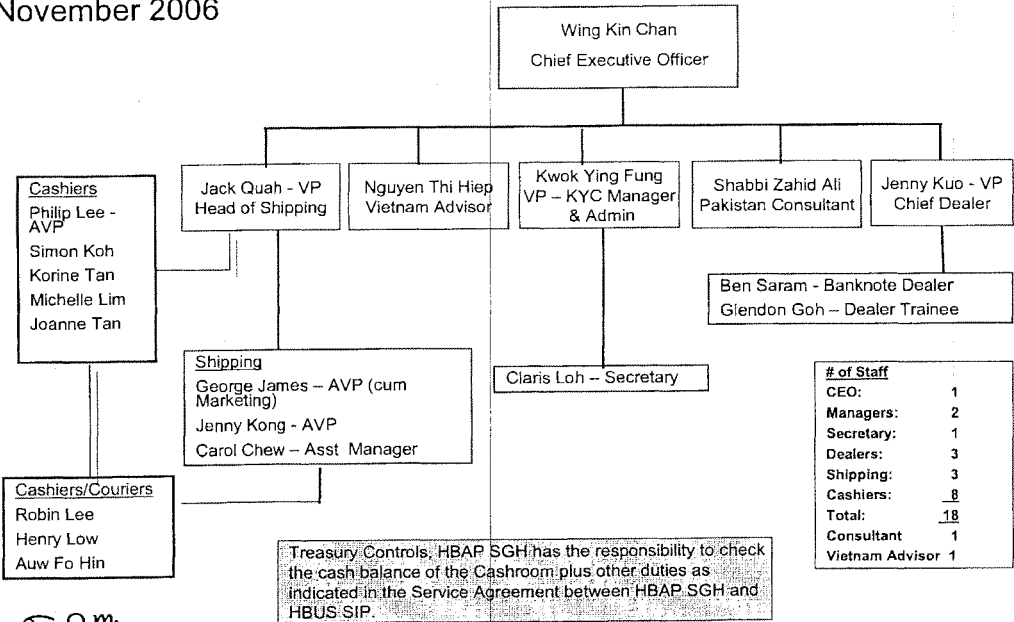
HSB00000067

Confidential & non-public OCC information

OCC-PSI-00000508

# HSBC Bank USA, N.A., Singapore Branch

## November 2006



# of Staff	
CEO:	1
Managers:	2
Secretary:	1
Dealers:	3
Shipping:	3
Cashiers:	8
<b>Total:</b>	<b>18</b>
Consultant:	1
Vietnam Advisor:	1

2092

CONFIDENTIAL

Confidential & non-public OCC information

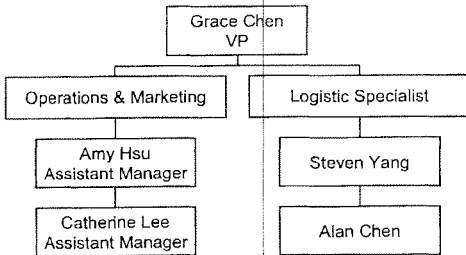
HSB00000068

OCC-PSI-00000509

5028

<u>No. of Staff</u>	
Managers	1
Assistant Manager	1
Opt/Mktg	1
Logistic Specialist	2
<hr/>	
TOTAL	5
	====

### Banknotes - Taipei (HBAP) November 2006



6213

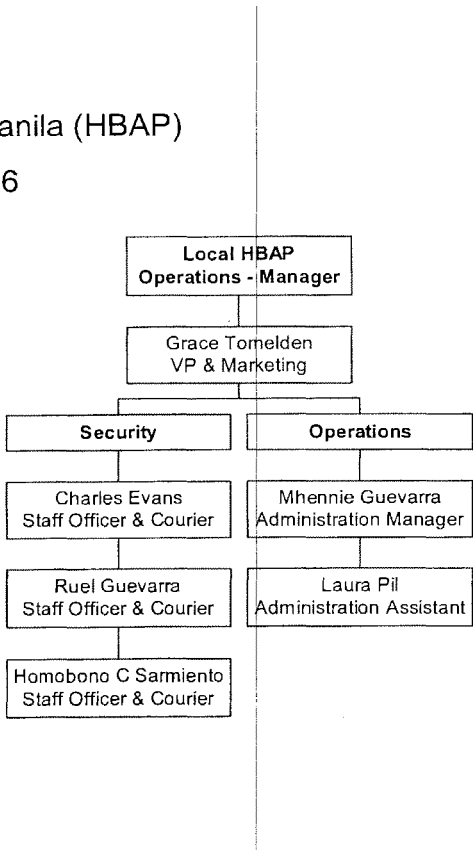
CONFIDENTIAL

HSB00000069

Confidential & non-public OCC information

OCC-PSI-00000510

### Banknotes - Manila (HBAP) November 2006



<u>No of Staff:</u>	
Marketing	1
Operations	2
Security	3
-----	
Total	6
=====	

92 mb

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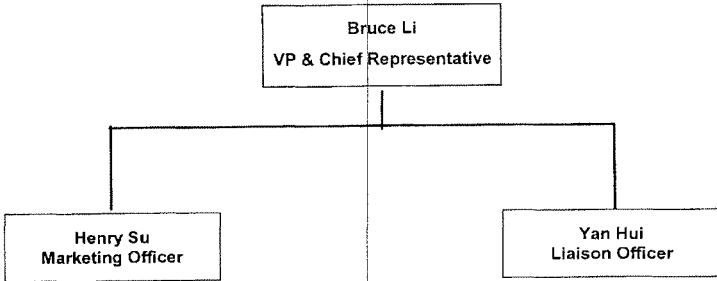
HSB00000070

Confidential & non-public OCC information

OCC-PSI-00000511



HSBC Bank USA, N.A., - Beijing Rep. Office  
November 2006



# of Staff	
Manager	1
Marketing Officer	1
Total	3

2095

928

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HSB00000071

Confidential & non-public OCC information

OCC-PSI-00000512

2096

Occ-Psi-00150796

From: CHRISTOPHER LOK/HBUS/HSBC  
Sent: 11/17/2006 10:11:13 AM  
To: STEPHEN J ALLEN/HBMD/HSBCMERIDIAN@HSBCMERIDIAN  
CC:  
Subject: Alrajhi

Steve

Just spoke to Alan. He's going to read the whole file, including the few EDD. He says the file is more than an inch thick and he's aware of the 'threat' you passed along. His view is Alrajhi may not really walk away if we can't revert by November end, which I agree.

I told him frankly lets avoid the middlemen and go straight to the decision maker. WE should have an answer in the next few weeks.

Chris

Page 1

2097

Occ-Psi-00153253

From: DANIEL JACK/HBUS/HSBC  
Sent: 8/7/2007 11:04:53 AM  
To: MICHAEL BAEZ/HBUS/HSBC@HSBC;GORDON BROWN/IBEU/HSBC@HSBC;SALLY G LOMAS/HBMD/HSBCMERIDIAN@HSBC;  
HBUS KYC AP;MICHAEL KARAM/HBUS/HSBC@HSBC;JAMES S NATHAN/HBMD/HSBCMERIDIAN@HSBC;GRAHAM J COLLINS/PM RNH/HBUS/HSBC@HSBC  
CC: CHRISTOPHER LOK/HBUS/HSBC@HSBC;DAVID M WILENS/HBUS/HSBC@HSBC;RICHARD HAJDUKIEWICZ/HBUS/HSBC@HSBC;  
JEREMY A CHARLES/HBMD/HSBCMERIDIAN@HSBC;STEPHEN J ALLEN/HBMD/HSBCMERIDIAN@HSBC;GYANEN KUMAR/HBUS/HSBC@HSBC;  
ROGER T K SO/HD NBD RNH/HBUS/HSBC@HSBC;GARY C H YEUNG/SVP NBD RNH/HBUS/HSBC@HSBC;  
WING KIN - SG CHAN/CEO SIP/HBUS/HSBC@HSBC;ANASTASIYA SHRON/HBUS/HSBC@HSBC  
Subject: AML Enforcement Actions against AmEX businesses

KYC Managers for HBUS Banknotes & Metals,

Please review the attached AML enforcement action against two American Express entities/locations in USA, and the payments to be made by AmEx total \$65 million. The Federal Reserve and FinCEN announced civil money penalties against American Express Bank International (AEBI) of Miami, Florida for violations of the Bank Secrecy Act (BSA). In addition, FinCEN announced civil money penalty against American Express Travel Related Services Company, Inc., a money services business, located in Salt Lake City, Utah, for its violations of the BSA.

Although it appears we do not deal with the specific AmEx entities/locations noted, please ensure KYC is updated and activity is monitored with the affiliated AmEx companies we do deal Banknotes and Metals with globally.

Let me know if you have any questions or if you do in fact deal with American Express Bank International (AEBI) of Miami, Florida or American Express Travel Related Services Company.

Thanks and regards,

=====  
Daniel Jack, VP - AML Compliance  
Global Banknotes & Metals  
Telephone: 212-525-8686  
=====

Attachment: aebi\_joint\_release.pdf

2098

Occ-Psi-00155690

From: CHRISTOPHER LOK/HBUS/HSBC  
Sent: 5/1/2008 2:32:43 PM  
To: GARY C H YEUNG/SVP NBD RNH/HBUS/HSBC@HSBC  
CC: ROGER T K SO/HD NBD RNH/HBUS/HSBC@HSBC  
Subject: Fw: KYC Approval needed for: AL RAJHI BANKING & INVESTMENT CORP

Gary

why would Alrajhi buy from you instead of their current source? And who's their current supplier? Why would they need Thai Baht and HKDollar? All these have to be clearly stated.

In case you don't know, no other banknotes counterparty has received so much attention in the last 8 years than Alrajhi. This name went to Group Compliance in London. Following 911 Steve had stopped trading with them because NYK Compliance wouldn't sign off the KYC. Only around a year ago did Group compliance come back and saying they're satisfied with the name and its only since then Steve could resume trading.

I'm not against you doing business with them but the KYC has to be extremely transparent.

And Steve knows about this?

Chris

----- Forwarded by Christopher Lok/HBUS/HSBC on 05/01/2008 03:28 PM -----

David M Wilens/HBUS/HSBC  
05/01/2008 03:24 PM

To  
Christopher Lok/HBUS/HSBC@HSBC02  
CC  
Subject  
KYC Approval needed for: AL RAJHI BANKING & INVESTMENT CORP

A KYC BankNote Profile in SAUDI ARABIA for HSBC Office Hong Kong is ready for your approval (Reference # [REDACTED])

Click on the attachment to open the Profile.

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

2099

Occ-Psi-00155719

From: CHRISTOPHER LOK/HBUS/HSBC  
Sent: 5/5/2008 2:19:20 PM  
To: GARY C H YEUNG/SVP NBD RNH/HBUS/HSBC@HSBC  
CC: ROGER T K SO/HD NBD RNH/HBUS/HSBC@HSBC;STEPHEN J ALLEN/HBMD/HSBCMERIDIAN@HSBC  
Subject: Re: Fw: KYC Approval needed for: AL RAJHI BANKING & INVESTMENT CORP

Gary

One condition. I want to banknotes profile updated tor reflect these facts please.

Chris

Gary C H YEUNG/SVP NBD RNH/HBUS/HSBC@HSBC  
05/05/2008 05:11 AM

To  
Christopher Lok/HBUS/HSBC@HSBC02  
CC  
Roger T K SO/HD NBD RNH/HBUS/HSBC@HSBC, Stephen J  
ALLEN/HBMD/HSBCMERIDIAN@HSBC  
Subject  
Re: Fw: KYC Approval needed for: AL RAJHI BANKING & INVESTMENT CORP

Chris,

I have spoken to Abdullah Darwish, Senior Cash Manager of Al Rajhi.

Al Rajhi have regular demands on the major Asian currenies including THB, PHP, IDR, INR and HKD which Bahrain Finance is their main current supplier. They sell currenices though their nationwide retail network and the Asian overseas workers, tourists and business-men are the main buyers.

Abdullahi approached HKG through Salman Hussain, HBME and Dave Illing in March. Through the Client KYC profile of London, we are well aware of Al Rajhi's background as you mentioned. Base on the information given, we don't think we have problem to deal with this prospective client.

For the logistics side, we will possibly use Swiss Air flight from Hong Kong to Riyadh via Zurich. In fact the both transit and destination airports are to have good security record.

Steve told that he is quite happy for us to go ahead.

Please approve the profile.

Gary

Christopher Lok/HBUS/HSBC@HSBC02  
02 May 2008 03:33 Mail Size: 6525

Page 1

2100

Occ-Psi-00155719

To  
Gary C H YEUNG/SVP NBD RNH/HBUS/HSBC@HSBC  
CC  
Roger T K SO/HD NBD RNH/HBUS/HSBC@HSBC  
Subject  
Fw: KYC Approval needed for: AL RAJHI BANKING & INVESTMENT CORP

Our Ref  
Your Ref

Gary

why would Alrajhi buy from you instead of their current source? And who's their current supplier? why would they need Thai Baht and HKDollar? All these have to be clearly stated.

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I'm not against you doing business with them but the KYC has to be extremely transparent.

And Steve knows about this?

Chris

----- Forwarded by Christopher Lok/HBUS/HSBC on 05/01/2008 03:28 PM -----

David M Wilens/HBUS/HSBC  
05/01/2008 03:24 PM

To  
Christopher Lok/HBUS/HSBC@HSBC02  
CC  
Subject  
KYC Approval needed for: AL RAJHI BANKING & INVESTMENT CORP

A KYC BankNote Profile in SAUDI ARABIA for HSBC Office Hong Kong is ready for your approval (Reference # [REDACTED])

Click on the attachment to open the Profile.  
Page 2

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

2101

Occ-Psi-00156271  
From: GARY C H YEUNG/SVP NBD RNH/HBUS/HSBC  
Sent: 7/18/2008 9:29:38 AM  
To: CHRISTOPHER LOK/HBUS/HSBC@HSBC  
CC:  
Subject: Fw: Al Rajhi Bank, Saudi Arabia

Chris,

Here is the information we put in HKG Banknotes profile.

Al Rajhi Banking & Investment Corp is one of the largest banking companies in the Kingdom of Saudi Arabia and listed on Saudi Arabia Stock Exchange Market. Client is an existing customer of HBUS London office. Recently, they approached us through London office and would like to set up business relationship in Hong Kong. Al Rajhi mainly interest in buying Asian currencies from us, they have regular demand for the major Asian currencies including THB, PHP, IDR, INR and HKD which Bahrain Finance is their main current supplier. They sell currencies through their nationwide retail network and those Asian overseas workers, tourists and business-men are the main buyers. They will utilize our services for their retail banknotes activities only. In the meantime, client will become one of the counterpart to liquidate our Middle East currencies surpluses that we purchase from other markets.

Gary  
Gary C H YEUNG/SVP NBD RNH/HBUS/HSBC on 07 Mar 2008 10:30  
Memo  
07 Mar 2008 10:30

From: Gary C H YEUNG/SVP NBD RNH/HBUS/HSBC      Tel: 852 2844 1387  
Mail Size: 31755

To: Salman HUSSAIN/HBME/HSBC@HSBC  
David B ILLING/HBMD/HSBCMERIDIAN@HSBC  
cc: Alex F TSANG/VP NBD RNH/HBUS/HSBC@HSBC  
Dave A GLUCKERT/HBMD/HSBCMERIDIAN@HSBC  
Denys K S CHAN/VP NBD RNH/HBUS/HSBC@HSBC  
Irwin C F YIU/VP NBD RNH/HBUS/HSBC@HSBC  
Jim K T HUI/VP NBD RNH/HBUS/HSBC@HSBC  
John L SCOTT/HBME/HSBC@HSBC  
Roger T K SO/HD NBD RNH/HBUS/HSBC@HSBC  
Stephen J ALLEN/HBMD/HSBCMERIDIAN@HSBC  
William M K WONG/AVP NBD RNH/HBUS/HSBC@HSBC  
Wing Kin - Sg CHAN/CEO SIP/HBUS/HSBC@HSBC  
Betty F S NG/NBD RNH/HBUS/HSBC@HSBC  
John N H NG/NBD RNH/HBUS/HSBC@HSBC

Our Ref:                      Your Ref:  
Subject: Re: Al Rajhi Bank, Saudi Arabia

Salman,

Please lets have more information and we will talk to Abdullah for details later.

Dave,

we will prepare the banknote profile and may need your input.

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Occ-Psi-00156271

Thanks and regards

Gary

Salman HUSSAIN/HBME/HSBC  
06 Mar 2008 19:38 Mail Size: 27632  
Phone No. 0097317569599

To  
Gary C H YEUNG/SVP NBD RNH/HBUS/HSBC  
cc  
Alex F TSANG/VP NBD RNH/HBUS/HSBC@HSBC, Dave A  
GLUCKERT/HBMD/HSBCMERIDIAN@HSBC,  
David B ILLING/HBMD/HSBCMERIDIAN@HSBC, Denys K S CHAN/VP NBD  
RNH/HBUS/HSBC@HSBC, Irwin C F YIU/VP NBD RNH/HBUS/HSBC@HSBC, Jim K T HUI/VP NBD  
RNH/HBUS/HSBC@HSBC, John L SCOTT/HBME/HSBC@HSBC, Roger T K SO/HD NBD  
RNH/HBUS/HSBC@HSBC, Stephen J ALLEN/HBMD/HSBCMERIDIAN@HSBC, William M K  
WONG/AVP NBD RNH/HBUS/HSBC@HSBC, Wing Kin - Sg CHAN/CEO SIP/HBUS/HSBC@HSBC  
Subject  
Re: Al Rajhi Bank, Saudi Arabia

Our Ref

Your Ref

Thanks Gary,

I will try to obtain as much info as I can when I see Abdullah Darwish on Tuesday next week. I do suggest however to have a direct conversation with him as you both talk the same language. What I am trying to do is to facilitate additional business / benefits to Al Rajhi to justify the opening of a US\$ account with HBUS.

Dave Illing is the best person to provide you with the logistics of flights and security etc..

Thanks and regards,

Salman Hussain  
Global Transaction Banking  
P.O. Box 57, Manama - Kingdom of Bahrain

Phone. +973 17569599  
Fax. +973 17569888  
Mobile. [REDACTED]  
Email. salman.hussain@hsbc.com  
Internet. http://www.hsbc.com

[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations

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Occ-Psi-00156271

Gary C H YEUNG/SVP NBD RNH/HBUS/HSBC  
SVP NBD RNH/HBUS  
06/03/2008 01:04 PM  
Phone No. 852 2844 1387  
Mail Size: 23174

To  
Salman HUSSAIN/HBME/HSBC@HSBC  
CC  
David B ILLING/HBMD/HSBCMERIDIAN@HSBC, Denys K S CHAN/VP NBD  
RNH/HBUS/HSBC@HSBC, Jim K T HUI/VP NBD RNH/HBUS/HSBC@HSBC, John L  
SCOTT/HBME/HSBC@HSBC, Stephen J ALLEN/HBMD/HSBCMERIDIAN@HSBC, William M K  
WONG/AVP NBD RNH/HBUS/HSBC@HSBC, Wing Kin - Sg CHAN/CEO SIP/HBUS/HSBC@HSBC,  
Dave A GLUCKERT/HBMD/HSBCMERIDIAN@HSBC, Irwin C F YIU/VP NBD  
RNH/HBUS/HSBC@HSBC, Roger T K SO/HD NBD RNH/HBUS/HSBC@HSBC, Alex F TSANG/VP NBD  
RNH/HBUS/HSBC@HSBC  
Subject  
Re: Al Rajhi Bank, Saudi Arabia  
Entity  
HSBC Bank USA. N.A. Hong Kong Branch

Salman,

There is no proper direct flight for the route between Hong Kong and Riyadh for valuable cargo at the moment. Swiss Air (LX) might be the only possible flight but that transits at Zurich for 6 hours and arrives Riyadh in evening at 19:40. We have no idea about the security and ground support arrangement at Riyadh Airport. May London Shipping give us the guidance and recommendation to this please.

Apart from logistics/security, we would like to have the following business information from client in order to facilitate our price quote:

- What is the frequency and average volume of the shipment?
- What currencies (Asian) to be ordered most?
- Will some Asian currency (e.g. JPY) to be sold to us?
- Do they have Reuters dealing?

Basically, the trade term is CIF Riyadh Airport and value date is same day of shipment arrival. Dave (Illing), may I know any credit the client is granted from you?

We would be happy to speak directly to Al Rajhi Bank for details if necessary.

Regards

Gary

Salman HUSSAIN/HBME/HSBC  
05 Mar 2008 21:57 Mail Size: 17088  
Phone No. 0097317569599

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Occ-Psi-00156271

To  
Gary C H YEUNG/SVP NBD RNH/HBUS/HSBC  
CC  
David B ILLING/HBMD/HSBCMERIDIAN@HSBC, Denys K S CHAN/VP NBD  
RNH/HBUS/HSBC@HSBC, Jim K T HUI/VP NBD RNH/HBUS/HSBC@HSBC, John L  
SCOTT/HBME/HSBC@HSBC, Stephen J ALLEN/HBMD/HSBCMERIDIAN@HSBC, William M K  
WONG/AVP NBD RNH/HBUS/HSBC@HSBC, Wing Kin - Sg CHAN/CEO SIP/HBUS/HSBC@HSBC  
Subject  
Re: Al Rajhi Bank, Saudi Arabia

Our Ref

Your Ref

Dear Gary,

Thanks for the email. I just want to let you know I will meet Al Rajhi Treasury Head, Banknote Manager and the FI Head next week Tuesday March 11 to discuss opening a US\$ account with HBUS. The Banknote Manager who raised the request to do business with HK was kind enough to push our proposal to senior management. Kindly let me know the details of what the logistics issues and how we can take this opportunity forward. Highly appreciate your feedback.

Regards,

Salman Hussain  
Global Transaction Banking  
P.O. Box 57, Manama - Kingdom of Bahrain

Phone. +973 17569599  
Fax. +973 17569888  
Mobile. [REDACTED]  
Email. salman.hussain@hsbc.com  
Internet. http://www.hsbc.com

[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations

Gary C H YEUNG/SVP NBD RNH/HBUS/HSBC  
SVP NBD RNH/HBUS  
05/03/2008 04:18 PM  
Phone No. 852 2844 1387  
Mail Size: 11429

To  
David B ILLING/HBMD/HSBCMERIDIAN@HSBC  
CC  
John L SCOTT/HBME/HSBC@HSBC, Salman HUSSAIN/HBME/HSBC@HSBC, Stephen J  
ALLEN/HBMD/HSBCMERIDIAN@HSBC, Wing Kin - Sg CHAN/CEO SIP/HBUS/HSBC@HSBC, Denys  
K S CHAN/VP NBD RNH/HBUS/HSBC@HSBC, William M K WONG/AVP NBD  
RNH/HBUS/HSBC@HSBC, Jim K T HUI/VP NBD RNH/HBUS/HSBC@HSBC  
Subject  
Re: Al Rajhi Bank, Saudi Arabia

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Occ-Psi-00156271

Entity  
HSBC Bank USA. N.A. Hong Kong Branch

Dave, Salman,

HKG actually has opened the dialogue with Al Rajhi Bank months ago. The logistics seems to be our issue. We will keep you informed the progress.

Regards

Gary

David B ILLING/HBMD/HSBCMERIDIAN  
04 Mar 2008 20:23 Mail Size: 6810  
Phone No. 799 17836  
+44 (0) 20 79928044

To  
Salman HUSSAIN/HBME/HSBC@HSBC  
cc  
John L SCOTT/HBME/HSBC@HSBC, Gary C H YEUNG/SVP NBD RNH/HBUS/HSBC@HSBC, Wing

Kin - Sg CHAN/CEO SIP/HBUS/HSBC@HSBC, Stephen J ALLEN/HBMD/HSBCMERIDIAN@HSBC  
Subject  
Re: Al Rajhi Bank, Saudi Arabia

Our Ref

Your Ref

Salman,

Great to see you last week, and thanks again for all your help.

I believe Alrajhi may have already had initial discussions with our colleagues in HK about starting a relationship in Banknotes but I have copied in Gary and WK, from HK and Singapore respectively, in this e mail who will be able to advise further details.

Regards  
Dave

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Occ-Psi-00156271

Salman HUSSAIN/HBME/HSBC  
HBME  
04/03/2008 11:52  
Phone No. 0097317569599  
Mail Size: 2467

To  
David B ILLING/HBMD/HSBCMERIDIAN  
CC  
John L SCOTT/HBEU/HSBC  
Subject  
Al Rajhi Bank, Saudi Arabia  
Entity  
HSBC Bank Middle East Limited

Dear David,

Received a call from Abdullah Darwish, Senior Cash Manager asking for the possibility of establishing a relationship with HSBC Singapore and HK office. He would like to buy used Asian Banknote from them. is this possible, can you assist me on this and perhaps you may hook me up with them and I will take this request forward?

By the way,

I did ask Abdullah to assist in recommending us to open a US\$ account who promised he will INSHALLAH.

Regards,

Salman Hussain

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Occ-Psi-00169771

From: DENISE A REILLY/HBUS/HSBC  
Sent: 3/8/2005 11:16:54 PM  
To: DANIEL JACK/HBUS/HSBC@HSBC  
CC:  
Subject: Re: KYC Deactivation Report for Banknotes in Feb-05

Very interesting. Thanks..

Daniel Jack on 08 Mar 2005 10:58

Note  
08 Mar 2005 10:58

From: Daniel Jack Tel: 212-525-8686  
Title: Vice President Location: 452 5th Ave, Floor 07  
WorkGroup:  
Compliance Mail Size: 22867

To: Denise A Reilly/HBUS/HSBC@HSBC

cc: Alan T Ketley/HBUS/HSBC@HSBC  
Subject: Re: KYC Deactivation Report for Banknotes in Feb-05

There has been a surge in KYC updates in the past few months due to clean-up/prep for OCC.

In Jan-05, a total of 10 Customer Profiles and 59 Banknote Profiles were deactivated.

From: Denise A Reilly on 08 Mar 2005 07:16

To: Daniel Jack/HBUS/HSBC@HSBC

Subject: Re: KYC Deactivation Report for Banknotes in Feb-05

Is this number of deactivations higher than normal?

From: Daniel Jack  
Sent: 03/07/2005 08:27 PM  
To: Alan T Ketley  
Cc: Denise Reilly; Ronald Schmick  
Subject: KYC Deactivation Report for Banknotes in Feb-05

Attached is a detailed report on KYC Customer & Banknote Profiles deactivated for Banknote clients globally during February 2005.

Overall, 19 Customer Profiles and 21 Banknote Profiles were deactivated in Feb-05. There were no PCM shared clients.

Only two were deactivated for AML/KYC/Compliance Reasons (both were London clients):

AL RAJHI BANKING & INVESTMENT CORP - in SAUDI ARABIA

[REDACTED]  
The following breakdown shows the # of KYC profiles deactivated by each  
Page 1

[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations

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Banknote office last month:           occ-Psi-00169771

The attached worksheets (2) provide explanations and other details on these KYC deactivations.

Please let me know if you have any questions or would like more info.

## Process for Taking Administrative Enforcement Actions Against Banks Based on BSA Violations

### Overview

Effective bank supervision requires clear communications between the OCC and a national bank's senior management and board of directors. The OCC uses a variety of methods to communicate problems or weaknesses in a bank's systems and controls, including BSA deficiencies, and to obtain corrective action. However, as explained in this bulletin, when these deficiencies rise to the level of a BSA compliance program violation (12 CFR 21.21), a statutory mandate exists that requires the OCC to issue a Cease and Desist Order. Even when the facts do not support citation of a BSA compliance program violation, the OCC may take a formal or informal enforcement action to secure corrective action.

In view of BSA's elevated statutory requirements, and to ensure that the process for taking administrative enforcement actions based on BSA violations is measured, fair, and fully informed, the OCC's process includes the following stages:<sup>1</sup>

### Preliminary Assessment of the Facts and Discussion with Bank Management

During the examination process, preliminary facts and findings are discussed with bank management. Management has an opportunity to provide additional information throughout the examination process in response to the preliminary findings. The examiner-in-charge (EIC) will evaluate whether the preliminary findings include any BSA compliance program weaknesses or other BSA issues that need to be forwarded to the next stage of review for further consideration.

### Additional Reviews

Potential BSA compliance program violations are considered by a review group that is generally comprised of representatives from bank supervision, compliance policy and legal, with expertise in BSA issues. The review group may request additional information from the EIC and the bank, if necessary. If a BSA compliance program violation is thought to exist, the EIC will discuss the violation (and potential consequences) with bank management, and if needed, direct that immediate corrective action be taken.

### Written Findings

If there appears to be a BSA compliance program violation, the EIC prepares a document in draft form describing the basis for the apparent violation. This may take the form of a report of

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<sup>1</sup>These procedures provide only internal OCC guidance. They are not intended, do not, and may not be relied on to create rights, substantive or procedural, enforceable at law or in any administrative proceeding.

While these procedures set forth the general process to be followed in enforcement cases based on BSA violations, the OCC may nonetheless deviate from them in certain cases, *e.g.*, where a developing situation in a bank requires immediate action, other unusual or exigent circumstances are present, or intervening developments require a different course of action.

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OCC-PSI-00176030

**OCC 2005-45**

Attachment  
Appendix A to  
OCC 2004-50

examination (ROE), a supervisory letter, or the description of the violation of law excerpted from these documents. The bank is given a copy of the draft document and an opportunity to respond. The bank's response is then considered by the review group.

**Washington Supervision Review Committee (SRC)**

If the decision of the review group is to affirm a BSA compliance program violation, the supervisory office and the Law Department will prepare a case for the Washington SRC describing, among other things, the facts, the bank's response (if any), any corrective actions taken by the bank or other mitigating factors, and the recommended action. The case is then brought before the Washington SRC for its recommendation. For community banks, the case is first brought before the appropriate district SRC for its recommendation (and district deputy comptroller concurrence) prior to coming before the Washington SRC. The recommendation of the Washington SRC on whether to cite a BSA compliance program violation and to pursue the proposed enforcement action will be conveyed to the appropriate senior deputy comptroller. In the absence of a consensus, the views of the Washington SRC members will be conveyed to the appropriate senior deputy comptroller.

**Final Decision**

The final decision to cite a BSA compliance program violation is delegated to the senior deputy comptroller for Large Bank Supervision or the senior deputy comptroller for Mid-Size and Community Bank Supervision, as appropriate. Any recommendation of the Washington SRC is considered by the appropriate senior deputy comptroller, but it is not determinative, and the appropriate senior deputy comptroller considers all information he or she deems pertinent, in reaching a decision. If the senior deputy comptroller decides to cite a BSA program violation, bank management is contacted and informed of the decision.

**Initiating BSA Enforcement Actions**

The final examination report and draft enforcement action are forwarded to the bank, and the proposed enforcement action is finalized with the bank's representatives. If civil money penalties are warranted, the Financial Crimes Enforcement Network (FinCEN) is contacted and a 15-day letter will be sent to the bank or the appropriate institution-affiliated parties. See PPM 5000-7 (REV), Civil Money Penalties, dated June 16, 1993.

**Coordination with Other Agencies**

FinCEN is notified of all formal and informal enforcement actions under the terms of the Memorandum of Understanding between the Federal Bank Regulators and FinCEN. In cases involving potential criminal violations of the BSA or the money laundering laws, the OCC will ensure that suspicious activity reports are filed and will coordinate with the appropriate law enforcement agencies.



2111

Occ-Psi-00179654

Redacted by the Permanent Subcommittee on Investigations

From: ALAN KERR/HBME/HSBC  
Sent: 5/30/2006 11:32:36 AM  
To: ALAN T KETLEY/HBUS/HSBC@HSBC; GARY BOON/HBME/HSBC  
CC: PALLAVI KEMPAIAH/HBME/HSBC; TERESA PESCE/HBUS/HSBC; DENISE A REILLY/HBUS/HSBC; SANDRA PETERSON/HBUS/HSBC;  
IAN EOEN  
Subject: Re: U-Turns

Alan,

Please call us as soon as possible - gary's mobile is [REDACTED] and mine is [REDACTED]

Thanks

Alan

PS We are joining a client for dinner in 30 mins.

\*\*\*\*\*

HSBC Bank plc  
Registered Office: 8 Canada Square, London E14 5HQ, United Kingdom  
Registered in England - Number 14259  
Authorised and Regulated by the Financial Services Authority  
\*\*\*\*\*

From: Alan T Ketley  
Sent: 30/05/2006 13:28  
To: Gary BOON; Alan KERR  
Cc: Pallavi KEMPAIAH; Teresa Pesce; Denise Reilly; Sandra Peterson  
Subject: Re: U-Turns

Gary, Alan

I tried calling you (Gary) but understand that you are out of the office until June 1.

I'm unclear why you would be seeking to have HBUS handle this activity at no notice and am uncomfortable making arrangements for such sensitive activity in this fashion.

As requested in my note below, I would like to receive copies of the types of payment orders that you propose to send to us (my fax is 212 382 7580) in order that we can review them.

Given that you intend passing us as many U-Turns in a day as we would handle in a busy month I'd like to see this activity pass over a dedicated account and for Delaware to have the opportunity to set aside appropriate resources to handle this activity. For that reason I have copied Sandra Peterson.

I would like to invoke some of the protocols set out in the attached document so that this activity may be suitably monitored and controlled

Please advise who in HBME will be available to discuss this issue with HBUS and confirm that activity will not start to flow until we have appropriate controls in place.

Alan T. Ketley  
First Vice President, Anti Money Laundering

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Occ-Psi-00179654

Tel: 212 525 6147  
Fax: 212 382 7580

Gary BOON/HBME/HSBC  
05/28/2006 01:35 AM

To  
Alan T Ketley/HBUS/HSBC@HSBC  
CC  
Alan KERR/HBME/HSBC@HSBC  
Subject  
Re: U-Turns

Alan, as you've seen HBME is now in a situation where we now have to route the Iranian Payments through HBUS and our understanding from David is that this is now ok to do.

After consultation with David, Alan and I contacted JPMC and advised them of the Group's decision to route payments using the serial method but we cannot do this for Iranian related payments as they have to be processed as cover payments (as per Group Compliance) to comply with the U-Turn process. However in our drive to be 100% transparent (and to follow the directive on the last GCL re Serial Payments) HBME would complete field 72 on cover payments (MT202's) with the wording "Iranian transaction in compliance with OFAC sanctions". Following JPMC's refusal to process these specific instructions we seek your urgent assistance to get these payments processed asap through HSBC USA.

We now have a requirement that wef from Tuesday 30th May - HBME need to process these payments through HBUS. It seems a good idea that we talk about this urgently - can we call you today? Please advise appropriate number.

Alan, I was going to copy Sandra Peterson but I leave this to you. We have 40 payments a day on average of which a majority are order a Group entity with about 10 a day from Bank Kesharvarzi, Iran - the only a/c remaining open with HBME with this kind of volume.

The good news is that we've a weekend and a bank holiday, the bad news is that we have to do this wef Tuesday as we have no other route open to us!

Gary

Alan T Ketley/HBUS/HSBC  
HBUS  
05/26/2006 10:33 PM  
Mail Size: 3000

To

Page 2

2113

Occ-Psi-00179654

Alan KERR/HBME/HSBC@HSBC, Gary BOON/HBME/HSBC@HSBC  
cc

Subject  
U-Turns  
Entity  
HSBC Bank Middle East Limited

Alan, Gary

I have received thru Terry Pesce a copy of your (Alan) correspondence with JPM Chase and David Bagley about your 'imminent move to serial + cover payments with field 72 completed.'

I have asked around and we're not sure what you mean by this. My view would be that the move to serial payments would render a cover payment unnecessary; none of us has been able to figure out what the reference to field 72 means - even though David seems to be aware.

Can you send me an example of two of the type of payment structure you have in mind so we can evaluate it properly; I'd also like you to send me examples of the types of payments that you have currently (as discussed previously).

I do not see a date on which JPM Chase will stop handling these items for you - please advise on this score so we can explore establishing the necessary infrastructure.

Thanks

Alan T. Ketley  
First Vice President, Anti Money Laundering  
Tel: 212 525 6147  
Fax: 212 382 7580

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Occ-Psi-00188404

From: CAROLYN M WIND/HBUS/HSBC  
Sent: 8/1/2007 11:44:07 AM  
To: DENISE A REILLY/HBUS/HSBC@HSBC  
CC:  
Subject: Fw: HUSI Audit Committee- Update to the Chairman on 2 Aug 07.

So can you confirm with Nancy/Sandra if we have an agreed timetable? Thanks.

Carolyn M. Wind  
EVP, General Compliance  
& AML Director  
452 5th Avenue, T7  
New York, New York 10018  
Phone: 212-525-5503 / Fax: 212-382-5963  
E-mail: carolyn.m.wind@us.hsbc.com  
----- Forwarded by Carolyn M Wind/HBUS/HSBC on 08/01/2007 12:42 PM -----

David Dew/HBUS/HSBC  
08/01/2007 12:16 PM

To  
Bandula wijesinghe/HBUS/HSBC@HSBC  
CC  
Carolyn M Wind/HBUS/HSBC@HSBC, Michael B Gallagher/HBUS/HSBC@HSBC  
Subject  
Re: HUSI Audit Committee- Update to the Chairman on 2 Aug 07.

I think that we simply must now agree on a definitive timetable for reintroduction of full OFAC controls. I am receptive to the idea of some form of phase-in during when we closely monitor the impact of the controls but we cannot continue to bypass them completely.

Can we please agree the timetable today.

Thanks

David Dew  
SEVP, Chief Operating Officer  
HSBC Bank USA  
452 Fifth Avenue | 10th Floor | New York, NY 10018

Phone. 212-525-6951  
Fax. 212-525-8688  
Email. david.dew@us.hsbc.com

Bandula wijesinghe/HBUS/HSBC  
08/01/2007 11:57 AM

To  
Mark Martinelli/HBUS/HSBC@HSBC  
CC  
Michael B Gallagher/HBUS/HSBC@HSBC, Mike Ebbs/HBUS/HSBC@HSBC, Carolyn M Wind/HBUS/HSBC@HSBC, David Dew/HBUS/HSBC@HSBC, Teri Lemiesz/HBUS/HSBC@HSBC  
Page 1

2115

Occ-Psi-00188404

Subject  
HUSI Audit Committee- Update to the Chairman on 2 Aug 07.

Mark,

Please see attached the write up for tomorrow's meeting.

Regards,

Bandula

[attachment "GPS Audit Committee Update (Final).doc.zip" deleted by David Dew/HBUS/HSBC]

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Occ-Psi-00196439

From: DENISE A REILLY/HBUS/HSBC  
Sent: 9/11/2008 8:33:35 PM  
To: ANNE LIDDY/HBUS/HSBC@HSBC02  
Subject: Re: Fw: Hokuriku Bank

I thought the same thing. People are so down they don't even want a day out of the office for a team event.

----- Original Message -----

From: Anne Liddy  
Sent: 09/11/2008 09:07 PM EDT  
To: Denise Reilly  
Subject: Re: Fw: Hokuriku Bank

Exactly.

You know, I was thinking about this yesterday (my new leaf again) - there are still some really good people we interact with.

Did you happen to see Lesley's note re the event. Participation is very low. It's a real reflection of how people feel.

----- Original Message -----

From: Denise A Reilly  
Sent: 09/11/2008 07:48 PM EDT  
To: Anne Liddy  
Subject: Fw: Fw: Hokuriku Bank

That's because it's decisive. I just can't help note how this issue got raised to the business . . .

----- Original Message -----

From: Alan P Williamson  
Sent: 09/11/2008 07:01 PM EDT  
To: Anthony Julian  
Cc: Denis O'Brien; Denise Reilly; Anne Liddy; Michael Gallagher; Thomas W Halpin  
Subject: Re: Fw: Hokuriku Bank

What a great answer.

Thank you.

Alan

Anthony Julian/HBUS/HSBC  
09/11/2008 05:51 PM

To  
Machiko M YAMASHITA/TKY/HBAP/HSBC@HSBC  
CC  
Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC, Alan P Williamson/HBUS/HSBC@HSBC02, Cam ADAMS/PCM ASP/HBAP/HSBC@HSBC, Hideki MATSUMOTO/TKY/HBAP/HSBC@HSBC, Michael B Gallagher/HBUS/HSBC@HSBC02, Navin GUPTA/TKY/HBAP/HSBC@HSBC, Richard JAGGARD/PCM ASP/HBAP/HSBC@HSBC, Takahiko KANECHIKU/TKY/HBAP/HSBC@HSBC, Thomas W Halpin/HBUS/HSBC@HSBC02  
Subject  
Re: Fw: Hokuriku Bank

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Occ-Psi-00196439

Please note that HBUS senior management has reviewed this service extensively and determined that we can not continue to support this business. This is not an issue for negotiation with Hokuriku. HBUS has decided to withdraw from processing bulk quantities of TCs, as the regulatory burden is costly and the operational / regulatory risk is not acceptable.

We respect Hokuriku's perspective, and 30 days notification should be acceptable for withdrawal of services (as stated in our cash letter documentation).

As Cash Letter is a manual process, there should be no significant systemic issues with them shifting this business to another provider. Hokuriku maintains accounts with all of the major USD service providers (Citi, Chase, BoNY, Wachovia, Deutsche, Amex, etc), each of whom offer competitive Cash Letter services. They can shift this business relatively easily, and we would appreciate their cooperation in ceasing bulk TC deposit as soon as possible. We will return bulk TC deposits received by HBUS after October 12.

Thanks and best regards

Anthony Julian  
First Vice President  
HSBC Bank USA, N.A.  
Global Transaction Banking  
Office: (302) 327-2665  
Mobile (BB): [REDACTED]

[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations

Machiko M YAMASHITA/TKY/HBAP/HSBC@HSBC  
09/11/2008 05:07 AM

To  
Alan P williamson/HBUS/HSBC@HSBC02  
cc  
Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC, Anthony Julian/HBUS/HSBC@HSBC02, Cam  
ADAMS/PCM ASP/HBAP/HSBC@HSBC, Michael B Gallagher/HBUS/HSBC@HSBC02, Richard  
JAGGARD/PCM ASP/HBAP/HSBC@HSBC, Takahiko KANECHIKU/TKY/HBAP/HSBC@HSBC, Thomas W  
Halpin/HBUS/HSBC@HSBC02, Navin GUPTA/TKY/HBAP/HSBC@HSBC, Hideki  
MATSUMOTO/TKY/HBAP/HSBC@HSBC  
Subject  
Fw: Hokuriku Bank

Dear Alan

Matsumoto-san and myself visited Mr. Takahashi, GM and Mr. Takarada, Deputy MGR of International Operations Center to advise of your decision.

We conveyed the message that we understand that AML process is appropriately

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Occ-Psi-00196439

taken by Hokuriku Bank as Anthony commented and the point we intended to discuss is how we enhance process to avoid unnecessary internal process on our side.

During the discussion, we confirmed again the background of relevant transactions.

- Most of their customers related to this issue are used-car dealers for Russian buyers who are cash account holders of Hokuriku Bank through appropriate AML process.

- The dealers are doing cash on delivery type of deals with buyers in this market therefore cash or TCs are normally used to accommodate those deals. As such Hokuriku Bank considers it is difficult for its customers to shift their payment method to wire transfers or commercial check from TCs.

- HBUS is currently the sole cash Letter provider for Hokuriku Bank and if we stop providing this service to Hokuriku Bank, it needs reasonable grace period to find out alternative service provider and re-adjust its system which is currently arranged/signed to meet HBUS's requirement and also make sure the new internal process with all relevant branches/offices.

- Since relevant customers are limited around 20 - 25 names and they are all cash account holders of Hokuriku Bank, Hokuriku Bank is well prepared to cooperate with HBUS by providing necessary information / arranging operational process in order to help HBUS to streamline the process. As such if there are any measures to reduce your processing burden, they are open to discuss on that. For that, they wish to understand what is exactly the issue in your processing of the TCs in problem. They have already been following your requirement on high value deposit (exceeding USD20k per deposit), under which they have been providing their customers' information including name, address and business as well as amount and number of TCs. If HBUS requires further more information and/or different process, Hokuriku Bank is ready to discuss on that.

Your feedback would be appreciated.

Regards

Machiko Yamashita, FIG TKY

----- Forwarded by Machiko M YAMASHITA/TKY/HBAP/HSBC on 2008/09/11 17:34 -----

Alan P Williamson/HBUS/HSBC@HSBC02  
11 Sep 2008 01:22 Mail size: 18427

To  
Hideki MATSUMOTO/TKY/HBAP/HSBC@HSBC, Navin GUPTA/TKY/HBAP/HSBC@HSBC, Machiko  
M  
YAMASHITA/TKY/HBAP/HSBC@HSBC  
CC  
Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC, Anthony Julian/HBUS/HSBC@HSBC02, Cam  
ADAMS/PCM ASP/HBAP/HSBC@HSBC, Michael B Gallagher/HBUS/HSBC@HSBC02, Richard  
JAGGARD/PCM ASP/HBAP/HSBC@HSBC, Takahiko KANECHIKU/TKY/HBAP/HSBC@HSBC, Thomas W  
Halpin/HBUS/HSBC@HSBC02  
Subject  
Re: Hokuriku Bank

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Occ-Psi-00196439

Our Ref

Your Ref

Gentlemen

Can I ask for the status on this matter?

Thank you all for your help.

Alan

----- Original Message -----

From: Hideki MATSUMOTO  
Sent: 09/05/2008 09:35 AM ZEG  
To: Navin GUPTA; Machiko M YAMASHITA  
Cc: Ako KOBAYASHI; Alan P Williamson; Anthony Julian/HBUS/HSBC@HSBCAMERICAS; Cam ADAMS; Michael Gallagher; Richard JAGGARD; Takahiko KANECHIKU; Thomas W Halpin  
Subject: Re: Hokuriku Bank

Navin

RM is Yamashita san for Hokuriku Bk.

Yamashita san

it seems internal due date is tight for them to change structure involving their own clients. shall we move quickly to discuss on this with Hokuriku Bk.

rgds, hideki

Navin GUPTA/TKY/HBAP/HSBC  
05 Sep 2008 08:29 Mail Size: 14141  
Phone No. 813 5203 4252

To  
Takahiko KANECHIKU/TKY/HBAP/HSBC@HSBC, Hideki MATSUMOTO/TKY/HBAP/HSBC@HSBC  
Cc  
Alan P Williamson/HBUS/HSBC@HSBC02, Anthony Julian/HBUS/HSBC@HSBCAMERICAS,  
Cam  
ADAMS/PCM ASP/HBAP/HSBC@HSBC, Michael B Gallagher/HBUS/HSBC@HSBC02, Richard  
JAGGARD/PCM ASP/HBAP/HSBC@HSBC, Thomas W Halpin/HBUS/HSBC@HSBC02, Ako  
KOBAYASHI/TKY/HBAP/HSBC@HSBC  
Subject  
Re: Hokuriku Bank

Our Ref

Your Ref

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occ-Psi-00196439

Kanechiku san,

Request your support in communication to Hokuriku bank as below.

Warm Rgs, Navin

Fred SHYUR/PCM ASP/HBAP/HSBC  
09/05/2008 07:40 AM  
Mail Size: 3916

To  
Cam ADAMS/PCM ASP/HBAP/HSBC@HSBC, Navin GUPTA/TKY/HBAP/HSBC@HSBC, Anthony  
Julian/HBUS/HSBC@HSBCAMERICAS@REPUBLIC  
CC  
Thomas W Halpin/HBUS/HSBC@HSBC02, Michael B Gallagher/HBUS/HSBC@HSBC02,  
Richard  
JAGGARD/PCM ASP/HBAP/HSBC@HSBC, Alan P Williamson/HBUS/HSBC@HSBC02  
Subject  
Re: Hokuriku Bank  
Our Ref  
  
Your Ref

Cam and Navin,

FYI. Please kindly work with Anthony and Alan on the AML issue below.

Regards,

Fred Shyur

\*\*\*\*\*  
The Hongkong and Shanghai Banking Corporation Limited  
whose registered address is 1 Queen's Road Central, Hong Kong  
\*\*\*\*\*

----- Original Message -----

From: Alan P Williamson  
Sent: 09/04/2008 11:05 AM EDT  
To: Anthony Julian/HBUS/HSBC@HSBC02; Fred SHYUR  
Cc: Thomas W Halpin/HBUS/HSBC@HSBC02; Michael B Gallagher/HBUS/HSBC@HSBC02  
Subject: Hokuriku Bank

Anthony, Fred

As you may know, Compliance meets monthly with senior management in the Payments and Cash Management AML Management Review Committee. Recently we discussed the fact that Hokuriku has been sending a large number of sequential traveller's checks from a number of similar businesses through cash letter here in the US. This use of cash letter is inappropriate and the Committee has concluded that PCM should no longer allow Hokuriku to send traveler's checks through cash letter. Hokuriku should therefore cease the activity and make

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Occ-Psi-00196439  
alternative arrangements, such as to make the deposits by wire, by September  
30. Can I ask you to contact the appropriate RM's to convey this message to  
Hokuriku and confirm back that they have done so?

Thanks for your help. Please let me know if you have any questions.

Alan Williamson  
PCM Compliance  
212 525 8043

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GROUP FINANCIAL SERVICES AUDIT

REPORT ON

HIGH LEVEL CONTROLS REVIEW OF HSBC PRIVATE BANK  
INTERNATIONAL

FEBRUARY 2004

GFA GEN 04012

OCC-PSI-00210878

**HIGH LEVEL CONTROLS REVIEW OF HSBC PRIVATE BANK INTERNATIONAL**

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**I. INTRODUCTION****1.1 Background**

This report covers the findings identified during our high level controls review of the activities of HSBC Private Bank International (HRIB).

HRIB is a wholly owned subsidiary of HSBC Bank USA Inc (HBUS), operating as an Edge Act Corporation incorporated in 1979. As an Edge Corporation, the activity of HRIB is governed by Section 25, Regulation K of the Code of Federal Regulations that limits transactions to those being for the purpose of, or incidental to carrying out international business activities.

HRIB provides a highly personal range of private banking services to high net worth individuals domiciled mainly in Latin and Central America. HRIB offers traditional banking products such as time deposits, loans, letters of credit, bill payments, cheque facilities as well as high quality investment products such as fixed income, equities, HSBC Group and sponsored third party funds, structured products and spot and forward exchange.

As at December 2003, HRIB employed 112 staff with assets under management of USD 5 billion and approximately 7,000 client accounts. For the year ended 31 December 2003, HRIB made net profit before tax of USD19million (including allocated costs of USD19.6million).

**1.2 Scope and Objectives**

The high level controls review covered all activities of HRIB with the exception of the trade finance department which is the subject of a separate audit by Group Audit USA (GAU). Local Compliance requirements have only been considered to the extent they are included within the Compliance Chart for the business. Our work was based on the accounting records as at 31 December 2003. The objectives of the review were to ensure that the business is operating in accordance with the requirements of the relevant Group Standards and Functional Instruction Manuals applicable to this business.

The audit was carried out by V Leung, N Chawla, G Rao of GHQ GFA and Chung M Yau of GAU IT on various dates between 26 January and 13 February 2004.

We wish to thank the management and staff of the office for their assistance and co-operation during the course of the review.

**HIGH LEVEL CONTROLS REVIEW OF HSBC PRIVATE BANK INTERNATIONAL**

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**2. MANAGEMENT SUMMARY**

HRIB has had a successful year and has seen a substantial increase in the value of assets under management. It was pleasing to note, therefore, that management has been able to maintain a robust control environment during this period of growth and our review has indicated that the key controls within the business continue to operate in a satisfactory manner. We acknowledge the positive attitude and approach adopted by management to our review process and to the implementation of recommendations raised in the prior report.

Full details of all issues identified during the review are given in section 5 to 14 of the report, whilst a summary of those issues considered to be high risk are given in section 3 and a summary of all repeat and carried forward recommendations appear in section 4 of the report.

HIGH LEVEL CONTROLS REVIEW OF HSBC PRIVATE BANK INTERNATIONAL3. SUMMARY OF HIGH RISK ISSUES

— = Redacted by the Permanent  
Subcommittee on Investigations

3.1 DDA

- From our review of the Inactive Clients List as of 8 February 2004, we noted 11 accounts which had had no client activity for over two years but which had not been classified as dormant accounts. As a result, these accounts are not subject to the stringent controls which are otherwise exercised over dormant accounts.  
(See section 7.1).

3.2 FUNDS TRANSFER

- The authorisation limits for the Electronic Payment system which have been allocated to Funds Transfer staff to release payments is inappropriate given the normal payment activity level. The maximum transaction limits are currently set at [REDACTED] for payments to Banks and [REDACTED] for payments to non Banks.  
(See section 8.1).

3.3 INTERNAL CONTROL

- The planned internal control reviews, as set out in the annual Internal Control Periodic Review for 2003 had not been completed. We note only 60% of the planned work had been completed.  
(See section 12.1).
- The Internal Control Officer is required, on occasions, to support departments when staff are on vacation or on sick leave. This results in conflict of interest in the independence of the Internal Control function. In addition, work performed by the Internal Control Officer as supporting staff is not being independently reviewed.  
(See section 12.2).

3.4 INFORMATION TECHNOLOGY

- A number of users from the other two IPB offices in the US have access to the Miami client database via the EPIC system without the knowledge or approval of the HRIB Local Security Administrator (LSA). There are currently three LSAs responsible for setting up user access to the EPIC system in their respective region. However, each LSA also has the ability to create new users and provide them with access to the client database of HRIB.  
(See section 14.1).

GROUP FINANCIAL SERVICES AUDIT FEBRUARY 2004  
HIGH LEVEL CONTROLS REVIEW OF HSBC PRIVATE BANK INTERNATIONAL

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4. PREVIOUS RECOMMENDATIONS

4.1 Repeat Recommendations

At the time of the audit, the following issues raised in the previous internal and external reviews of the business remained outstanding:

4.1.1 Group Financial Services Audit - August, 2002

5.5 \* Client Visitation Policy

10.1 \* Amended FX Orders

10.3 \* Deal Orders

10.4 \* Trade Orders

\* *These items are considered to be partial repeat recommendations as action has been taken to implement the original recommendation although not all aspects of the recommendation had been addressed at the time of the review.*

4.2 Carried Forward Recommendations

The following recommendations which have been carried forward from internal and external reviews are not scheduled to be implemented until after this audit:

4.2.1 Group Financial Services Audit - August, 2002

5.3 Beneficial Ownership of PICs via Bearer Shares

4.2.2 Federal Reserve Bank of Atlanta - February, 2003

11.2 Country Risk Monitoring



**5. FRONT OFFICE****5.1 Account Documentation****Finding**

The blocking of accounts with critical missing documentation is not being performed in accordance with Group guidelines. Currently, transactions can be processed across accounts having missing documentation for up to 90 days rather than up to 30 days as required by Group Guidelines.

**Recommendation**

No transactions across accounts with critical missing documentation should be permitted after 30 days from the date of account opening.

GPB COO Memo Oct 2003 & PBT FIM 18.3

**5.2 Authentication of Client ID****Finding**

Guidance issued by GPB in October 2003 made it mandatory for the verified IDs of beneficial owner(s) to be obtained with immediate effect. However, HRIB continued to operate based on the dispensation granted by GPB in 2002 which did not require them to obtain verified ID in certain situations. In February 2004 the request for the renewal of the dispensation regarding the verification of IDs was declined.

**Recommendation**

Verified IDs of all beneficial owners should be obtained.

**5.3 Beneficial Ownership of PICs via Bearer Shares****Finding**

Certificate of Beneficial Ownership forms, certifying the beneficial ownership of offshore PICs owned through bearer shares, is outstanding for approximately 60 clients. We acknowledge that Management has made significant progress in obtaining these forms from clients and is tracking the missing forms through the Missing Documents List.

**Recommendation**

Management should endeavour to obtain the missing Certificate of Beneficial Ownership forms at the earliest opportunity.

**Carried Forward Recommendation: Group Financial Services Audit - August, 2002 - section 6.3**

**5.4 Special Service Team****Finding**

HRIB undertook a segmentation exercise and transferred approximately 1,300 accounts with balances of less than USD 250,000 to the Special Service Team. A marketing exercise to increase AUM was undertaken in Q3 03 which involved contacting these clients with a view to increase the AUM. Following this exercise there were approximately 100 of these clients whom the RMs were unable to contact, potentially due to incorrect / outdated information being held on client files.

**Recommendation**

An exercise to obtain/update client information should be undertaken. In those cases where client contact cannot be established, management should review these accounts with a view to blocking them where it is considered necessary.

**5.5 Client Visitation Policy****Finding**

The HRIB client visitation policy requires clients with account activity of more than USD 5 million and/or AUM over USD 1 million to be met annually. Visits for clients with account activity of more than USD 5 million is being monitored. However, we understand that due to the constant fluctuations in AUM, HRIB do not believe they can effectively monitor visits for clients with AUM over USD 1 million despite the fact a report can be generated showing all clients with AUM over USD1 million and where no visit has been performed for longer than 12 months.

**Recommendation**

Client visits should be conducted in accordance with the HRIB visitation policy.

MLPPs

**Partial Repeat Recommendation: Group Financial Services Audit - August, 2002 - section 6.4**

**5.6 Appointment of a Back-Up Relationship Manager****Finding**

HRIB has a team style of relationship management, however, a back-up Relationship Manager (RM) has not been formally appointed for each account.

**Recommendation**

Back-up RMs should be formally appointed for all client relationships. The back-up RM, once appointed, should also be responsible for reviewing the daily Significant Activity Report in respect of those accounts for they have been appointed.

PBT FIM 18.9

HIGH LEVEL CONTROLS REVIEW OF HSBC PRIVATE BANK INTERNATIONAL

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5.7 Revenue Reports by Relationship Manager**Finding**

The revenue reports (gross revenue as a percentage of assets under management) produced for management for each team, RM and Client Account do not take costs into consideration and hence it is not possible to determine the profitability by RM and by Account.

**Recommendation**

The revenue reports currently produced should be enhanced to recognise costs, this will include an amount based on the time spent on each account by the RM to enable full profit information to be produced.

6. CREDIT

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Subcommittee on Investigations

6.1 Credit Approval**Finding**

From a review of 20 credit proposals, we noted five examples where the proposal had not been authorised in accordance with credit approval limits. However, we acknowledge that in all cases the proposal had been initialled by a Senior Officer as approval for any non standard features, such as the applicable rate. However, such sign off did not represent approval of the overall facility.

**Recommendation**

The Credit Department should ensure that appropriate level of credit authority is obtained prior to processing the facility.

6.2 Ineligible Security**Finding**

Collateral value has been given to two stocks which are classified, according to the IPB Americas Credit Guidelines Manual, as unacceptable tangible security due to the stocks having a value per share of less than USD10, irrespective of the total market capitalisation of the company or its financial strength. In the case of one facility, 50% collateral value was given to two stocks [REDACTED] each having a cost of less than USD10 per share. We acknowledge in this case that at the time of the audit it would not cause an undermargin position if no collateral value is given to the unacceptable tangible security.

**Recommendation**

- i) Collateral value should not be given to US stock having a price of less than USD10.
- ii) Notwithstanding this, management should review the appropriateness of the policy of the apparent arbitrary exclusion of such stock with the IPB Credit department.

IPB Americas Credit Guidelines Manual S6.1

**6.3 Allocation of Pledged Assets Across More Than One Account****Finding**

i) For those facilities where the investment product RIMA is being used as collateral, the EPIC system is not capable of allocating such assets across more than one account, nor is it capable of updating the current collateral value of RIMA. Such functions are currently performed manually. We understand from management that a request for the above has been included in the EPIC Maintenance Request.

ii) The independent review of the update of the current market value of RIMA is not evidenced as performed.

**Recommendation**

i) Management should ensure that system limitations regarding the use of RIMA as collateral across more than one account and the automatic updating of the price of RIMA is addressed in the next EPIC update.

ii) The updating of the market value of RIMA should be subject to an evidenced independent review.

**6.4 Loan to Value****Finding**

There is no independent review of the LTV entered on to the EPIC system, except for Emerging Market Securities which is performed on a monthly basis.

**Recommendation**

An independent review of all LTVs given to pledge assets should be carried out on a monthly basis.

**6.5 Country Risk Approval****Finding**

From our review of 20 credit proposals, we noted two examples where the proposals made to GHQ CRF incorrectly stated the tenors of the loans. We understand from management that this was as a result of a misunderstanding by HRIB in the way in which loan tenors should be classified according to Group policy.

**Recommendation**

Management should ensure that the information provided to GHQ CRF within the credit proposals is accurate and consistent with the Group classification of loan tenors.

**7. DDA****7.1 Inactive Accounts (High Risk)****Finding**

From our review of the Inactive Clients List as of 8 February 2004, we noted 11 accounts which had had no client activity for over two years but which had not been classified as dormant accounts. As a result, these accounts are not subject to the stringent controls which are otherwise exercised over dormant accounts.

**Recommendation**

The reason for the BIMAS system not accurately identifying all dormant accounts should be established and rectified.

PBT FIM 22.9

**7.2 Overdraft Referrals****Finding**

The daily overdraft referrals report which shows accounts having insufficient funds available to honour pending cheques is not evidenced as having been independently reviewed to ensure those cheques referred for payment and subsequently approved or rejected by the RM have been properly processed.

**Recommendation**

The independent review of the daily overdraft referrals report should be evidenced to show cheques were properly processed in accordance with the RM's instruction.

**7.3 Signature Discrepancies****Finding**

An RM is able to authorise the payment of cheques drawn by clients which have minor signature irregularities, without the need for client contact or senior management approval.

**Recommendation**

Local procedures should be amended to include a threshold limit above which the authorisation of client cheques with signature irregularities should require client contact or senior management approval.

8. FUNDS TRANSFER

<p>— = Redacted by the Permanent Subcommittee on Investigations</p>
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8.1 Electronic Payment Authorisation Limits (High Risk)**Finding**

The authorisation limits for the Electronic Payment system which have been allocated to Funds Transfer staff to release payments is inappropriate given the normal payment activity level. The maximum transaction limits are currently set at [REDACTED] for payments to Banks and [REDACTED] for payments to non Banks.

**Recommendation**

The payments limits allocated to Funds Transfer staff for the Electronic Payment system should be set to more appropriate levels based on the normal payment activity level. Should the limit need to be increased for one off exceptional payments, the approval of senior management should be sought.

8.2 FX Telephone Orders**Finding**

i) For cases where the client does not have a BIMAS FX account, the Funds Transfer team will place FX deals directly with HSBC Canada by telephone rather than place the trade with HBUS in New York or pass the trade to the IPG team for execution.

ii) The Funds Transfer team is responsible for deal confirmation, matching, posting entries to the client account and settlement in respect of the above FX trades.

iii) Dealing Authority letters are not in place for staff within the Funds Transfer team.

**Recommendation**

All FX deals should be executed on the E-Treasury system. In cases where this is not possible, the responsibility for placing FX deals with the broker should be transferred to the IPG team.

8.3 Back Valued Transactions**Finding**

i) The Funds Transfer team is able to back value transactions for up to 90 days on the BIMAS system.

ii) There is no report generated and reviewed by the Head of the Funds Transfer Department of all back valued transactions. We acknowledge that back valued transactions require the approval of the Head of the Front Office.

**Recommendation**

i) The period for which transactions can be back valued should be reviewed and set at a more appropriate level.

ii) A regular report of all back valued transactions should be obtained and subject to an evidenced review by the Head of the Funds Transfer Department.

9. CIF

9.I Imaging of Client IDs

**Finding**

All client documentation was imaged onto the EPIC system in 3Q 2003. From a review of 17 client relationships we noted that IDs for nine client relationships are not sufficiently legible to enable a positive identification of the client to be made.

**Recommendation**

Staff should ensure that scanned IDs held on the EPIC system are legible and clear.



**10. IPG OPERATIONS****10.1 Amended FX Orders****Finding**

A summary report of amended FX orders is not maintained.

**Recommendation**

A summary report of amended FX orders should be maintained and reviewed monthly by the Head of Front Office and/or the Head of Operations.

GM FIM 12.6.4

**Partial Repeat Recommendation: Group Financial Services Audit - August, 2002 - section 7.9**

**10.2 Deal Blotters/Trade Summary Reports****Finding**

Daily blotters or trade summary reports of mutual fund trades and precious metals trades are not received from IPB (NY) IAG and CTMS IT Maintenance Department respectively. As a result, IPG Operations is unable to reconcile daily trades placed and input into CTMS (for mutual funds) or reconcile back to deal tickets (for precious metal trades) to ensure completeness of deal capture.

**Recommendation**

Daily blotters or trade summary report for mutual fund and precious metals trades should be received from IPB (NY) IAG and CTMS IT Maintenance Department respectively and reconciled to the records held by IPG Miami.

GM FIM 12.2.1

**10.3 Deal Orders****Finding**

From a review of ten fixed income deal order forms we identified two cases where the mark-up was not indicated by the RM(s) on the order form and two cases where the actual mark-up was higher than the original mark-up recorded, however, the former had not been initialled by the RM(s) as approved.

**Recommendation**

Fixed income deal order forms should record the mark-up as indicated by the RM(s) and any change to the original mark-up should be initialled by the RM(s) as having been approved.

**Partial Repeat Recommendation: Group Financial Services Audit - August, 2002 - section 7.7**

10.4 Trade Orders**Finding**

From our review of ten income deal order forms, we noted:

i) one amended order where the reason for the amendment was not documented and the funds availability was not re-confirmed on the date of the amendment.

ii) one trade where the time of order creation by the RM and the time of the order being placed by IPG was later than the time of order confirmation received from IPB IAG. Further, the client written instruction was not dated.

**Recommendation**

i) The reason for order amendments should be documented on the deal order form. Where an order is amended on a date subsequent to the date of the original order, funds availability should be re-confirmed on order amendment date.

ii) Orders should be date and time stamped in a timely manner. Client instructions should also be dated as received.

**Partial Repeat Recommendation: Group Financial Services Audit - August, 2002 - section 7.10**

11. COMPLIANCE11.1 Review of Compliance Function**Finding**

The review of the Compliance function by the HBUS Compliance department in New York is not documented.

**Recommendation**

The periodic review of the Compliance function by HBUS Compliance department should be documented.

Chapter 10 ;COH

11.2 Country Risk Monitoring**Finding**

The CAMP monitoring system is not capable of isolating the activity on the accounts of clients from high risk countries, for example Guatemala. We acknowledge that a half yearly review of all transactions over USD1m is undertaken by the Compliance department.

We understand that the User acceptance testing has been completed and the implementation date has been set for April 2004.

**Recommendation**

The CAMP system should be enhanced to include the functionality to enable the isolated monitoring of account activity of clients from high risk countries.

**Carried Forward Recommendation: Federal Reserve Bank of Atlanta - February, 2003**

HIGH LEVEL CONTROLS REVIEW OF HSBC PRIVATE BANK INTERNATIONAL12. INTERNAL CONTROL12.1 Internal Control Review (High Risk)**Finding**

The planned internal control reviews, as set out in the annual Internal Control Periodic Review for 2003 had not been completed. We note only 60% of the planned work had been completed.

**Background**

The Internal Control Officer is responsible for devising the annual Internal Periodic Review schedule. We note that only 60% of the planned reviews for 2003 had been completed. Further, the 2003 Internal Control Periodic Review schedule was not evidenced as having been approved by the President.

**Recommendation**

- i) Management should ensure that the reviews, as set out in the annual Internal Control Periodic Review plan are performed and the timetable adhered to. The President should be informed of any slippage in meeting the implementation dates.
- ii) The annual Internal Control Periodic Review Schedule should be approved by the President.

12.2 Conflict of Interest (High Risk)**Finding**

The Internal Control Officer is required, on occasions, to support departments when staff are on vacation or on sick leave. This results in conflict of interest in the independence of the Internal Control function. In addition, work performed by the Internal Control Officer as supporting staff is not being independently reviewed.

**Recommendation**

Management should ensure that the Internal Control Officer does not act as a relief staff member for absences in support departments.

PBT FIM 22.19

13. **FINANCE**

13.1 **Revenue Sharing Arrangements**

**Finding**

The basis of revenue sharing between the Group entities is not formally documented. HRIB receives revenue credits from IPB NY for products such as RIMA, Spectrum and Universal Investor.

**Recommendation**

Revenue sharing agreements between HRIB and other Group entities should be formally documented.

**14. INFORMATION TECHNOLOGY****14.1 Access to HRIB Client Database (High Risk)****Finding**

A number of users from the other two IPB offices in the US have access to the Miami client database via the EPIC system without the knowledge or approval of the HRIB Local Security Administrator (LSA). There are currently three LSAs responsible for setting up user access to the EPIC system in their respective region. However, each LSA also has the ability to create new users and provide them with access to the client database of HRIB.

**Recommendation**

The ability of the LSAs in New York and California to give local users access to the HRIB client database should be removed. Users from the other regional offices who have a legitimate requirement to access the HRIB client database should submit a request to the HRIB LSA for their approval and action.

Group IT Security Policy and Standards 11

**14.2 Physical Security at Contingency Site****Finding**

i) The contingency site is not monitored at all times.

ii) The communication room at the contingency site is equipped with a regular key lock instead of a card-key access device, as a result, there is no audit trail for access to this room.

**Recommendation**

Consideration should be given to implementing monitoring facilities at the contingency site and to installing a card key access device to the door to the communication room.

Group IT Security Policy and Standards 6.2,6.7

**14.3 Segregation of Duties re Tel-A-Pay****Finding**

There is a lack of segregation of duties within the IT Support team as they undertake the development, support, and installation of the bill pay system (Tel-A-Pay), as well as the issuance and maintenance of card-keys in addition to providing desktop and server support. Further, the IT Support Team manager has a user profile which allows data entry access in the Tel-A-Pay system.

**Recommendation**

- i) The responsibilities of the IT support team should be organised such that there is a proper level of segregation of duties between the development, installation and card-keys issuance responsibilities and the responsibilities in respect of providing desktop and server support.
- ii) The data entry access profile to the Tel-A-Pay system by the IT Support Team Manager should be deleted.

Group IT FIM 4.3

**14.4 Security of Sensitive Information****Finding**

Sensitive information and documents such as upgrade documents (ID and passwords), the software upgrade disk relating to Telextester Version 6.4 and sensitive IP address information is not being stored in a locked cabinet or drawer after working hours.

**Recommendation**

Sensitive information and media disks should be stored in a locked cabinet or drawer when not in use or after working hours.

Group IT Security Policy and Standards 6.13

**14.5 BIMAS System Access****Finding**

The user access to the BIMAS system for two former bank employees and an employee who has been transferred to another business unit has not been deleted.

**Recommendation**

User access to the BIMAS system should be removed immediately upon an employee leaving the employment of the bank or when the job description of an individual changes such that system access is no longer required.

Group IT Security Policy and Standards 9.2

14.6 Business Continuity Plan and Test Results

**Finding**

- i) The Business Continuity Plan contains out of date information.
- ii) The contingency test results do not have a summary to document whether the objectives of the test had been met.
- iii) The incident report, which recorded tasks that were either failed or where problems were encountered during the test, did not specify the date for resolution and the resolution status.

**Recommendation**

The Business Continuity Plan should be updated. The contingency test results should include a conclusion to indicate that the objectives have been met and where problems were encountered, the expected resolution date and resolution status should be recorded.

Group IT Security Policy and Standards 11



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Occ-Psi-00211658

From: NERISSA P HALL/HBUS/HSBC  
Sent: 4/17/2007 2:41:34 PM  
To: ALAN P WILLIAMSON/HBUS/HSBC@HSBC  
CC:  
Subject: Re: tomorrow's meeting regarding PCS policies/procedures

He keeps harping on what "other divisions" have....I'm just chatting. I've been trying to see Bill but he's tied up.

=====  
Nerissa P. Hall  
Vice President, Senior Manager  
Anti-Money Laundering Compliance  
HSBC Securities (USA) Inc.  
452 Fifth Avenue, NY 10018  
Tel. No. (212) 525-5579  
Fax No. (212) 525-5769  
Email: nerissa.p.hall@us.hsbc.com  
=====

— = Redacted by the Permanent  
Subcommittee on Investigations

Alan P Williamson/HBUS/HSBC  
04/17/2007 03:36 PM

To  
Nerissa P Hall/HBUS/HSBC@HSBC  
CC  
Subject  
Re: tomorrow's meeting regarding PCS policies/procedures

well, that's why we're meeting asap and asking Irene along

From: Nerissa P Hall  
Sent: 04/17/2007 02:53 PM EDT  
To: Alan P Williamson  
Subject: Fw: tomorrow's meeting regarding PCS policies/procedures

I'm having deja vu of [REDACTED] from internal audit. They're probably twins.

=====  
Nerissa P. Hall  
Vice President, Senior Manager  
Anti-Money Laundering Compliance  
HSBC Securities (USA) Inc.  
452 Fifth Avenue, NY 10018  
Tel. No. (212) 525-5579  
Fax No. (212) 525-5769  
Email: nerissa.p.hall@us.hsbc.com  
=====

----- Forwarded by Nerissa P Hall/HBUS/HSBC on 04/17/2007 02:52 PM -----

Robert X Guthmuller/HBUS/HSBC  
04/17/2007 02:37 PM

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Occ-Psi-00211658

To  
Nerissa P Hall/HBUS/HSBC@HSBC  
CC  
Alan P Williamson/HBUS/HSBC@HSBC, Irene M Stern/HBUS/HSBC@HSBC  
Subject  
Re: tomorrow's meeting regarding PCS policies/procedures

thanks for the PCS AML policies and procedures which are certainly more detailed than the HSI p/p I read from the intranet. - Cleared up alot of observations.

However, in reading the material, I still have some observations/questions which may frame tomorrows discussion, such as:

3.2 Requirements of KYC - Next to last paragraph regarding file semi-annual review by the Office of Supervision Jurisdiction and branch reviews (need a little background)

3.4 EDD - Circumstances where EDD is required - SCC, HRC, or engaged in Sensitive Industries and Occupations  
however, section 4.4 High Risk Categories list High Risk Businesses (HRB) - don't they qualify for EDD?

4.4 High Risk Categories states that just because a business is listed as Sensitive... doesn't necessarily mean its high risk (are all businesses designated

...sensitive... receive EDD or just those rising to the level of high risk???)

P/P wording unclear at best.

Use of ICRO optional in completing EDD. why? Are there guidelines when and when not to use ICRO?

EDD Process - The New Account principal MAY ALSO request an EDD Report of Findings. why is it optional? Are there guidelines when and when not to request Report of Findings???)

4.4 High risk Categories - Sensitive Industries and Occupations - "The mere fact that a customer falls within one of the sensitive industries/occupations listed below, or is located in a high-risk jurisdiction, does not in and of itself make a customer high risk. Rather these are additional factors to consider as part of the overall rating of the customer."

If that is so, how do you document the factors and the decision as to whether an account is or is not high risk???) That's why I asked about a score-card that is used by some other divisions.

Do you see my delima? I'm trying to ascertain how PCS determines a high risk account. I read the procedures. First, I think that all SCCs, HRCs, HRBs and

Sensitive... are high risk (4.4). Then, a further review discloses that although all SCCs are high risk, HRBs may not be subject to EDD (3.4); HRCs and Sensitive ... may not be high risk (4.4) but the policy/procedure do not provide for an auditable, structured methodology to determine high risk.

PICs/Bearer Shares - To make optional that bearer shares are high risk does not mirror other banks policies. For at least the last 10 years, all private banks I

know classify ALL bearer share PICs as high risk

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Occ-Psi-00211658

CAMP Market procedures - How many analysts work institutional alerts? Retail alerts?

What kind of activity triggers alerts (Rules, algorithms, scenarios etc )  
???? (Procedures don't state)

What is the decision making process for selecting an alert for review?  
(Procedures don't state)

What percentage of alerts are "worked"? (Procedures don't state goal)

Manual transaction monitoring - Procedures cite the AML LCO or designees. How many people conduct manual monthly reviews?

Scope of review is general. what is the analyst looking for. Shouldn't the procedures give examples of red flags (i.e.) free deliveries

Where do the results of the manual reviews go???? (Procedures don't state)

Revisions of policy - Following up upon your e-mail, when there are changes in AML policy (say in regard to SCCs), do you immediately disseminate the change to RRs,

a/c principals, resident principals? Do they sign certifications that they read them? If not, how does PCS compliance ensure that they read the revision?,  
and as important, understand the change without training???????

THANK YOU

2146

Occ-Psi-00214618

From: ALAN P WILLIAMSON/HBUS/HSBC  
Sent: 6/21/2007 6:17:27 PM  
To: MARLON YOUNG/HBUS/HSBC@HSBC; MANUEL DIAZ/HBUS/HSBC@HSBC  
CC: TERESA GARCIA/HBUS/HSBC@HSBC; SUSAN HOGGARTH/HBUS/HSBC@HSBC  
Subject: Fw: Waiver Request

Marlon, Manuel

fyi

I have forwarded this to Carolyn for her views but have not heard back yet. I am not sure how much more David needs than he already has, but I think the request memo should come from you with our concurrence. Unfortunately I am out next week and Carolyn is out for two weeks but we will do our best.

Let me know what you think.

Alan

----- Forwarded by Alan P williamson/HBUS/HSBC on 06/21/2007 07:12 PM -----

David Ford/PBRs/HSBC  
06/21/2007 12:15 PM

To  
Alan P Williamson/HBUS/HSBC@HSBC  
cc

Subject  
Re: Waiver Request

Alan,

Need GHQ cmp approval as well if dispensation from Group policy. Suprised can open bearer share account for offshore client with no bo declaration in US. Carolyn should be consulted on OCC/FED view of such a structure.

Suggest send detailed memo to Susan Wright, copy me, asking for dispensation. Include why US compliance is supporting dispensation and the risks to the bank. Carolyn's views should be included since PB part of HBUS.

Regards,

David

----- Original Message -----

From: Alan P Williamson  
Sent: 06/21/2007 04:25 PM  
To: David Ford  
Cc: Susan Hoggarth  
Subject: Fw: Waiver Request

David

In Sue's absence I would appreciate your advice. As you can see from the email string below, we have been asked to onboard a pair of Peruvian bearer share companies. However, the controlling family does not want to follow our bearer share policy. The companies and controlling family are well known to the

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Occ-Psi-00214618

business and compliance, which has supported the request.

I have two questions - 1) procedurally am I correct that you would have to approve an exception? and 2) if so would you in this case? If you would like more information to address either question please let me know.

Thanks for your help.

Alan

----- Forwarded by Alan P Williamson/HBUS/HSBC on 06/21/2007 10:20 AM -----

Marlon Young/HBUS/HSBC  
06/21/2007 09:53 AM

To  
Alan P Williamson/HBUS/HSBC@HSBC  
cc  
Manuel Diaz/HBUS/HSBC@HSBC, Susan Hoggarth/HBUS/HSBC@HSBC, Teresa  
Garcia/HBUS/HSBC@HSBC  
Subject  
Re: Fw: Waiver Request

I approve the waiver request.

Marlon

Alan P Williamson/HBUS/HSBC  
06/20/2007 06:49 PM

To  
Manuel Diaz/HBUS/HSBC@HSBC  
cc  
Marlon Young/HBUS/HSBC@HSBC, Teresa Garcia/HBUS/HSBC@HSBC, Susan  
Hoggarth/HBUS/HSBC@HSBC  
Subject  
Re: Fw: Waiver Request

Thanks

Manuel Diaz/HBUS/HSBC  
06/20/2007 06:32 PM

To  
Alan P Williamson/HBUS/HSBC@HSBC  
cc  
Subject  
Re: Fw: Waiver Request

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Occ-Psi-00214618

I FULLY SUPPORT THIS WAIVER

---

Manuel L. Diaz  
President & Managing Director  
HSBC Private Bank International  
1441 Brickell Ave. 17th Floor  
Miami, FL 33131  
(305) 539-4747 Telephone

Alan P williamson/HBUS/HSBC  
06/20/2007 06:28 PM

To  
Manuel Diaz/HBUS/HSBC@HSBC, Marlon Young/HBUS/HSBC@HSBC  
CC  
Teresa Garcia/HBUS/HSBC@HSBC, Susan Hoggarth/HBUS/HSBC@HSBC  
Subject  
Fw: Waiver Request

---

Manuel, Marlon

I have no objection to this request, however I believe the requirement to register bearer shares is a group mandate. I understand the process to be that if you want an exception we will have to go to Geneva. I am willing to pass on the request if that is what you want.

Thanks

Alan

----- Forwarded by Alan P williamson/HBUS/HSBC on 06/20/2007 06:24 PM -----

Teresa Garcia/HBUS/HSBC  
06/20/2007 05:29 PM

To  
Alan P williamson/HBUS/HSBC@HSBC  
CC  
Subject  
Re: Waiver Request

Alan,

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Occ-Psi-00214618

Because they wish to maintain confidentiality, and they have never been asked by our competitors with whom they bank to do this. The [REDACTED] family is the most visible and influential family in [REDACTED]

Teresa

Alan P Williamson/HBUS/HSBC  
06/20/2007 05:21 PM

[REDACTED] - Redacted by the Permanent Subcommittee on Investigations

To  
Teresa Garcia/HBUS/HSBC@HSBC  
CC

Subject  
Re: Waiver Request

Teresa

Why do they not want to register or deposit the shares?

Alan

Teresa Garcia/HBUS/HSBC  
06/20/2007 01:44 PM

To  
Alan P Williamson/HBUS/HSBC@HSBC  
CC

Subject  
Re: Waiver Request

Following are the RM responses:

The name of the accounts are:  
- Urigeler International S.A. - Holding Company  
- Birmingham Merchant S.A. - Holding Company

These two are companies that were established several years ago in Panama, which establishes companies with bearer shares.

Thanks

Teresa Garcia  
Senior Manager Specialized Compliance

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Occ-Psi-00214618

HSBC Private Bank New York  
452 Fifth Ave., T6, NY, NY 10018  
(PH)212-525-6014 (F) 212-525-8255

Alan P Williamson/HBUS/HSBC  
06/20/2007 11:15 AM

To  
Teresa Garcia/HBUS/HSBC@HSBC  
CC  
  
Subject  
Re: Waiver Request

Teresa

Thanks for the info. What are the bs companies and why are they bs?

Alan

From: Teresa Garcia  
Sent: 06/20/2007 09:58 AM EDT  
To: Alan P Williamson  
Subject: Fw: Waiver Request

Alan,

I would like to discuss with you. The RM is anxious for an answer since he is traveling to meet the client next week.

Thanks.

Teresa Garcia  
Senior Manager Specialized Compliance  
HSBC Private Bank New York  
452 Fifth Ave., T6, NY, NY 10018  
(PH)212-525-6014 (F) 212-525-8255

----- Forwarded by Teresa Garcia/HBUS/HSBC on 06/20/2007 09:57 AM -----

Teresa Garcia/HBUS/HSBC  
06/14/2007 03:14 PM

To  
Susan Hoggarth/HBUS/HSBC  
CC  
  
Subject  
Waiver Request

Sue,

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Occ-Psi-00214806

From: ALAN P WILLIAMSON/HBUS/HSBC  
Sent: 6/25/2007 5:54:34 PM  
To: MARLON YOUNG/HBUS/HSBC@HSBC; JAIME CARVALLO/HBUS/HSBC@HSBC  
CC: TERESA GARCIA/HBUS/HSBC@HSBC; THOMAS FLORY/HBUS/HSBC@HSBC; ANA DA SILVA/HBUS/HSBC@HSBC  
Subject: Re: [REDACTED] Family

Marlon

I apologise but I thought I forwarded you David Ford's response last week - I will again. Basically he wants us to get an exception from group. Since I happen to be with the head of group and I will ask her tom'w.

Alan

From: Marlon Young  
Sent: 06/25/2007 06:33 PM EDT  
To: Jaime Carvallo  
Cc: Teresa Garcia; Thomas Flory; Ana Da Silva; Alan P Williamson  
Subject: Re: [REDACTED] Family

I have discussed w Terry and Alan Williamson and will give my support to this exception. Sorry, I was in a rush to leave friday, I forgot to send my approval.  
Regards,  
Marlon

From: Jaime Carvallo  
Sent: 06/25/2007 01:48 PM EDT  
To: Marlon Young  
Cc: Teresa Garcia; Thomas Flory; Ana Da Silva  
Subject: [REDACTED] Family

Marlon,

Teresa Garcia must have given you heads up on the [REDACTED] family and the issue regarding their holding companies having bearer shares and the fact that they will not sign the BOL.

I will see one of the family members tomorrow morning and this still seems to have no resolution. This is too important a family in Peru for us not to want to do business with, and one that has taken a lot of my time and effort to convince to start a relationship with us. Joao Luiz has met members of the family as well. I would appreciate your involvement at this point, as this has become extremely sensitive.

Thank you and regards,

Jaime

[REDACTED] - Redacted by the Permanent Subcommittee on Investigations

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Occ-Psi-00214891  
From: ALAN P WILLIAMSON/HBUS/HSBC  
Sent: 6/26/2007 5:48:45 PM  
To: MARLON YOUNG/HBUS/HSBC@HSBC  
Subject: Re: ██████████ Family

Doing what I can

From: Marlon Young  
Sent: 06/26/2007 06:44 PM EDT  
To: Alan P williamson  
Subject: Re: ██████████ Family

Thanks for your support.  
Marlon

From: Alan P williamson  
Sent: 06/26/2007 06:40 PM EDT  
To: Manuel Diaz; Marlon Young  
Cc: Jaime Carvallo; Susan Hoggarth; Teresa Garcia  
Subject: Re: ██████████ Family

Marlon, Manuel

I don't disagree. If I think an exception does not pose undue risk to the Bank I will do what I can to help get it, but unless and until we can get the rules changed this seems to be what we have to do.

Alan

---

From: Manuel Diaz  
Sent: 06/26/2007 06:17 PM EDT  
To: Marlon Young  
Cc: Alan P williamson; Jaime Carvallo; Susan Hoggarth; Teresa Garcia  
Subject: Re: ██████████ Family

I FEEL THE SAME WAY.....THIS IS AN EXCELLENT FAMILY !!!!

---

Manuel L. Diaz  
President & Managing Director  
HSBC Private Bank International  
1441 Brickell Ave. 17th Floor  
Miami, FL 33131  
(305) 539-4747 Telephone

██████████ = Redacted by the Permanent  
Subcommittee on Investigations

Marlon Young/HBUS/HSBC  
06/26/2007 06:09 PM

To  
Alan P williamson/HBUS/HSBC@HSBC, Jaime Carvallo/HBUS/HSBC@HSBC, Manuel  
Diaz/HBUS/HSBC@HSBC, Teresa Garcia/HBUS/HSBC@HSBC, Susan Hoggarth/HBUS/HSBC@HSBC  
cc

Subject  
Re: ██████████ Family

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Occ-Psi-00214891

Alan,  
This is an important relationship for IPB and a family that has a clean record. It would be ashame if we are not able to obtain an exception.  
Regards,  
Marlon

From: Alan P Williamson  
Sent: 06/26/2007 05:24 PM EDT  
To: Jaime Carvallo; Marlon Young; Manuel Diaz; Teresa Garcia; Susan Hoggarth  
Subject: Re: ██████████ Family

Marlon, Manuel, Jaime

I spoke to Susan Wright, Group Head of AML. She is reluctant to grant the exception but will consider it.

Jaime

Could I ask you to prepare a summary of the proposed relationship again, including details of the family and their businesses. Please specifically address whether there are any undisclosed ownership interests or political connections with these accounts. Circulate it to this group for review.

I know you already did something of this - no reason you can't re-use most of it.

Alan

From: Jaime Carvallo  
Sent: 06/26/2007 02:23 PM EDT  
To: Marlon Young  
Cc: Alan P Williamson  
Subject: Re: ██████████ Family

██████████ = Redacted by the Permanent  
Subcommittee on Investigations

Marlon,

I forgot to mention again that this family's liquid net worth is estimated in excess of ██████████ and total net worth in the ██████████ \$ area.

I hope this can be done.

Thank you again for your help.

Waem regards

Jaime

From: Marlon Young  
Sent: 06/25/2007 06:33 PM EDT  
To: Jaime Carvallo  
Cc: Teresa Garcia; Thomas Flory; Ana Da Silva; Alan P Williamson  
Subject: Re: ██████████ Family

I have discussed w Terry and Alan Williamson and will give my support to this  
Page 2

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Occ-Psi-00214891

exception. Sorry, I was in a rush to leave friday, I forgot to send my approval.  
Regards,  
Marlon

From: Jaime Carvallo  
Sent: 06/25/2007 01:48 PM EDT  
To: Marlon Young  
Cc: Teresa Garcia; Thomas Flory; Ana Da Silva  
Subject: ██████████ Family

Marlon,

Teresa Garcia must have given you heads up on the ██████████ family and the issue regarding their holding companies having bearer shares and the fact that they will not sign the BOL.

I will see one of the family members tomorrow morning and this still seems to have no resolution. This is too important a family in Peru for us not to want to do business with, and one that has taken a lot of my time and effort to convince to start a relationship with us. Joao Luiz has met members of the family as well. I would appreciate your involvement at this point, as this has become extremely sensitive.

Thank you and regards,

Jaime

-----  
██████████ Redacted by the Permanent  
Subcommittee on Investigations

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Occ-Psi-00217148

From: ALI S KAZMY/HBUS/HSBC  
Sent: 8/6/2007 7:47:58 AM  
To: ALAN P WILLIAMSON/HBUS/HSBC@HSBC  
CC: ANNE LIDDY/HBUS/HSBC  
Subject: Re: Fw: On Boarding Bearer Share Corporation Policy Guidance

Alan,

Many thanks for your feedback. The minor edits within the documents are accepted. As regards the major concerns noted below, please note that:

We may have to do a retro review, however, over a period of reasonable time (one to two years possibly). A firm time frame has not been decided, as such, the Policy Guidance does not provide for an implementation date. Going forward it will apply on all Bearer Share Corp. customers. As soon as this draft is agreed to by all parties, we will issue it with immediate effect and advise with the Ops. Circular the retro review time frame. I agree with your point regarding exception. No matter how much we try not to deviate from the policy, we cannot still control all situations. Accordingly, I am adding a line at the end of the Policy Guidance stating the following:

Exceptions to this Policy must be sought from the AML Director or designee in writing giving full details of the matter warranting such exception. The written approval must be maintained in customer file and reported to Oversight & Control Group upon receipt.

At this stage, I would also like to confirm our discussion of last week, where you agreed that PB Miami should not be treated any separately. That being the case, we will have to ascertain as to how we will arrange practical implementation of this guidance on them with about 600 high-risk Bearer Share Corp. accounts.

Regards,

From: Alan P Williamson on 05 Aug 2007 11:46

To: Ali S Kazmy/HBUS/HSBC@HSBC

Subject: Re: Fw: On Boarding Bearer Share Corporation Policy Guidance

[attachment "On Boarding Bearer Share Corporation Policy Guidance (comments).doc" deleted by Ali S Kazmy/HBUS/HSBC]

Ali

I made some fairly minor comments, mostly to emphasise the unique nature of Bearer share companies. My major concerns are:

I think the policy should state that it is prospective from the date of issuance; otherwise we may have to do a retrospective looking for bearer share corps. This may be a good idea but we should avoid locking ourselves in.

There has to be an exception process. We know from experience that there is always a special case somewhere. That should take care of the few instances in markets where this may come up.

I apologise for my lateness and lack of prior attention to this, but can you confirm that Nerissa, Teresa, Clara, and Martin have reviewed? what is the next step?

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Occ-Psi-00217148

Thanks as always for your patience.

Alan

Ali S Kazmy/HBUS/HSBC  
08/03/2007 01:01 PM

To  
Alan P williamson/HBUS/HSBC@HSBC  
CC  
Subject  
Fw: On Boarding Bearer Share Corporation Policy Guidance

Per our discussion of Monday the 30th of July, this is to request your feedback on the aforementioned document.

Thanks & regards,

----- Forwarded by Ali S Kazmy/HBUS/HSBC on 08/03/2007 01:00

PM  
Ali S Kazmy on 25 Jul 2007 17:23

Note  
-----  
25 Jul 2007 17:23

From: Ali S Kazmy Tel: 212-525-5560  
Title: Vice President Location: 5TH-21  
workGroup: COMP/ANTI-MONEY LAUNDERING Mail Size: 36166

To: Alan P williamson/HBUS/HSBC@HSBC  
Alan T Ketley/HBUS/HSBC@HSBC  
Alexine Von Keszycski/HBUS/HSBC@HSBC  
Anne Liddy/HBUS/HSBC  
Bernie Mackara/HBUS/HSBC@HSBC  
Clara Hurtado/HBUS/HSBC@HSBC  
Daniel Jack/HBUS/HSBC@HSBC  
Deborah R Price/HBUS/HSBC@HSBC  
Denis E O'Brien/HBUS/HSBC@HSBC  
George Tsugranes/HBUS/HSBC@HSBC  
Judy P Stoldt/HBUS/HSBC@HSBC  
Kathleen L Gladkowski/HBUS/HSBC@HSBC  
Mary A Caskin/HBUS/HSBC@HSBC  
Nerissa P Hall/HBUS/HSBC@HSBC  
Richard Salvatore/HBUS/HSBC@HSBC  
Robert Abreu/HBUS/HSBC@HSBC  
Salvatore Iocolano/HBUS/HSBC@HSBC  
Steven J Rockefeller/HBUS/HSBC@HSBC  
Susan Hoggarth/HBUS/HSBC@HSBC  
Teresa Garcia/HBUS/HSBC@HSBC

Subject: On Boarding Bearer Share Corporation Policy Guidance

Thanks to all the participants of today's meeting. I believe we are getting close to finalizing the guidance. In this regards, please provide your final  
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occ-Psi-00217148  
comments/feedback/suggestion/question in writing to me by Tuesday the 31st of July.

For ease of reference, the draft guidance is attached.

[attachment "On Boarding Bearer Share Corporation Policy Guidance.doc.zip" deleted by Alan P Williamson/HBUS/HSBC]

The minor changes discussed today will be incorporated after receipt of all comments on Tuesday.

Regards,

2158

Occ-Psi-00217163

From: ALI S KAZMY/HBUS/HSBC  
Sent: 8/6/2007 10:00:01 AM  
To: ALAN P WILLIAMSON/HBUS/HSBC@HSBC  
CC:  
Subject: Fw: miami bearer share procedures

Here is one of the emails I received from Clara regarding this matter. The second one follows.

----- Forwarded by Ali S Kazmy/HBUS/HSBC on 08/06/2007 10:57 AM -----  
From: Clara Hurtado on 30 Jul 2007 09:04

To: Ali S Kazmy/HBUS/HSBC@HSBC  
Subject: miami bearer share procedures

As promised, our procedures which were approved for use by the business last year by the AML Director. At this point, if you wish to change things, you need to reach out to the business first. The person you should speak to is Jeff Clous, our COO, at 305-539-4810 as he is the one who had all conversations with Terry/Sue/regulators on this. Thanks.

---

Clara M. Hurtado  
Director of Anti-Money Laundering Compliance  
HSBC Private Bank - Miami  
Ph: 305 539 4998 Fax: 305 539 4850  
----- Forwarded by Clara Hurtado/HBUS/HSBC on 07/30/2007 09:03 AM -----  
abcd

Procedure

Section: Customer Service Risk:  
Procedure Name: Bearer Share Accounts Procedure Number: 3.053

The use of a Bearer Share Company to hold assets represents a high money laundering risk as the method of transfer of these assets merely involves the physical passage of share certificates. Ownership passes with possession of the certificates. A Bearer Share Company may therefore be used to conceal the true beneficial ownership of assets.

If ownership of the Company is held in Bearer Share form, the Bank should determine:  
that Bearer Shares are permitted by the jurisdiction where the company is incorporated,  
whether the jurisdiction requires custody of the Bearer Shares or not. (For example, Cayman Islands allows Bearer Shares but they must be held by an authorized custodian.)

In order to address the risks associated with an account for a Bearer Share Company one of the following procedures should be followed:

Clients who open or have an account which involves a company which issues Bearer Shares must provide a beneficial ownership certificate identifying all beneficial owners of the account (see also requirements for personal investment companies in Section 12 of the MLPP).  
A new beneficial ownership certificate must be obtained by the private bank if

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Occ-Psi-00217163

there is a change of ownership of the company, change in signatory authority or significant change in account activity; In addition, the BOL form for Bearer Share companies with a risk assessment of High Risk or SCC must be updated every three years.

and if required by the jurisdiction where the company is incorporated, the Bearer Shares should be held in safe custody/safe keeping with another member of the HSBC Group or with a third party Financial Institution acceptable to the HSBC Group. In all cases, arrangements must be made to ensure that the shares are not released from custody or transferred without the knowledge of the relevant private bank where the account/relationship is maintained. On release or transfer of the shares, the relevant private bank must obtain further confirmation of the 'new' ownership and undertake the appropriate controls set forth in the MLPP. A copy of the custody agreement must be held on file with the bank.

Accounts must not be established or maintained if the customer is unwilling to provide an appropriately completed certificate of beneficial ownership or lodge the shares in safe custody/safe keeping.

Compliance will review activity of Bearer Share accounts that meet "High Risk" Assessment criteria on a quarterly basis.

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Occ-Psi-00217164

From: ALI S KAZMY/HBUS/HSBC  
Sent: 8/6/2007 10:00:52 AM  
To: ALAN P WILLIAMSON/HBUS/HSBC@HSBC  
CC:  
Subject: Fw: Bearer share meeting

The second email.

----- Forwarded by Ali S Kazmy/HBUS/HSBC on 08/06/2007 10:59 AM -----  
From: Clara Hurtado on 29 Jul 2007 13:24

To: Ali S Kazmy/HBUS/HSBC@HSBC  
Subject: Fw: Bearer share meeting

A few more comments. Tomorrow I will also send you the Miami procedures which were approved by Terry Pesce and Susan Hoggarth, where it was approved Miami would not custodize the shares. We are in compliance with the MLPPs.

- I do not agree with having the AML Director not CEO approve all bearer share accounts. The CEO should be able to delegate to the Group Heads who are all SVPs.

- We have added bearer share criteria into our high risk database. We will not be lowering the monitoring thresholds on over 600 bearer share accounts.

- We have a Beneficial Ownership Letter in use approved by Corporate Compliance. We cannot go back and re-paper.

Thanks.

---

Clara M. Hurtado  
Director of Anti-Money Laundering Compliance  
HSBC Private Bank - Miami  
Ph: 305 539 4998 Fax: 305 539 4850  
----- Forwarded by Clara Hurtado/HBUS/HSBC on 07/29/2007 01:21 PM -----

Clara Hurtado/HBUS/HSBC  
07/25/2007 08:20 AM

To  
"Ali Kazmy" <ali.s.kazmy@us.hsbc.com>  
cc  
"Martin Holy" <martin.holy@us.hsbc.com>  
Subject  
Bearer share meeting

Ali  
I'll be out today unexpectedly but wanted to send you my comments on this matter. Could you please forward to Martin Holy the meeting invitation so he can attend in my place please thanks

We have about 2000 PICs and I believe 600 or so to be bearer share accounts. We could not possibly categorize them all as high risk. What we've done in Miami is entered the bearer share classification into our high risk database as  
Page 1

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OCC-Psi-00217164

an indicator and if they ALSO have high activity they will be categorized as high risk then, requiring EDD. We feel this is a good way to capture truly high risk bearer share accounts  
Miami also agreed with Terry and Susan H to not custodize bearer share certificates as there was no way to custodize in Miami and remotely was too difficult. Instead we get a Beneficial Ownership Letter upon opening, upon any change in signatory, and it is updated every three years. Custodizing was discussed at length and was not feasible for Miami. You can talk to Sue more about that if you like.  
Thanks

---

Page 2

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Occ-Psi-00217241

From: DANIEL JACK/HBUS/HSBC  
Sent: 8/7/2007 10:37:50 AM  
To: ALAN P WILLIAMSON/HBUS/HSBC@HSBC  
CC: ALAN T KETLEY/HBUS/HSBC@HSBC; ROBERT ABREU/HBUS/HSBC@HSBC  
Subject: AML Enforcement Actions vs AmEx (Banknotes & Metals)

Alan,

We do not deal with these specific AmEx entities and locations noted by FinCEN & FRB for AML/BSA violations:

American Express Bank International (AEBI) of Miami, Florida  
American Express Travel Related Services Company, Inc. located in Salt Lake City, Utah

However, HBUS Banknotes currently deals with the following 5 AmEx clients & locations:

And HBUS Metals deals with the following AmEx clients/locations:

I believe the RM Team Leader in CIB is Peter Nealon. Robert may have contacted him already.

As you know, I monitor customer activity closely for both businesses on a monthly basis.

Please let me know if you have any questions or need more info.

Thanks and regards,

=====  
Daniel Jack, VP - AML Compliance  
Global Banknotes & Metals  
Telephone: 212-525-8686  
=====

Alan P Williamson/HBUS/HSBC  
08/07/2007 07:23 AM

To  
Alan T Ketley/HBUS/HSBC@HSBC, Anthony Vassiliou/HBUS/HSBC@HSBC, Christopher Carreno/HBUS/HSBC@HSBC, Clara Hurtado/HBUS/HSBC@HSBC, Daniel Jack/HBUS/HSBC@HSBC, Denis E O'Brien/HBUS/HSBC@HSBC, George Tsugranes/HBUS/HSBC@HSBC, Gina Drexler/HBUS/HSBC@HSBC, Jonathan Dean/HBUS/HSBC@HSBC, Jonathan P Morice/HBUS/HSBC@HSBC, Judy P Stoldt/HBUS/HSBC@HSBC, Loretta Fields-Powell/HBUS/HSBC@HSBC, Lorna Kirwan-Bennett/HBUS/HSBC@HSBC, Margie Lopez/HBUS/HSBC@HSBC, Maria Teresa Carneiro/HBUS/HSBC@HSBC, Mark A Kaczynski/HBUS/HSBC@HSBC, Martin Holy/HBUS/HSBC@HSBC, Nerissa P Hall/HBUS/HSBC@HSBC, Robert Abreu/HBUS/HSBC@HSBC, Steven J Rockefeller/HBUS/HSBC@HSBC, Tabitha Patchell/HBUS/HSBC@HSBC, Teresa Garcia/HBUS/HSBC@HSBC, Todd Maddison/HBUS/HSBC@HSBC, Vanessa Bryant/HBUS/HSBC@HSBC, Willa McMorris/HBUS/HSBC@HSBC, William Wehmeyer/HBUS/HSBC@HSBC  
cc

Page 1

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Occ-Psi-00217241  
Carolyn M Wind/HBUS/HSBC@HSBC, Irene M Stern/HBUS/HSBC@HSBC, Denise A  
Reilly/HBUS/HSBC@HSBC, Anne Liddy/HBUS/HSBC@HSBC  
Subject  
enforcement actions against Amex businesses

[attachment "aebi\_joint\_release.pdf" deleted by Daniel Jack/HBUS/HSBC]

Please take a look. If you have either of these specific entities as customers  
please let me know, but even if not it is instructive.

Alan

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Occ-Psi-00218380

From: ALAN P WILLIAMSON/HBUS/HSBC  
Sent: 8/20/2007 3:49:26 PM  
To: CAMILLUS P HUGHES/HBUS/HSBC@HSBC  
CC:  
Subject: Fw: AEBI Deferred Prosecution Agreement

----- Forwarded by Alan P williamson/HBUS/HSBC on 08/16/2007 05:15 PM -----

Jeff Clous/HBUS/HSBC  
08/16/2007 09:57 AM

To  
Alan P williamson/HBUS/HSBC@HSBC  
CC  
Subject  
Fw: AEBI Deferred Prosecution Agreement

FYI Amex has 12 full time compliance staff. As I mentioned in our quarterly meeting - I believe we have resource constraints that impact our AML program that need to be addressed.

Regards,  
Jeff Clous, SVP  
IPB Operations  
1441 Brickell Avenue, 16th floor, Miami, Florida 33131  
(305) 539-4810 (Phone) (305) 374 6466 (Fax)  
----- Forwarded by Jeff Clous/HBUS/HSBC on 08/16/2007 09:52 AM -----

Jeff Clous/HBUS/HSBC  
08/16/2007 09:37 AM

To  
Manuel Diaz/HBUS/HSBC, Jose Ortega/HBUS/HSBC, Antonio  
Suarez-Obregon/HBUS/HSBC  
CC  
Clara Hurtado/HBUS/HSBC@HSBC, Martin Holy/HBUS/HSBC@HSBC  
Subject  
AEBI Deferred Prosecution Agreement

Please read and we should discuss these findings compared to our BSA/AML program.

AEBI failed to exercise sufficient control over accounts held in the names of offshore bearer share corporations, and until 2004 had no policy or procedure requiring beneficial owners of such accounts to certify in writing their continued ownership of the bearer shares.

we require every 3 years. This is maintained by exception list. Bearer share accts known.

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Occ-Psi-00218380

AEBI failed to conduct a risk assessment of its operations until 2002, and consequently was unable to and did not identify and monitor its highest-risk banking products and transactions.

CRMS, dept heads have to identify key responsibilities and controls

AEBI failed to develop and maintain an account monitoring program that was adequately designed to identify, detect, report and prevent suspicious activities.

Front office staff trained and sensitized, visitations, recorded. Daily operations "significant activity report". Bankers required to review daily. Norkom.

AEBI failed to monitor adequately the source of funds sent to customer accounts to identify suspicious activities.

Source of incoming funds known. See above.

AEBI failed to independently verify information on clients provided by private bank relationship managers.

Accts initially opened CIF verifies - eg worldcheck.

AEBI failed to provide compliance personnel with authority to identify and prevent suspicious and high-risk banking activities.

Not applicable. Management supportive. KYC Committee.

AEBI failed to maintain an audit program reasonably designed to ensure the bank's compliance with BSA / AML laws and regulations.

Several audit functions, ORU, CRU

Offshore Shell Corporations:

The Bank had numerous other accounts held in the names of offshore shell corporations, many controlled through bearer shares. Many of these accounts were beneficially owned and controlled by supposedly legitimate corporations in South America. There are few, if any, legitimate reasons why an established business concern would need or want to conduct financial transactions through secret accounts held in the names of offshore shell corporations. Yet, law enforcement has found that the presence of such accounts is endemic to international private banking in the United States, including at AEBI.

Daily Activity Report:

The bank's written KYC policies and procedures set out a clear expectation that bank employees assess their client's transactions and ensure that those transactions remain consistent with the client's usual business and activities and make economic sense based on their knowledge of the client's source of wealth and use of funds. To that end, AEBI Relationship Managers (RM's) were tasked with conducting a monthly review of the activity occurring in all transaction accounts under their management using Activity Analysis Reports and Activity Detail Reports distributed by Compliance with the goal of identifying any activity which appeared to be out of pattern for the client or which required additional investigation. However, law enforcement identified a number of examples of red flag activity or suspicious activity that was unmonitored and unquestioned by AEBI, particularly with respect to the questionable source of funds from South American parallel currency exchange market activity. The primary cause of this failure is that AEBI's account monitoring system and the detail reports provided to the RM did not identify

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the country of origin or the source of incoming funds. This failure contributed significantly to the RM's failure to identify the massive amounts of parallel market transactions occurring in AEBI accounts.

Even in situations where accounts breached parameters and CAMS flagged the account for review by the RM, the bank failed to effectively investigate the account activity. In general, the RM's were not given reports with sufficient transaction information to allow them to effectively review the activity in the account. On a number of occasions, instead of doing further investigation, RM's simply informed Compliance that the activity in the account was consistent with the RM's knowledge of the client's business. No real review was conducted by the RM, and Compliance did not independently look at the account activity to corroborate what the RM was reporting.

#### Compliance Reviews:

The "Rules Based" as opposed to a "Risk Based" approach of monitoring activity, coupled with reliance on the RM to provide the assessment of the quality of account flows, without independent review and corroboration, was ineffective and caused AEBI to fail to identify, prevent, and report suspicious activity. Given that the account monitoring at AEBI was not a risk-based program, it was even more critical for AEBI's compliance personnel to independently review the account activity. Yet, the limited "independent reviews" conducted by Compliance were confined to those accounts that had exceeded external debit parameters; to the extent no exceptions were noted all activity was deemed to be appropriate.

It is apparent that AEBI failed to adequately review accounts during these reviews. One of the Targeted Accounts, for example, was reviewed through this process in July 2003. The compliance officer conducting the review explained that the parameter breach occurred because the customer had received payments from corporate sales. Yet the reviewer failed to note that during that month there were several unexplained incoming wire transfers, one of which, unbeknownst to the reviewer, came from a DEA undercover account and was drug money.

Some of the accounts being reviewed by Compliance were being used to conduct heavy commercial activity as well as high-risk foreign exchange transactions. A sample of accounts reviewed for parameter breaches showed a significant number of accounts with commercial activity. Also, the comments provided illustrated that independent reviews were not actually being conducted by Compliance, but rather were based on the uncorroborated information provided by the RM.

#### Monitoring:

the CAMS system did not consider or monitor source of wealth. Further, CAMS only monitored for breaches in preset parameters: it did not identify or monitor the country of origin or destination of funds flowing in and out of the accounts. Even the Activity Detail Reports produced by CAMS offered little in the way of detail. The information CAMS provided on incoming wires did not include originator information, so the bank was unable to monitor or review the source of funds sent into an account. Similarly, the information provided for check deposits, even pouch deposits containing dozens of third-party checks, included only the total deposit amount, and the date and type of deposit.

#### SAR Filing:

Given the nature of the high risks associated with Private Banking and specifically with the majority of the client base in countries presenting a high-risk of money-laundering, the nominal amount of filings that resulted from activity monitoring are very small and represent an ineffective account monitoring program.

#### Parallel Currency Exchange Market:

AEBI personnel were well aware of the BMPE and the prevalent use of the BMPE by



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Occ-Psi-00218380

Colombian businessmen and the nature of transactions which may be associated with the BMPE. Bank personnel also demonstrated sophisticated knowledge and understanding of parallel currency exchange markets. They also were aware that it was common knowledge in South America, particularly Colombia, that the parallel exchange markets were funded at least in part with drug money and that there were two main reasons to use the parallel markets: 1) tax avoidance; and 2) a better exchange rate. At the same time, these AEBI personnel considered the parallel exchange market a "fact of life" in South America - not something to be prevented or reported - but something that any financial institution providing banking services to wealthy South Americans would have to accommodate in the ordinary course of business.

**BMPE:**

Generally, these BMPE dollar payments are: (1) made in the United States or foreign country with bulk cash (often delivered by local "couriers"); (2) involve the delivery of structured money orders, traveler's checks, cashier's checks, or bank checks (each usually under \$10,000 in value), (3) involve checks drawn from United States banks in the name of, or negotiated by, some person or company not readily identifiable with the United States exporter's customer; or (4) are in the form of wire transfers from United States bank accounts that are not in the Colombian or other South American customer's name. Third-party wire transfers constitute the most common form of BMPE dollar payments. A common thread in all forms of BMPE payments is that they rarely come directly from the person or company that ultimately receives credit for the payment (i.e., the Colombian importer or customer).

**Actions Taken by AMEI**

- Implemented improved policies related to high-risk accounts.
- Enhanced its Compliance department, staffed by more than 12 full-time employees, who are exclusively engaged in BSA and AML compliance.
- ~~• Significantly enhanced its transaction monitoring process.~~
- Conducted additional training on BMPE and other BSA and AML compliance issues.

Regards,

Jeff Clous, SVP

IPB Operations

1441 Brickell Avenue, 16th floor, Miami, Florida 33131  
(305) 539-4810 (Phone) (305) 374 6466 (Fax)

Attachment: AEBI Deferred Prosecution Agreement.pdf.zip

2168

Occ-Psi-00219656

From: JEFF CLOUS/HBUS/HSBC  
Sent: 9/7/2007 9:11:04 AM  
To: ALAN P WILLIAMSON/HBUS/HSBC@HSBC  
CC: CLARA HURTADO/HBUS/HSBC@HSBC; MANUEL DIAZ/HBUS/HSBC@HSBC; TERRY WESTREN  
Subject: Re: Fw: On Boarding Bearer Share Corporation Policy Guidance

As you requested, IPB Miami maintains accounts for 1,679 Bearer Share Corporations of which 126 are considered High Risk. (See attached report.) These companies hold \$2.6 billion in PUM and generate an estimated revenue of \$26 million per year. I have not estimated the revenue from the related accounts but it would be substantially more.

# Bearer Share	PUM Bearer Share	Est. Margin	Estimated Rev
1679	2,626,134,512	1.00%	26,261,345

There would be a major impact if we enacted the policy of requiring all bearer shares to be held in custody and as I pointed out below the interagency examination manual has clearly stated that periodic re-certification of the beneficial ownership of bearer share accounts is acceptable for well known established customers. (I have included the # years with the bank in the report.)

Regards,  
Jeff Clous, SVP  
IPB Operations  
1441 Brickell Avenue, 16th floor, Miami, Florida 33131  
(305) 539-4810 (Phone) (305) 374 6466 (Fax)

Jeff Clous/HBUS/HSBC  
09/06/2007 06:43 PM

To  
Alan P Williamson/HBUS/HSBC  
CC  
Terry Westren, Manuel Diaz/HBUS/HSBC@HSBC, Clara Hurtado/HBUS/HSBC@HSBC  
Subject  
Re: Fw: On Boarding Bearer Share Corporation Policy Guidance

Alan with respect to existing bearer share accounts the BSA/AML EXAMINATION MANUAL has changed their comment on the mitigation of risk of bearer share accounts. In 2005 - custody was the only option. This changed in 2006/7 and re-certification is acceptable.

EXAMINERS MANUAL 2005 - BEARER SHARE  
If ownership is held in bearer share form, the bank should maintain the physical control of the bearer shares either inhouse or with a trusted third party to ensure that the ownership of the corporate entity does not change without the bank's knowledge.

EXAMINERS MANUAL 2006/7 - BEARER SHARE

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Occ-Psi-00219656

If ownership is held in bearer share form, banks should assess the risks these relationships pose and determine the appropriate controls. For example, banks may choose to maintain (or have an independent third party maintain) bearer shares for new clients, or those without well established relationships with the institution.

For well-known, established customers, banks may find that periodically recertifying beneficial ownership is effective.

Regards,  
Jeff Clous, SVP  
IPB Operations  
1441 Brickell Avenue, 16th floor, Miami, Florida 33131  
(305) 539-4810 (Phone) (305) 374 6466 (Fax)

Alan P Williamson/HBUS/HSBC  
08/27/2007 07:50 AM

To  
Jeff Clous/HBUS/HSBC@HSBC  
cc  
  
Subject  
Re: Fw: On Boarding Bearer Share Corporation Policy Guidance

Jeff

I think it is, with the exception of the points in red below. Outstanding is the question of what do we do about existing bearer share accounts?

Alan

a) Required Documentation  
The following applies to all customers who wish to open a bearer share corporation account. The requirements noted below must be fulfilled prior to account opening:

- Client must commit to registering the shares or agree to hold bearer shares in custody with HSBC or an approved third party custodian\*, who should be authorized to advise HSBC of any changes in ownership;
- Clients who open or have an account which involves a company which issues bearer shares, must provide a beneficial ownership certificate, which can be in the form of a beneficial ownership letter, a sample of which is attached as Appendix "C". This letter or equivalent letter on client stationary must be provided every three years;
- Account opening request will only be processed after receiving the bearer shares for deposit in custody by HSBC or after receiving confirmation from the third-party custodian of having received the bearer shares for safe-keeping and that their release will be subject to prior notification to HSBC;

\* A list of approved third party custodians will be maintained by each business unit who will provide a copy of such list to the AML Oversight & Control Group  
Page 2

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("OCG"). The business units will also report changes to such list to the OCG immediately upon effective date of the change. OCG's role will be to reconcile names appearing on this list to the names reported on the semi-annual register, which is discussed below in section 6. Third-Party Custodian must be subject to Enhanced Due Diligence ("EDD"), which includes business unit head as well as AML Director (or designee) approval, ongoing maintenance of KYC information, and nature and background information on the custodian. EDD must be reviewed, updated and documented annually and retained in a file maintained by the business unit.

HSBC will require disclosure as to beneficial ownership at the outset of the relationship and when there are changes in ownership structure.

The Know Your Customer ("KYC") and Customer Identification Program ("CIP") requirements, as detailed in the HBUS AML Policy and the specific business unit AML Procedures, must be completed. The 60 day period permitted to obtain KYC not obtained at account opening will not apply to bearer share accounts.

The best way to determine if a company is a bearer share corporation, including an IBC or a PIC, is by reviewing its formation documents. Also simple questions can be asked to ascertain status of the prospective customer. Sample questions include:

- Is the company an offshore company? (IBCs and PICs are predominantly offshore companies.)
- How many beneficial owners does the company have? (Normally, an IBC or a PIC has only one beneficial owner.)
- Country of registration? (It is common for Caribbean countries to allow IBCs and PICs.)
- Are shares of the company registered or not? (This question enables us to ascertain if the company is a bearer share corporation.)

If the prospective customer is unable to provide the required documentation, the account cannot be opened. Simultaneously, if during the account opening process unusual behavior or documentation is noted, the matter must be reported to the AML LCO, who will review the situation and take appropriate action, including escalation to the Investigative Control and Reporting Office ("ICRO") for additional investigation and possible SAR filing. Employees must not disclose to the customer that a SAR is contemplated or filed. In order to assist employees in detecting unusual behavior, a list of Red Flags has been developed. The list is attached as Appendix "A". It is not exhaustive and is meant to complement, not supersede, the red flags included in the respective business unit AML procedures.

All requirements set forth in this document supplement the requirements in specific business unit AML Procedures for High-Risk customers, including the EDD requirements.

#### b) Approvals

Account opening must be approved by the Head of the Business Unit, AML Local Compliance Officer and AML Director or a designee. Each approval must be documented and retained in the customer file. A form has been created for this purpose, which is attached as Appendix "B".

Jeff Clous/HBUS/HSBC  
08/26/2007 10:17 PM

To  
Alan P Williamson/HBUS/HSBC@HSBC  
cc

2171

Occ-Psi-00219656

Subject  
Re: FW: On Boarding Bearer Share Corporation Policy Guidance

Alan,

Effective September 1st, IPB Miami will not open new accounts with bearer shares unless held in custody by a trusted third party. Existing Bearer Share accounts must have BOL letter and it will be updated every 3 years or when changes to the account or signature arrangements are requested.

Is that consistent with the proposed procedures?

Regards,  
Jeff Clous, SVP  
IPB Operations  
1441 Brickell Avenue, 16th floor, Miami, Florida 33131  
(305) 539-4810 (Phone) (305) 374 6466 (Fax)

Alan P williamson/HBUS/HSBC  
08/22/2007 06:58 PM

To  
Jeff Clous/HBUS/HSBC@HSBC  
CC  
Subject  
FW: On Boarding Bearer Share Corporation Policy Guidance

as discussed, thanks

----- Forwarded by Alan P williamson/HBUS/HSBC on 08/22/2007 06:50 PM -----

Ali S Kazmy/HBUS/HSBC  
08/03/2007 01:01 PM

To  
Alan P williamson/HBUS/HSBC@HSBC  
CC  
Subject  
FW: On Boarding Bearer Share Corporation Policy Guidance

Per our discussion of Monday the 30th of July, this is to request your feedback on the aforementioned document.

Page 4

2172

Occ-Psi-00219656

Thanks & regards,

----- Forwarded by Ali S Kazmy/HBUS/HSBC on 08/03/2007 01:00 PM -----

Ali S Kazmy on 25 Jul 2007 17:23

Note  
25 Jul 2007 17:23

From: Ali S Kazmy Tel: 212-525-5560  
Title: Vice President Location: 5TH-21  
WorkGroup: COMP/ANTI-MONEY LAUNDERING Mail Size: 36166

To: Alan P Williamson/HBUS/HSBC@HSBC  
Alan T Ketley/HBUS/HSBC@HSBC  
Alexine von Keszycski/HBUS/HSBC@HSBC  
Anne Liddy/HBUS/HSBC  
Bernie Mackara/HBUS/HSBC@HSBC  
Clara Hurtado/HBUS/HSBC@HSBC  
Daniel Jack/HBUS/HSBC@HSBC  
Deborah R Price/HBUS/HSBC@HSBC  
Denis E O'Brien/HBUS/HSBC@HSBC  
George Tsugranes/HBUS/HSBC@HSBC  
Judy P Stoldt/HBUS/HSBC@HSBC  
Kathleen L Gładkowski/HBUS/HSBC@HSBC  
Mary A Caskin/HBUS/HSBC@HSBC  
Nerissa P Hall/HBUS/HSBC@HSBC  
Richard Salvatore/HBUS/HSBC@HSBC  
Robert Abreu/HBUS/HSBC@HSBC  
Salvatore Iocolano/HBUS/HSBC@HSBC  
Steven J Rockefeller/HBUS/HSBC@HSBC  
Susan Hoggarth/HBUS/HSBC@HSBC  
Teresa Garcia/HBUS/HSBC@HSBC

Subject: On Boarding Bearer Share Corporation Policy Guidance

Thanks to all the participants of today's meeting. I believe we are getting close to finalizing the guidance. In this regards, please provide your final comments/feedback/suggestion/question in writing to me by Tuesday the 31st of July.

For ease of reference, the draft guidance is attached.

[attachment "On Boarding Bearer Share Corporation Policy Guidance.doc.zip" deleted by Jeff Clous/HBUS/HSBC]

The minor changes discussed today will be incorporated after receipt of all comments on Tuesday.

Regards,

Attachment: All Bearer Share Accounts.pdf.zip

Page 5

**High Level Comparison of key Anti-Money Laundering Program deficiencies identified at American Express Bank International ( AEBI) and preventative control processes currently in place at HSBC**

- AEBI failed to exercise sufficient control over accounts held in the names of **offshore bearer share corporations**, and until 2004 had no policy or procedure requiring beneficial owners of such accounts to certify in writing their continued ownership of the bearer shares.

*Bearer share accounts are known and HSBC requires written confirmation every three years. A decision has been taken by the business not to accept new bearer share accounts beginning 9/1/07. Management is considering a program to eliminate all bearer share customers.*

- AEBI failed to conduct a **risk assessment of its operations** until 2002, and consequently was unable to and did not identify and monitor its highest-risk banking products and transactions.

*HSBC conducts an annual formal risk assessment. Department heads have to identify key responsibilities and controls. Internal Control groups have been established within IPB to perform independent risk assessments on an ongoing basis.*

- AEBI failed to develop and maintain an **account monitoring program** that was adequately designed to identify, detect, and report suspicious activities.

*HSBC has an automated account monitoring program that was created and implemented with consultation from global and local compliance. Front office staff are trained in recognising and reporting suspicious activities. Operations produces a daily "Daily Transaction Report" which bankers are required to review daily. Although the Daily Transaction Report generally contains sufficient information for RMs to be aware of possibly suspicious activity, management might consider enhancing some of the information in the report.*

- AEBI failed to monitor adequately the **source of funds sent to customer accounts to identify suspicious activities**.

*HSBC's account monitoring program identifies source of funds as part of its suspicious activity scenarios.*

- AEBI failed to **independently verify information on clients provided by private bank relationship managers**.

*HSBC's account opening process independently verifies information on clients, e.g. by Worldcheck, Google and other sources if deemed appropriate.*

- AEBI failed to provide **compliance personnel with authority to identify and prevent suspicious and high-risk banking activities**.

OCC-PSI-00221959

*HSBC management is supportive of compliance in both centers. Best practices, such as the KYC Committee chaired by Miami Compliance will be exported to New York where a similar committee will be established soon.*

- AEBI failed to maintain an **audit program** reasonably designed to ensure the bank's compliance with BSA / AML laws and regulations.

*HSBC has two Corporate audit functions and an independent Compliance Review Unit who review BSA/AML Compliance. These are in addition to the Quality Assurance testing programs within the AML compliance teams.*

- AEBI did not give **sufficient information to RMs** to conduct a review of their client activity.

*The Daily Activity Report contains sufficient information for RM's to conduct a review of client activity. In addition, when compliance makes inquiries as a result of a monitoring alert sufficient information is shared between the RM and compliance to conduct a meaningful review.*

- AEBI's account monitoring was **not a risk-based program**.

*HSBC's account monitoring program is risk based.*

- AEBI's monitoring system **did not identify or monitor the country of origin or destination of funds** flowing in and out of the accounts.

*HSBC's monitoring system identifies and monitors the country of origin and destination of wire transaction funds flows. It does not identify country with respect to checks, but the pouch oversight process covers checks mailed to and from outside the US.*

- AEBI's information on check deposits, even pouch deposits containing dozens of third-party checks, included **only the total deposit amount**, and the date and type of deposit.

*HSBC's pouch logs record detailed information regarding non-US checks received in the mail. All checks must be detailed on the deposit slip.*

- AEBI's **nominal amount of SAR filings resulting from activity monitoring** were very small and represented an ineffective account monitoring program.

*Year to date NY and Miami have filed more SARs from activity monitoring than AEBI did. However, the number of SAR filings will be a focus of compliance management going forward.*

- AEBI personnel were **well aware of the BMPE** and the prevalent use of the BMPE by Colombian businessmen and the nature of transactions which may be associated with the BMPE. At the same time, these AEBI personnel considered the parallel exchange market a "fact of life" in South America - not something to be prevented or reported - but something that any financial institution providing banking services to wealthy South Americans would have to accommodate in the ordinary course of business.



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OCC-PSI-00221959

*HSBC senior management have warned personnel of the consequences of accepting BMPE as a 'fact of life' through email alerts and on-line training. In person awareness training is being scheduled as appropriate. New York is hosting an AML training session for IPB personnel on BMPE on 16 October 2007 led by two agents from the DEA.*

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OCC-PSI-00223637

**GROUP FINANCIAL SERVICES AND EUROPEAN AUDIT**  
**REPORT ON**  
**HSBC PRIVATE BANK INTERNATIONAL, MIAMI AND HBUS DOMESTIC**  
**PRIVATE BANKING - FLORIDA REGION**  
**OCTOBER 2007**

**AUF GEN 070216**

*This report is intended solely for the information and use of the management, the Audit and Senior Compliance Committees, and others within HSBC Group and is not intended for use by anyone other than these specified parties.*

**HSBC PRIVATE BANK INTERNATIONAL, MIAMI AND HBUS DOMESTIC  
PRIVATE BANKING - FLORIDA REGION**

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**HSBC PRIVATE BANK INTERNATIONAL, MIAMI AND HBUS DOMESTIC  
PRIVATE BANKING - FLORIDA REGION**

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**HSBC PRIVATE BANK INTERNATIONAL, MIAMI AND HBUS DOMESTIC PRIVATE BANKING - FLORIDA REGION**

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**1.      INTRODUCTION****1.1      Background**

This report covers our findings identified during the audit of HSBC Private Bank International, Miami (PBUS) and the Domestic Private Banking (DPB) activities of HSBC Bank USA, N.A. (HBUS) in Florida. The PBUS office is located in Miami and the DPB offices are located in Boca Raton and Miami.

PBUS is a wholly owned subsidiary of HSBC Bank USA, N.A., operating as an Edge Act Corporation incorporated in 1979. PBUS provides a full range of private banking services to high net worth individuals domiciled mainly in Central and South America. PBUS offers traditional banking products such as time deposits, loans, letters of credit, bill payments, cheque facilities; investment products such as fixed income, equities, HSBC Group and sponsored third party funds, structured products and spot and forward foreign exchange; and third party multi-manager products such as SIS/CIS and Universal Investor.

As at 31 August 2007, PBUS employed 176 staff with assets under management of USD 9.4 billion and in excess of 11,000 client accounts. For the 8 months to 31 August 2007 PBUS made a net profit before tax of USD 34.8m (USD 45.4m) made up of revenue of USD 73.8m (USD 98.3m) and expenses of USD 39.0m (USD 52.9m). Comparatives are for the 12 months to 31 December 2006.

DPB markets and supports a variety of retail banking products and services to their customers, including deposit accounts and funds transfer services. A number of relationships were transferred to DPB in Florida from the North East Region during 2007. The two offices rely on DPB New York for all operational and control aspects of the business such as transaction approvals, account opening approvals, compliance review, as well as processing of third party payments and other client instructions. As at 31 August 2007 DPB Florida had 124 client relationships, total deposits were USD 28.8m and investments were USD 468.5m. Credit commitments and outstandings were USD 425m and USD 342m respectively. Net revenues and contribution were approximately USD 4.4m (USD 4.4m) and USD 3.4m (USD 2.4m) respectively for the eight months ended 31 August 2007. Figures in brackets are comparatives for the year ended 31 December 2006. DPB Florida had 11 staff as at 31 August 2007.

**1.2      Scope and Objectives**

The audit covered all of the activities of PBUS, with the exception of IT, and the activities undertaken by HBUS Treasury in New York in relation to the investment portfolio which are subject to a separate audit by Group Financial Services Audit New York. The review of Credit was limited in scope, excluding a review of credit suitability, and focusing on credit administration and monitoring. The audit of DPB Florida was restricted to the relationship management activities since all of the operational and control functions including Compliance, Back Office and Credit are centralised in New York.

Local Compliance requirements have only been considered to the extent they are included within the Compliance Chart for the business. Our work was based on the accounting records as at 31 August 2007. The objectives of the audit were to ensure that the key risks

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arising from the activities of the business are being managed in an appropriate manner and in accordance with Group Standards.

The audit was carried out by Paul Nolan, Mehul Parekh, Gareth Amos, Viral Shah, Kalbir Sahota and Helen Mountain of AUF, Vianney Trajin and Laurent Sonnay of GAJ, Ralph Guillou of GAU, and Barbara Burns, Kim Sokolowski and Robert Guthmuller of the HBUS Compliance Review Unit between 16 September 2007 and 4 October 2007.

We wish to thank the management and staff of the office for their assistance and cooperation during the course of the audit.

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**2.      MANAGEMENT SUMMARY**

Since our previous audit in July 2005 HSBC Private Bank International, Miami (PBUS) has experienced significant growth in assets under management (AUMs), profitability and staff numbers. It is to Management's credit that despite this rapid period of growth the business has not experienced any deterioration in the control environment and the business continues to operate in a satisfactory manner.

Although we did not identify any backlogs in the monitoring performed by the compliance team, it is important to note that the level of Compliance staff has fluctuated during 2007 putting significant strain on the remaining Compliance staff, and Management should ensure that Compliance staffing levels remain at an appropriate level. The Norkom anti-money laundering account monitoring system was implemented by PBUS in February 2007 and due to problems in the installation of the system and data feeds, the full capabilities of the system have not been used by PBUS, which has resulted in certain important parameters not being monitored and some of the thresholds used being excessive. Further, the new client risk rating methodology only considers activity at a client level and does not include a review of activity at an overall relationship level.

Due to the international nature of PBUS' business, relationship managers undertake regular business trips overseas, and for many of the countries visited there are no cross border marketing guidelines and no consultation is made with the Local Compliance Officer (LCO). PBUS has decided to further strengthen its controls over beneficial ownership declarations for personal investment companies incorporated with bearer shares and has embarked on an exercise to obtain those that have not been renewed for over three years. We also noted that there are a large number of smaller accounts where KYC client profiles have not been updated for over three years. We acknowledge that a number of the above concerns were identified by Management who are in the process of addressing these.

We noted control weaknesses in important areas within Operations, such as the lack of segregation over physical access to client debit cards and PINs, and the lack of appropriate controls over third party payments made on the basis of client standing instructions. It is disappointing that these basic control weaknesses were not identified by the Internal Control department of PBUS.

All the key operational controls for the Domestic Private Bank offices in Florida have been migrated to New York during 2007 and we identified one instance where an account was opened for a SCC client without appropriate procedures being followed.

Full details of all issues identified during the review are given from section 6 in the report, whilst a summary of those issues considered to be high risk is given in section 3. A summary of all repeat and carried forward recommendations is also provided in section 4 of the report.

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**3.      SUMMARY OF HIGH RISK ISSUES****3.1      FRONT OFFICE**

- Client profiles are not being updated on a periodic basis for standard risk clients (non high risk and non SCC clients). As at 28 September 2007 there were approximately 3,000 clients for whom the client profile has not been updated for at least three years, including some cases where the client profile has not been updated for over 10 years (See section 6.1).
- For countries outside the Individual Country Guidelines (ICG) issued by GPB, the LCO is not consulted in advance of business trips to meet existing clients and generate new business. We note that country manager approval is obtained for those countries where HSBC has a presence (See Section 6.2).

**3.2      AML COMPLIANCE**

- Significant problems have been encountered with the implementation of the Norkom system. Four of the 20 'detection scenarios' built into the system have not been turned on. As a result, there are no scenarios for monitoring high account turnover, such as regular 'in and out' of funds. ~~We also consider that some of the~~ thresholds within the system have been set at too high a level to identify meaningful alert.

Further, the functionality of the system has not been fully utilised, as high risk and SCC accounts are not being subjected to stricter thresholds than standard risk accounts; non-client initiated transaction types have not been excluded from the monitoring; and non-ATM cash activity is not included in the system monitoring (See Section 9.1).

- Where accounts are identified as high risk, other accounts for the same relationship are not classified as high risk (with the exception of SCCs), and therefore are not subject to enhanced monitoring (See Section 9.2).

**3.3      CUSTOMER SERVICES**

- PBUS has 1,667 company accounts incorporated with bearer shares. Whilst beneficial ownership declarations are held for all cases, PBUS has identified 1,109 accounts where the declaration is more than three years old. It is noted that PBUS has obtained updated declarations for the high risk accounts and is in the process of obtaining the declarations for the remaining accounts (See Section 11.1).
- Physical access to client debit cards and the associated PINs is not segregated. A single employee has access to the cards and the PINs, and is also able to activate the cards (See Section 11.2).



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**3.4      FUNDS TRANSFER**

Standard third party payment controls are not always applied. Where clients wish to set up standing payment instructions, no independent call backs are performed either to verify the initial instruction or for any subsequent payments. Further, where instructions are received from other HSBC sites as Trustee, signature verification is performed by the RM, not Operations, and no call backs are performed (See Section 12.1).

**4.      PREVIOUS RECOMMENDATIONS****4.1      Repeat Recommendations**

At the time of the audit, the following issues raised in the previous internal and external reviews of the business remained outstanding:

**4.1.1      Group Financial Services Audit - July 2005**

\*7.1      Timeliness of Trade Input

**4.1.2      Group Financial Services Audit - July 2005**

\*6.3      Source of Initial Funds

**4.1.3      Group Audit USA - January 2006**

\*13.2      US Patriot Act Certification

\*      *This recommendation was only partially addressed.*

**4.2      Carried Forward Recommendations**

The following recommendations which have been carried forward from internal and external reviews are not scheduled to be implemented until after this audit:

**4.2.1      Local Regulator's Inspection Report - January 2007**

9.6      Offshore Operating Companies

**4.2.2      Group Financial Services Audit - July 2005**

6.5      Control Over Fax Machines

8.2      Loan to Value (LTV)

14.1      Unusual Activity Monitoring

**4.2.3      Group Financial Services Audit - July 2005**

6.6      Performance Monitoring

**4.2.4      Credit Risk Review - July 2007**

8.4      Risk Rating Methodology

8.5      Loss Given Defaults (LGD)

8.6      Macro Level Exception Reporting

5.      SARBANES-OXLEY MATTERS

No issues relevant to Sarbanes-Oxley controls were noted during the audit.

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**6.      FRONT OFFICE****6.1      Client Profiles (High Risk)****Finding**

Client profiles are not being updated on a periodic basis for standard risk clients (non high risk and non SCC clients). As at 28 September 2007 there were approximately 3,000 clients for whom the client profile has not been updated for at least three years, including some cases where the client profile has not been updated for over 10 years.

**Background**

Client visits and contact are made in line with the visitation policy and overdue visits are monitored by Compliance. Management has identified that a large proportion of these clients are SIG accounts, hence the activity level in these accounts is minimal.

**Recommendation**

Management should ensure that client profiles for standard risk clients are updated at least every three years.

MLPP -10

**6.2      Cross Border Marketing (High Risk)****Finding**

For countries outside the Individual Country Guidelines (ICG) issued by GPB, the LCO is not consulted in advance of business trips to meet existing clients and generate new business. We note that country manager approval is obtained for those countries where HSBC has a presence.

**Recommendation**

RMs should consult the LCO before they undertake business trips to meet existing clients and generate new business in countries where the Individual Country Guidelines are not available. In the absence of specific guidelines, the LCO should consult GPB Compliance for guidance.

PBT FIM - 16.4.5; MLPP - 14.1; GSM - 5.9

**6.3      Source of Initial Funds****Finding**

RMs do not document the reason for differences between the actual source of initial funds and the expected source of funds. From a review of 25 new accounts, we noted two cases where the source of initial funds was different from the documented source, and the reasons for the deviation were not documented in either case.

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**Recommendation**

RMs should document the reason for differences between the actual source of initial funds and the expected source of initial funds.

MLPP - 10

**Partial Repeat Recommendation: Group Financial Services Audit - July 2005 - section 5.3**

**6.4      Account Opening****Finding**

From a review of 25 existing relationships we noted one case where the source of wealth was not sufficiently documented and one case where there was no beneficial ownership declaration. The missing beneficial ownership declaration did not appear on the missing documents list.

**Recommendation**

Account opening procedures should be adhered to in all cases. .

MLPP – 10; MLPP - 12

**6.5      Control Over Fax Machines****Finding**

~~There are no controls to ensure that incoming faxes are recorded and appropriately distributed and that outgoing faxes are properly authorised and effectively transmitted. Access to incoming and outgoing faxes is not subject to supervisory oversight.~~

**Background**

PBUS plans to implement an automatic fax workflow system which would route faxes to specific shared mailboxes.

**Recommendation**

Controls should be in place to ensure that incoming faxes are recorded and appropriately distributed and outgoing faxes are properly authorised and effectively transmitted. Access to incoming and outgoing faxes should be subject to supervisory oversight.

PBT FIM - 22.13.4

**Carried Forward Recommendation: Group Financial Services Audit - July 2005 - section 6.5**

6.6      **Performance Monitoring**

**Finding**

There is no measurement or reporting of client account performance.

**Recommendation**

Client performance should be reported internally and used by management as a trigger for reviews to be undertaken where account performance is exceptionally good or poor, in order to detect any inappropriate activity.

**Carried Forward Recommendation: Group Financial Services Audit – July 2005 - section 6.2**

6.7      **Expenditure Pre-Approval**

**Finding**

Expenditure over USD 1,000, other than for marketing, is not pre-approved in writing. We acknowledge that the business trips undertaken by the RMs are pre-approved.

**Background**

A dispensation request for PB Americas has been submitted to introduce a higher pre-approval threshold.

**Recommendation**

Management should ensure all expenditure over USD 1,000 is pre-approved in writing.

PBT FIM - 10.4.2; PBT FIM Appendix - 22

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**7.      INVESTMENT PRODUCT GROUP****7.1      Timeliness of Trade Input****Finding**

From a review of 75 client investment orders, 12 orders were not input into eFOS until over an hour after receipt of the client instruction, of which two cases were not input for over two hours.

**Background**

Internal Control perform an ongoing 100% review of the timeliness of trade entry and execution, and prepare monthly statistics of the timeliness of trade entry. Management has set a target of 90% processing of orders within 30 minutes of the receipt of the client order. We acknowledge that the completion rates have improved significantly during 2007.

**Recommendation**

The input of trade orders should be performed on a timely basis and should be within the target completion rates of 90% within 30 minutes.

PBT FIM - 18.19.1

**Partial Repeat Recommendation: Group Financial Services Audit - July 2005 - section 7.1****7.2      Investment Suitability****Finding**

The half-yearly review of client investment portfolios, used to identify clients holding investments outside their investment profile, is performed at a custody account level rather than at a total AUM level.

Further, there is no deadline to regularise the accounts identified in this review. The rectification of these cases is reviewed at the subsequent half-yearly review.

**Recommendation**

- i) Management should consider changing the half-yearly review of client investment suitability to consider suitability at a total AUM level.
- ii) Where exceptions are identified in the half-yearly review, these should be followed up and regularised on a timely basis.

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**7.3      Non Deposit Investment Products Committee**

**Finding**

The Non Deposit Investment Products Committee (NDIPC) meetings have been conducted on an annual basis, rather than a quarterly basis as designated by the committee terms of reference.

**Recommendation**

The NDIPC meetings should be conducted on a quarterly basis.



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**8.      CREDIT****8.1      Concentration Report****Finding**

Collateral concentrations are not monitored on a daily basis as the EPIC system does not have the functionality to generate exception reports for monitoring concentrations.

Weekly monitoring is performed of single securities exceeding 35% of outstanding loans greater than USD 5 million. Further, monthly monitoring of 25% collateral concentrations for outstanding loans greater than USD 1 million is also performed. These reviews require manual adjustments of other collateral (TDs, ADMs, SIS, etc.) within each portfolio to determine whether concentration exists.

**Recommendation**

The EPIC system should be enhanced to ensure that collateral concentration limits are monitored on a daily basis. The concentration limits should be reviewed in line with the PB credit policy (i.e excluding cash, deposits, bank guarantees & insurance should not be taken into consideration) and also on an overall portfolio basis.

**8.2      Loan to Value (LTV)****Finding**

- i)      The input and amendment of LTV rates on the EPIC system is not subject to dual control. Further, there is no exception report detailing the amendments made to LTV rates. The Credit Administration Manager reviews a LTV report twice a month, however this does not specifically identify deviations from standard rates and is not subject to a complete review.
- ii)     Whilst Credit Administration receives credit ratings for bonds held as collateral from the IPG team, these are not received on a regular basis.

**Recommendation**

- i)      The EPIC system should be enhanced to enforce dual control over LTV rates. Alternatively, an exception report should be developed to identify amendments to LTV rates which should be subject to a regular supervisory review.
- ii)     Credit Administration should obtain credit ratings for bonds held as collateral from the IPG team on a regular basis.

**Carried Forward Recommendation: Group Financial Services Audit - July 2005 - section 8.4**

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**8.3      Collateral Reconciliation****Finding**

We noted two accounts which appear daily on the Credit Risk Reconciliation Report showing large discrepancies between the blocked investment managed securities in the custody (SEI) system and the EPIC system. However, these are not true discrepancies and as a result, a daily manual entry must be performed in EPIC to reconcile the pledged securities.

We note that this is due to EPIC's inability to accept SEI account numbers.

**Recommendation**

Management should investigate whether a system solution is possible to prevent the reporting of erroneous exceptions.

**8.4      Risk Rating Methodology****Finding**

Credit Risk Review (CRR) noted inadequacies in the existing credit risk rating methodology which focuses on collateral quality, rather than the creditworthiness of the borrower. There have been ongoing delays in the development and implementation of a credit risk methodology approved by Credit Risk Management.

**Background**

~~We understand that training has recently been provided to staff and implementation of the new credit risk rating methodology is expected by October 2007.~~

**Recommendation**

Management should develop and implement a new Customer Risk Rating Methodology for PBUS customers in conjunction with CRM, taking account of the creditworthiness of the client as well as collateral considerations.

**Carried Forward Recommendation: Credit Risk Review - July 2007**

**8.5      Loss Given Defaults (LGD)****Finding**

CRR noted that the LGD percentages have not been fully updated in line with the most recent policy agreed with CRM, and are being changed during the annual review of each credit facility. The required changes not yet recorded represent increases from 0% to 2% and 5% to 7%, affecting 9 of the 749 facilities in the portfolio.

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**Recommendation**

Management should continue their efforts to update all the LGD percentages at the earliest available opportunity.

**Carried Forward Recommendation: Credit Risk Review - July 2007**

8.6

**Macro Level Exception Reporting**

**Finding**

CRR noted that the business unit does not conduct macro level reporting and monitoring of collateral or exposure covered at advance rates in excess of policy, collateral concentrations in excess of policy or exposure priced below stated PBUS guidelines.

**Recommendation**

Management should continue its efforts to obtain appropriate macro level reporting of collateral exceptions.

**Carried Forward Recommendation: Credit Risk Review - July 2007**

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9. **AML COMPLIANCE**

9.1 **Norkom System (High Risk)**

**Finding**

Significant problems have been encountered with the implementation of the Norkom system. Four of the 20 'detection scenarios' built into the system have not been turned on. As a result, there are no scenarios for monitoring high account turnover, such as regular 'in and out' of funds. We also consider that some of the thresholds within the system have been set at too high a level to identify meaningful alerts.

Further, the functionality of the system has not been fully utilised, as high risk and SCC accounts are not being subjected to stricter thresholds than standard risk accounts; non-client initiated transaction types have not been excluded from the monitoring; and non-ATM cash activity is not included in the system monitoring.

**Background**

The Norkom system, used for monitoring client account activity, was implemented by PBUS in February 2007. We noted the following:

- i) From a total of 20 'detection scenarios', four scenarios have not been switched on and are therefore not generating any alerts. Two of these scenarios are designed to identify patterns of activity such as high turnover of money coming in and out of an account. There are no further scenarios which would identify such patterns. Further, two of the scenarios which are not in use are designed to identify suspicious activity on SCC and high risk accounts on a daily and weekly basis.
- ii) The thresholds for scenarios five and six have been set too high. Scenario five and six compare expected activity to actual activity for the number of transactions coming in and out and the value of transactions coming in and out. The threshold has been set to create an alert where actual activity is 300% over the expected levels.
- iii) Norkom allows clients to be grouped together and subjected to different thresholds in each of the detection scenarios, however PBUS is not using this functionality. As a result, the standard thresholds are applicable to the entire client base, including SCC and high risk clients.
- iv) The ability within the Norkom system to exclude certain types of transactions from the monitoring (such as account fees or corporate actions), which would not present a money laundering threat, has not been used.
- v) Cash activity, other than ATM activity, is not included in the ongoing monitoring in Norkom. As a result, four of the 20 scenarios are not working effectively. We note that additional procedures have been implemented within Compliance for cash transactions to be monitored on a weekly basis. Further, cheque, money order and traveller's cheque activity is not identified directly in Norkom and Compliance perform additional manual monitoring.

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PBUS management has notified its concerns regarding these issues to senior Compliance management on several occasions. Control of the thresholds used within Norkom rests with senior Compliance management in New York and therefore scenarios and thresholds cannot be changed by PBUS.

**Recommendation**

- i) All detection scenarios should be active unless deemed to be 'not applicable' by Senior Compliance Management and the GMLCO. Appropriate thresholds should be agreed with Senior Compliance Management for the four scenarios which are not turned on and these should be turned on at the earliest opportunity.
- ii) All thresholds should be reviewed and updated, where necessary, to ensure that they are appropriately identifying suspicious activity. In particular, thresholds for scenarios five and six should be reduced to a more reasonable level.
- iii) The 'Group' facility should be used to implement stricter thresholds for SCC and other high risk customers. Consideration should be given to implementing separate Groups for different types of client accounts, such as operating accounts.
- iv) The transaction types included in Norkom for monitoring should be restricted to those transaction types which may be subject to suspicious activity or susceptible to money laundering.
- v) Management should consider the implementation of a system fix to allow the monitoring of cash, cheque, money order and traveller's cheque activity within Norkom. In the absence of a system fix, Compliance should continue the manual monitoring procedures.

MLPP - 18

**9.2 High Risk Clients (High Risk)****Finding**

Where accounts are identified as high risk, other accounts for the same relationship are not classified as high risk (with the exception of SCCs), and therefore are not subject to enhanced monitoring.

**Background**

During 2007 a new client risk rating methodology was introduced taking account of account activity, as well as the country of exposure, occupation/nature of the business and the nature of the client (e.g. offshore operating companies, personal investment companies). This methodology does not link together accounts belonging to the same relationship.

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**Recommendation**

Where accounts are identified as high risk, other accounts for the same relationship should also be subjected to additional monitoring and review. If deemed necessary, these accounts should also be classified as high risk.

MLPP - 18

**9.3      Client Profiles****Finding**

Compliance does not perform a sample review of client profiles, using a risk based approach, to ensure these are up to date and complete.

**Recommendation**

Compliance should perform a sample reviews of client profiles as part of the compliance monitoring programme.

MLPP - 10

**9.4      GMLCO Approval****Finding**

GMLCO approval has not been obtained for the Compliance staff responsible for review and monitoring of Norkom alerts. We note that this was received during the course of the audit.

**Recommendation**

The responsibilities of staff designated to perform the review and analysis of Norkom alerts should be documented and should be approved by the GMLCO.

MLPP - 18

**9.5      Investigative Log****Finding**

The LCO does not maintain a log of potentially suspicious cases which have been escalated to Compliance but which have not been subject to a suspicious activity report (SAR). This would serve to substantiate the reasons for not reporting such cases.

**Recommendation**

The LCO should maintain an investigative log of cases which have been reviewed but have not been subject to a suspicious activity report.

9.6      **Offshore Operating Companies**

**Finding**

Accounts relating to offshore operating companies have not been referred to Senior Compliance management for formal review and approval. PBUS has around 200 offshore operating company accounts, of which around 70 have been classified as high risk.

**Background**

No issues were noted with the level of due diligence held for those operating companies deemed to be high risk.

**Recommendation**

Any accounts relating to offshore operating companies should be referred to Senior Compliance management for annual approval.

**Carried Forward Recommendation: Local Regulator's Inspection Report - January 2007**

**10. GENERAL COMPLIANCE****10.1 Compliance Staffing****Finding**

While the PBUS business has continued to grow significantly the level of Compliance staff has remained constant at around five. We note that for a period during 2007 the staff was reduced to three, putting significant strain on the remaining staff.

We have noted no back logs in the ongoing monitoring and reviews performed by Compliance.

**Recommendation**

Management should ensure that staffing levels in Compliance are appropriate to ensure that the required level of Compliance oversight can be maintained.

**10.2 Gift Register****Finding**

There is no gift register to record gifts given or received by PBUS staff to ensure that they have been reported and appropriate approval has been given. Further, there is no proforma for completion by staff upon giving or receiving a gift.

**Recommendation**

- i) Compliance should maintain a gift register to record all gifts given and received by PBUS staff. ~~Gifts from clients considered to be in excess of USD100 and gifts made by an employee in excess of USD50 should require prior approval of the COO.~~
- ii) A standard form should be introduced for the reporting of gifts given or received by PBUS staff.

PBT FIM - 10.4.14

**10.3 Compliance Risk Rating****Finding**

Compliance Review Unit, in conjunction with Risk Analysis and Development, have identified cases where the compliance risk assessment is considered to be understated. Seven risks were identified which could be changed from 'C' to 'B', and 14 risks which could be changed from 'D' to 'C'.

**Recommendation**

A review of the compliance risk assessment should be performed and risk ratings should be updated where deemed necessary.



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**10.4      Overseas Bank Certifications**

**Finding**

There are no formal procedures to track renewal dates of certifications (as required by the USA PATRIOT Act) provided by the seven foreign bank clients of PBUS. Further, we note that recertifications are not being accurately completed. Certifications were up to date in all cases.

**Recommendation**

Formal procedures should be put in place to track the expiration date of certifications and staff should ensure the proper completion of the recertification.

11. CUSTOMER SERVICES11.1 Beneficial Ownership Declarations (High Risk)**Finding**

PBUS has 1,667 company accounts incorporated with bearer shares. Whilst beneficial ownership declarations are held for all cases, PBUS has identified 1,109 accounts where the declaration is more than three years old. It is noted that PBUS has obtained updated declarations for the high risk accounts and is in the process of obtaining the declarations for the remaining accounts.

**Background**

PBUS is in compliance with all group requirements with regards to beneficial ownership declarations for bearer share accounts.

**Recommendation**

Management should continue with their efforts to obtain the remaining beneficial ownership declarations, for companies incorporated with bearer shares, that have not been updated in the last three years.

11.2 Plastic Cards and PIN Code Storage (High Risk)**Finding**

Physical access to client debit cards and the associated PINs is not segregated. A single employee has access to the cards and the PINs, and is also able to activate the cards.

**Recommendation**

Physical access to plastic cards and PINs should be segregated. Further, the process of activation should be segregated from those with physical access to the cards.

PBT FIM - 22.8

11.3 Account Set Up**Finding**

The new account set up on EPIC and BIMAS is not subject to dual approval within the Customer Services team. As a result, accounts may be opened by DDA Services based on an instruction from a single member of Customer Services without verification that appropriate approvals are in place.

**Recommendation**

Approvals sent to DDA Services to open client accounts should be signed by two members of Customer Services.

11.4      **Review of Hold Mail Accounts**

**Finding**

The independent review of hold mail accounts where mail has not been collected for over 12 months only includes accounts with a balance in excess of USD 250,000 also having a net reduction in value during the period greater than USD 100,000.

**Recommendation**

An independent hold mail review should be performed on accounts where mail has not been collected for 12 months and which have a balance greater than USD 250,000, or there has been a net reduction in the balance of USD 100,000.

PBT FIM - 22.12

11.5      **Pouch Activities**

**Finding**

From a review of the new Incoming Deposit Log (revised on 10 September 2007) for 13 days, we noted three days where country of origin information was missing.

**Recommendation**

The Incoming Deposit Log should be fully completed on a daily basis. This should be subject to daily approval by the Head of Customer Services.

**12.      FUNDS TRANSFER****12.1     Transfer of Client Funds (High Risk)****Finding**

Standard third party payment controls are not always applied. Where clients wish to set up standing payment instructions, no independent call backs are performed either to verify the initial instruction or for any subsequent payments. Further, where instructions are received from other HSBC sites as Trustee, signature verification is performed by the RM, not Operations, and no call backs are performed.

**Background**

From a review of 25 third party payments we noted the following exceptions:

- i)      The setting up of standard payment instructions and subsequent requests on those instructions are not subject to independent callbacks, even when it is a third party payment in excess of USD 250k. We noted two payments for Yen 93m and Yen 84m where no independent callback was performed.
- ii)     Instructions from HSBC Trustee, as accounts holder, are only signature verified by the RM and not Operations. ~~No call backs are performed where there is a third party payment in excess of USD 250k.~~
- iii)    Six cases where one of the officers performing a callback had not signed the form evidencing the call.

**~~Recommendation~~**

- i)      Where payment requests in excess of USD 250k are received, independent callbacks should be performed and evidenced.
- ii)     Standard fund transfer procedures should be applied on all occasions.
- iii)    Officers should evidence that they have performed callbacks.

PBT FIM - 22.5.2

**13.      TRADE SERVICES****13.1     Letter of Credit Application****Finding**

From a review of 16 Letter of Credit (LC) applications, we noted the following:

- i)      One case where material alterations were made to the application by a PBUS Client Service Officer, with no evidence of client approval. This included manually adding a tolerance level to the client requested amount.
- ii)     One case where the application did not indicate who was responsible for paying banking charges outside the US.
- iii)    One case where the wrong LC number was noted on the application.

**Recommendation**

No material changes should be made to the LC application without the client's written approval. Further, all relevant details should be clearly documented by the client on the application.

TS FIM - 2.4.3.1

**13.2     US Patriot Act Certification****Finding**

From a review of three export letters of credit issued by foreign banks, we noted that there was no evidence on file of a valid USA Patriot Act Certification (PAC). For two of these cases a valid PAC was registered on the Trade Services Operations (TSO) New York PAC Database. Written confirmation from the TSO Compliance Officer that a valid PAC exists for the third case was obtained during the audit.

**Recommendation**

Management should evidence in each file that a valid PAC exists at the time of confirming Export LCs issued by foreign banks.

**Partial Repeat Recommendation: Group Audit USA - January 2006 - section 3.1**

**HSBC PRIVATE BANK INTERNATIONAL, MIAMI AND HBUS DOMESTIC PRIVATE BANKING - FLORIDA REGION****14.      INTERNAL CONTROL****14.1      Unusual Activity Monitoring****Finding**

- i)      PBUS does not have an automated monitoring system, such as Concept Against Fraud (CAF), for identifying potentially fraudulent or suspicious activity.
- ii)     PBUS has drafted procedures to implement the GPB Fraud Detection Minimum Standards and is in the process of developing reports to enable manual monitoring. From our review of the draft procedures, we noted that in some cases these did not meet the requirements of the Fraud Detection Minimum Standards.

**Recommendation**

- i)      Management should consider the implementation of Concept Against Fraud (CAF).
- ii)     In the absence of suitable systems, management should ensure that the Fraud Detection Minimum Standards, as prescribed by GPB HO, are monitored. In conjunction with GPB HO, appropriate procedures should be developed to meet the requirements of the Fraud Detection Minimum Standards.

PBT FIM - 19.2; MLPP - 18; PBT FIM - 22.19

**Carried Forward Recommendation: Group Financial Services Audit - July 2005 - section 9.6****14.2      Best Execution Monitoring****Finding**

The best execution monitoring performed by Internal Control does not compare the time of receipt of a trade order to the time it is accepted by HSI. We acknowledge that separate tests are performed on the time of receipt of order compared to the time of entry to eFOS, and the time of entry to eFOS compared to the time the order is accepted by HSI.

**Recommendation**

Internal Control should perform best execution monitoring by comparing the time of receipt of an order from the client to the acceptance of the order by HSI.

PBT FIM - 18.19.1; PBT FIM - 22.19

HSBC PRIVATE BANK INTERNATIONAL, MIAMI AND HBUS DOMESTIC PRIVATE BANKING - FLORIDA REGION15. DOMESTIC PRIVATE BANK15.1 KYC - New Accounts**Finding**

From a review of eight accounts opened since 1 January 2007, we noted the following:

- i) One client who was not identified as an SCC until after the account was opened. This account is still awaiting approval from the GMLCO.
- ii) One case where a client's second account was opened with an out of date ID, which was not identified as a missing item.
- iii) Two cases where the name of the person certifying the ID document was not detailed. We understand that this was not a local requirement at the time.
- iv) One case where the nationality of the client on the client profile system did not agree with the client documentation.

**Recommendation**

- i) Thorough due diligence should be undertaken prior to account opening to ensure ~~all SCC clients are identified and approved. Approval should be obtained from the GMLCO, and if approval is not provided appropriate remedial action should be taken.~~
- ii) Identification documents should be valid at the time of account opening. Where accounts are opened without critical documentation, the outstanding documentation should be tracked using the missing documents list.
- iii) The identity of the person authenticating the ID should be evidenced beneath the signature.
- iv) On-line client profiles should accurately reflect the client details.

MLPP - 5.2; PBT FIM - 18.3; MLPP - 10

15.2 KYC - Existing Accounts**Finding**

From a review of ten accounts opened prior to 1 January 2007, we noted the following:

- i) One case where the account opening documentation was signed by only one trustee, whereas the trust deed required the approval of two trustees.
- ii) One case where identification documents of third party signatories had not been obtained, although these were obtained during the audit.
- iii) Visitation is monitored at a consolidated relationship level and not an individual account level. We noted one account where visits were not being monitored correctly, as the system was identifying visits on other accounts within the consolidated relationship as the most recent visit.

**HSBC PRIVATE BANK INTERNATIONAL, MIAMI AND HBUS DOMESTIC PRIVATE BANKING - FLORIDA REGION**

- iv) One case where the purpose of the account was not documented on the client profile.
- v) One case where the name of the person certifying the identification documents was not recorded, although it is understood that this was not a local requirement at the time.
- vi) Two cases where the identification documents were not legible on the scanning system.

**Recommendation**

- i) The account opening documentation should be approved in line with the trust deed.
- ii) Identification documents should be obtained and verified for all account signatories at the time of account opening.
- iii) Visitation monitoring should consider visitation requirements at an individual account level and not just at a consolidated relationship level.
- iv) The purpose of the account should be documented in the client profile.
- v) The identity of the person authenticating an ID should be evidenced.
- vi) Identification documents held on the scanning system should be legible.

MLPP - 5.1; MLPP – 14; MLPP – 10; PBT FIM - 18.3

**15.3****Staff expenses****Finding**

From a review of staff expense claims in 2007, we noted six cases where entertainment expenditure of more than USD 1,000 was not pre-approved by the CEO. Further, one case was noted where an employee took a first class flight which was not approved by the CEO.

**Background**

We understand that PB Americas has submitted a dispensation request to increase the thresholds for expense pre-approvals.

**Recommendation**

All entertainment expenditure in excess of USD 1,000, and exceptions to the travel policy, should be pre-approved by the CEO.

PBT FIM Appendix – 22; PBT FIM - 10.4.2



15.4      **Controls Over Fax Machines**

**Finding**

There are no controls to ensure that incoming faxes are recorded and appropriately distributed and that outgoing faxes are properly authorised and effectively transmitted. Access to incoming and outgoing faxes is not subject to supervisory oversight.

**Background**

DPB plans to implement an automatic fax workflow system which would route faxes to specific shared mailboxes.

**Recommendation**

Controls should be in place to ensure that incoming faxes are recorded and appropriately distributed and outgoing faxes are properly authorised and effectively transmitted. Access to incoming and outgoing faxes should be subject to supervisory oversight.

PBT FIM - 22.13.4

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Occ-Psi-00226525

From: PAUL J O'SULLIVAN/HBUS/HSBC  
Sent: 12/10/2007 6:36:29 PM  
To: TERRY WESTREN/HBUS/HSBC@HSBC; MASON C SALIT/HBUS/HSBC@HSBC02; TERESA GARCIA/HBUS/HSBC@HSBC02;  
ANTONIO SUAREZ-OBREGON/HBUS/HSBC@HSBC; JEFF CLOUS/HBUS/HSBC@HSBC; MANUEL DIAZ/HBUS/HSBC@HSBC;  
CLARA HURTADO/HBUS/HSBC@HSBC; PATRICK M CAMPION/HBUS/HSBC@HSBC; STEVEN J ROCKEFELLER/HBUS/HSBC@HSBC;  
DENNIS J DUGGAN/HBUS/HSBC@HSBC  
CC: MARLON YOUNG/HBUS/HSBC@HSBC; LOUIS MARINO/HBUS/HSBC@HSBC; ALAN P WILLIAMSON/HBUS/HSBC@HSBC  
Subject: Fw: Bearer Share Corporation Policy

All,

Attached is the final draft of proposed policy covering Bearer Share Company clients. There is a little more flexibility than was originally planned and we will be able to maintain bearer share company accounts once the requirements of the policy are met.

I will follow up with each group individually (DPB, IPB NY, and IPB Miami) to discuss implementation steps.

regards,  
Paul

----- Forwarded by Paul J O'Sullivan/HBUS/HSBC on 12/10/2007 06:21 PM -----

Ali S Kazmy/HBUS/HSBC@HSBC  
12/10/2007 04:38 PM

To  
Paul J O'Sullivan/HBUS/HSBC@HSBC02  
cc

Subject  
Bearer Share Corporation Policy

Attached is the aforementioned document for implementation purposes. Please note that we will be announcing the policy by the end of the week.

In case of any questions, please let me know.

Regards,

Attachment: Bearer Share Corporation Account Policy Guidance (Final Draft 082907).doc.zip

Page 1



**Bearer Share Corporation Account**  
**“Policy Guidance”**

**1. Overview**

Bearer shares are simply stock certificates of private corporations owned by the person who holds them; hence the name “bearer”, however the ownership is not recorded on the company’s books. These shares are owned by and give all their rights to the holder. Bearer shares can be negotiated without endorsement and transferred by delivery; consequently bearer shares are not subject to controls associated with ordinary shares. As regards dividends, they are paid upon presentation of dated or numbered dividend coupons.

Bearer Share corporations can be used for legitimate investment or operating purposes (i.e. asset protection and privacy). **Bearer Share Corporations are typically registered in an offshore jurisdiction but in the U.S., they are permitted in the states of Wyoming and Nevada.**

Bearer Share Corporations are usually structured as International Business Corporations (“IBCs”) or Private Investment Corporations (“PICs”), which are discussed in more detail below.

*International Business Corporation (“IBC”)*

Also known as International Business Companies, an IBC is a legal entity incorporated in a tax haven jurisdiction. Typically, the IBC cannot conduct business in the country of incorporation. They are offshore companies that are most commonly used for offshore banking to conduct international trade, investment activities, etc. Assets of an IBC are extremely private and allow the owner to retain 100% control. Ownership records are not available in any public record. In offshore jurisdictions, there is no ITIN\* required in order to open an account for an IBC.

\* An ITIN is an Individual Taxpayer Identification Number issued by IRS to individuals who are required to have a U.S. taxpayer identification number but who do not have, and are not eligible to obtain a SSN. It is a tax processing nine-digit number that always begins with the number 9 and has a 7 or 8 in the fourth digit, example 9XX-7X-XXXX.

*Private Investment Corporation (“PIC”)*

A PIC is an offshore company that can be set up by an individual to own and manage an investment portfolio and, in certain cases, protect the individual from capital gains and inheritance taxes. Funds accumulated in the offshore company can be invested throughout the world and structured to give maximum tax benefit.

**2. Heightened Risk**

There are legitimate usages of bearer share corporations; however, they can also be used for the purpose of tax evasion. The anonymity provided makes bearer share corporations attractive to money launderers and terrorist financiers. Offshore bearer share companies have been known to be used in terrorist financing schemes.

Because of the potential for money laundering, terrorist financing and tax evasion, numerous jurisdictions have abolished bearer shares in favor of registered shares. The owners of registered shares are recorded on the company's books so that physical issuance of the shares is in many ways needless.

Notwithstanding the above, several jurisdictions still permit bearer share corporations. Keeping in view FATF's recommendation no. 5<sup>1</sup> and 33<sup>2</sup>, many jurisdictions have implemented controls in place to identify, in a timely manner, the beneficial ownership of bearer share corporations.

### 3. Requirements for Bearer Share Corporation Accounts

Due to the potential for money laundering, terrorist financing and tax evasion, HSBC Bank USA, N.A. and HSBC Securities, Inc. (collectively "HSBC") does not encourage establishing relationships with bearer share corporations. However, if a customer/entity who has bearer shares does approach HSBC, the applicant will be evaluated on a case-by-case basis and HSBC may allow the account to be opened, whether for a **new client** or an **existing client**, provided requirements set forth below are met. These requirements also pertain to existing bearer share corporation accounts:

#### a) Required Documentation

The following applies to all new and existing bearer share corporation accounts. For new bearer share corporation accounts, the requirements noted below must be fulfilled prior to account opening. For existing accounts, the requirements must be met within a reasonable time period not to exceed 12 months from date of this guidance or December 31, 2008, whichever is later:

- Client must commit to registering the shares or agree to hold bearer shares in custody with HSBC or an approved third party custodian\*, who should be authorized to advise HSBC of any changes in ownership;
- Clients who open or have an account which involves a company which issues bearer shares, must provide a beneficial ownership certificate, which can be in the form of a beneficial ownership letter, a sample of which is attached as Appendix "C". This letter or equivalent letter on client stationery must be provided every three years;
- For new accounts, account opening request will only be processed **after** receiving the bearer shares for deposit in custody by HSBC or **after** receiving confirmation from the third-party custodian of having received the bearer shares for safe-keeping and that their release will be subject to prior notification to HSBC;

\* A list of approved third party custodians must be maintained by each business unit and must provide a copy of such list to the AML Oversight & Control Group ("OCG"). The business units must also report changes to such list to the OCG immediately upon effective date of the change. OCG will reconcile names appearing on this list to the names reported on the semi-annual register, which is discussed below in section 6. Third-Party Custodian must be subject to Enhanced Due Diligence ("EDD"), which includes business unit head as well as AML Director (or designee) approval, ongoing maintenance of KYC information, and nature and background information on the custodian. EDD must be reviewed, updated and documented annually and retained in a file maintained by the business unit.

HSBC requires disclosure as to beneficial ownership at the outset of the relationship and when there are changes in ownership structure.

<sup>1</sup> This recommendation advises that financial institutions should not keep anonymous accounts or accounts in obviously fictitious names.

<sup>2</sup> This recommendation states that countries that allow legal persons to issue bearer shares should take appropriate measures to ensure that they are not misused for money laundering purposes and be able to demonstrate the adequacy of those measures.

The Know Your Customer ("KYC") and Customer Identification Program ("CIP") requirements, as detailed in the HBUS AML Policy and the specific business unit AML Procedures, must be completed.

**For new bearer share accounts, all KYC documentation must be obtained prior to account opening, whereas for the existing accounts, the requirements must be completed no later than December 31, 2008.**

The best way to determine if a company is a bearer share corporation, including an IBC or a PIC, is by reviewing its formation documents. Also simple questions can be asked to ascertain status of the customer. Sample questions include:

- Is the company an offshore company? (IBCs and PICs are predominantly offshore companies.)
- How many beneficial owners does the company have? (Normally, an IBC or a PIC has only one beneficial owner.)
- Country of registration? (It is common for Caribbean countries to allow IBCs and PICs.)
- Are shares of the company registered or not? (This question enables us to ascertain if the company is a bearer share corporation.)

If the customer is unable to provide the required documentation, the new account cannot be opened or in case of an existing account, it cannot be maintained. Simultaneously, if during the account opening process or during the life of the existing account relationship, unusual documentation or behavior is noted, the matter must be reported to the AML NCO, who will review the situation and take appropriate action, including escalation to the Investigative Control and Reporting Office ("ICRO") for additional investigation and possible SAR filing. **Employees must not disclose to the customer that a SAR is contemplated or filed.** In order to assist employees in detecting unusual behavior, a list of Red Flags has been developed. The list is attached as Appendix "A". It is not exhaustive and is meant to complement, not supersede, the red flags included in the respective business unit AML procedures.

**All requirements set forth in this document supplement the requirements in specific business unit AML Procedures for High-Risk customers, including the EDD requirements.**

*b) Approvals*

Account opening for bearer share accounts must be approved by the Head of the Business Unit, AML Local Compliance Officer and AML Director or a designee. Each approval must be documented and retained in the customer file. A form has been created for this purpose, which is attached as Appendix "B". In case of existing accounts, the approvals already secured will suffice, however, all approvals in place must be reported to the AML Director or designee within the semi-annual report, the first of which will be due as of March 31, 2008. If it is determined that the existing approvals are inadequate, the AML Director or designee will advise corrective measures.

**4. Risk Classification of Bearer Share Accounts**

Bearer share corporations carry with them a heightened level of risk, requiring enhanced (i) account opening approval, (ii) due diligence and (iii) transaction monitoring. However, there are certain factors which, if present, reduce the risk associated with bearer share corporations, these include:

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- Risk classification of ultimate beneficial owner (i.e., non-SCC, non-High-Risk Country, non-Sensitive Industries/Occupations etc.);
- HSBC's involvement in the creation of the Bearer Share Corporation (if HSBC created the corporation, then the Relationship Manager will already have significant customer knowledge, which must be documented);
- Bearer Shares are deposited with HSBC or an approved third party custodian;
- Length of time the beneficial owner of the Bearer Share Corporation has been a client;
- Non transactional account (i.e. TDA, Loan, etc.); and,
- Level and nature of activity in the Bearer Share Corporation account.

When one or more of the factors noted above are present, consideration may be given to assigning a "standard" risk classification, however, all such classifications supported by reasoning must be documented and retained in the business unit client file.

The AML LCO, together with the business unit Senior Management, will make the final risk rating determination with regards to "Standard Risk" classification.

In the absence of above-mentioned factors, the customers known to be bearer share corporations or owning bearer share corporations must be classified as "High-Risk".

#### 5. Transaction Activity Monitoring

Transaction activity monitoring is a key component of an AML Program. By effectively monitoring transaction activity, through the combined use of technology and manual analysis, HSBC can identify and report suspicious activity. Lower transaction monitoring thresholds should be applied to bearer share corporation accounts.

#### 6. Relationship Monitoring and Reporting

Each business unit maintaining relationships with bearer share corporations must maintain a separate register of all such accounts and report them to the AML Oversight & Control Group on a semi annual basis; March & September of each year. This reporting will be on a spreadsheet form, the template for which will be furnished by the AML Oversight & Control Group.

#### Suspicious Activity & Red Flags:

Employees must be vigilant for and report suspicious activity. If an employee believes that a particular activity or pattern of transactions represent, or a customer behavior reflects, potentially suspicious activity, the employee must report the event immediately to the AML LCO. It is also advised that employees periodically review the "Red Flag List" in order to maintain awareness on the latest trends of money laundering, terrorist financing and other illicit activities. The Red Flag list is a guide developed to assist in the implementation of the AML monitoring program, particularly with regard to the detection of unusual activity/behavior.

#### 7. Account Closing

If, after an investigation, it is identified that a bearer share corporation has been used as a possible vehicle or conduit for money laundering or terrorist financing, the AML LCO, in conjunction with the business unit, will determine the appropriate action, including escalation to the Business Unit Head and the AML Director and possible closing of the account or placing of the account on an "On Watch Status". Action to close an account shall be taken promptly and in a commercially practical manner. The AML LCO will review the circumstances to determine if SAR filing is warranted.

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*Exception:*

In the event a law enforcement agency specifically requests in writing that the account remain open as part of an ongoing investigation, the account will remain open for the duration of the request. All such requests must be approved by the AML Investigations Unit<sup>3</sup>.

*In case of need for further clarification, please contact your AML LCO.*

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<sup>3</sup> For further details on responsibilities of AML Investigations Unit, please see Section 2.2 of the HBUS AML Policy.

**Appendix "A"****List of Red Flags**

The Red Flags list (approved by the AML Director) is a guide developed to assist in the implementation of the AML monitoring program, particularly with regard to the detection of unusual activity/behavior. The list is not exhaustive and is meant to complement, not supersede, the red flags included in the respective business unit AML procedures. It is updated and approved on a semi-annual basis.

The mere fact that a red flag is detected either at account opening or through ongoing transaction monitoring does not in and of itself indicate money laundering or terrorist financing. However, it may indicate account activity/behavior that requires further review, investigation, and/or escalation. Red flags, if not explained through further review, research, and investigation, must not be ignored. As per the AML Policy, it is the responsibility of all employees to be alert to unusual activity. Any unusual activity must be reported immediately to the designated AML Local Compliance Officer ("LCO") of the business unit.

Any questions regarding the Red Flags list may be directed to your AML LCO, the Retail AML Compliance Helpline on (716) 841 – 4100, or the AML Oversight and Control Group.

- Customer unwilling to provide required account opening information and/or documentation;
- A customer presents a photocopy of photo ID when opening a new account<sup>4</sup>;
- Two or more persons use the same identification;
- Customer exhibits unusual concern for secrecy, particularly with respect to his/her identity, type of business, assets or dealing with firms (defensive stance to questioning);
- ID documentation are expired or appear false and cannot be readily verified by the Bank;
- A prospective customer presents a diplomatic passport from a high-risk country, where such passports are easily obtained for modest amounts of money. The passport may be genuine but the holder may be involved in illicit activities;
- Customer requests that documentation standards may be waived;
- Customer has difficulty describing their business, the stated purpose of the account and the expected transactions in the account;
- The financial statements of the business appear to have questionable accounting standards;
- Customer provides inconsistent information when questioned;
- A customer is a trust, shell-company, Private Investment Company ("PIC"), or an International Business Corporation ("IBC") that is reluctant to provide information on controlling parties and underlying beneficiaries.

<sup>4</sup> Only original photo IDs, drivers licenses, passport etc., or other identification documents are to be accepted at account opening, however, it is important to note that photocopying technology makes it easy to add a new photo to original documentation



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**Appendix "B"**

**Bearer Share Corporation Account Information Form**

Name of Corporation			
Type of Corporation (i.e. PIC, IBC, etc.)			
Country of Incorporation			
Date of Incorporation			
Purpose of Bearer Share Corporation			
Purpose of Account With HSBC			
<b>List all Beneficial Owners</b>	List Name & Specify if SCC and What Type of SCC (i.e. PEP, High Level Military Personnel, etc.)	Beneficial Owners Line of Business.	Mark "X" if Sensitive Industry/Occupation (See Appendix "D") <sup>5</sup>
<b>Name &amp; Complete Address</b> (including street, city, state, country) of Third Party Custodian or HSBC Office custodizing the share(s)			
Is 3rd Party Custodian Approved by HSBC			
Number of Bearer Shares Issued			

<sup>5</sup> The Sensitive Industry/Occupation List can be accessed on the intranet via this link:  
[http://connect.us.hsbc/hnah\\_compliance/pdf/sensitiveindustry.doc](http://connect.us.hsbc/hnah_compliance/pdf/sensitiveindustry.doc)

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Par Value of Each Bearer Share Issued	
Is Bearer Share Corporation Shifting Account From Another FI	
Expected Level & Nature of Activity	
List Countries With Whom Transactions Will Take Place & Type of Transactions	

Date Form Completed: \_\_\_\_\_

Approval: AML LCO (Name & Signature):

Date: \_\_\_\_\_

Approval: Business Unit Head (Name & Signature):

Date: \_\_\_\_\_

Approval: AML Director or Designee (Name & Signature):

Date: \_\_\_\_\_

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Appendix "C"

Beneficial Ownership Letter

To: HSBC Bank USA, National Association or HSBC Securities, Inc. (collectively "HSBC")
(Full Street Address)

Re: (Company Name) \_\_\_\_\_ a company organized under the laws of
\_\_\_\_\_ ("Company")

Each of the undersigned certifies to HSBC that the persons listed below are the sole beneficial owners
("Beneficial Owners") of 100% of the Company's issued and outstanding shares ("Shares") with
respective percentages as set out:

Table with 3 columns: Name (A-E), Percentage, and Total. Rows A-E show individual percentages, and Total row shows the sum.

Form of Share Ownership:

- o Bearer:
o Registered:

Each of the Beneficial Owners certifies to HSBC and covenants with HSBC that his/her respective
bearer Shares are held in custody with (Name of custodian) \_\_\_\_\_.

Each of the Beneficial Owners agrees to notify the Bank immediately if, at any time, any Shares are
sold, assigned, delivered or transferred (including without limitation by operation of law), any bearer
Shares are held by any other natural or legal person, new Shares are issued, the percentage ownership
changes, or any of the matters certified above ceases to be true, accurate or complete for any reason.

This Letter will be binding on the Beneficial Owners' heirs, executors, successors and assigns, and
will inure to the benefit of the Bank, its subsidiaries, affiliates, successors and assigns. This Letter will
be governed by New York law.

SIGNATURE(S) OF BENEFICIAL OWNER(S)

Signature (Date: MM-DD-YYYY)
Signature (Date: MM-DD-YYYY)
Signature (Date: MM-DD-YYYY)
Signature (Date: MM-DD-YYYY)
Signature (Date: MM-DD-YYYY)
Signature (Date: MM-DD-YYYY)
Signature (Date: MM-DD-YYYY)

## Appendix "D"

## Sensitive Industries/Occupations

As per the AML Policy, risk rating the customer base is an integral component of the AML process. It enables HBUS to identify categories of customers whose transactions and banking activities may pose potential increased risk for money laundering and/or terrorist financing activity. Risk ratings may be based on the business unit and certain customer characteristics; such as geography, industry/occupation, account type, transaction type, etc.

To that end, the AML Director, through the AML Policy has designated certain business units, jurisdictions, and client types (Special Categories of Clients -- SCCs) as high risk. In addition, certain industries/occupations are deemed sensitive to money laundering and/or terrorist financing.

The mere fact that a customer falls within one of the sensitive industries/occupations listed below, or is located in a high-risk jurisdiction does not in and of itself make the customer high risk. Rather, these are additional factors to be considered as a part of the overall risk rating of the customer **at the inception of the relationship or during the course of ongoing monitoring (i.e. in the event that unusual or suspicious activity is being reviewed, a review to determine if the customer falls into one of the sensitive industries/occupations categories would be completed)**. A customer risk rated overall as high requires enhanced due diligence and monitoring.

The following are sensitive industries. This factor is to be applied when an individual and/or their family (spouse, children) earn or has acquired income/wealth from any of these industries:

- Automotive Dealers (includes: Car and Truck Dealerships)
- Cash Intensive Businesses, such as:
  - restaurants
  - privately owned ATM vending machines
  - contractor/construction
  - gas station
  - parking lot
  - telephone cards distributor
  - ticket broker
  - fast food chain
  - bar
  - pizza parlor
- Corporations located in High-Risk jurisdictions \*:
  - Foreign Financial Institutions
  - International Business Corporations (IBCs) (entities formed outside of a person's country of residence which can be used to maintain confidentiality or hide assets)
  - Offshore Management Services Companies
- Diamonds, Jewelry, Precious Metals/Stones (Wholesaler, Retailer, Manufacturer, Trader/Dealer, Mining, Import/Export)
- Electronics (Import/Export, Wholesaler, Retailer)
- Internet – Investment Vehicle
- Internet – Online Gambling (prohibited)
- Manufacturer of Credit Cards, Stored Value Cards, Identification Cards
- Non-Governmental Organizations/Charities or Religious Organizations
- Non-regulated, non-registered financial service/provider (such as hedge funds, private equity investor, venture capital entities)

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- Pawnbroker/Shop
- Private Investment Companies (PICs)/Bearer Share Corporations (further analysis is required to make the final determination of risk level, see below)
- Privately Held (excluding mutually held) Insurance Company that sells either Annuities or Life Insurance
- Telemarketers
- Travel Agency

In addition to the above, the following are sensitive occupations:

- Accountant (acting as an intermediary or advisor for investments)
- Attorney\*\*\*
- Pilot for non-commercial airline
- Real Estate Broker/Agent
- Retired individuals from sensitive industries/occupations (retired less than 12 months)
- Student from a jurisdiction designated as high-risk for terrorist financing\*\*
- Student with source of funds from a sensitive industry or occupation

**Notes:**

\* High risk jurisdictions include those countries deemed high risk, as well as those countries that have a high ("H") rating for Offshore Financial Center per the AML Country Risk Matrix.

\*\* Jurisdictions designated as high-risk for terrorist financing are indicated with a "Y" in the Terrorist Financing column of the AML Country Risk Matrix.

\*\*\* A sensitive attorney would be an attorney who is in a small practice (factors to be considered include: less than 5 attorneys, criminal defense attorney, deals in cash, acts as an intermediary for clients regarding investments/real estate or other asset purchases).

PICs/Bearer Share Corporations:


Factors to be considered to determine if a PIC/Bearer share corporation is high-risk include:

- Risk classification of ultimate beneficial owner
- Involvement of HSBC in the creation of the Bearer Share corporation (if HSBC created the corporation, we have significant knowledge of the client, therefore less risk)
- Number of accounts the Bearer Share client maintains (if the only account with HSBC is the PIC (Bearer Share corporation), then the client will most likely be considered high risk)
- Length of time Bearer Share corporation has been a client (>2 years less risk)
- Level and nature of activity in the Bearer Share corporate account(s) (minimal activity related to purchase/sale of investments less risk)

Under no circumstances will accounts for PICs/Bearer Share Corporations be opened or maintained without required identity information on the ultimate owner(s)/beneficiary(ies).

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HSBC Private Bank 

HSBC Private Bank International

FSA Audit Issues

STATUS REPORT

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**11.1 - Beneficial Ownership Declarations (HR)** MIAMI FSA AUDIT 2007 02/28/2008

Pending JJ

PBUS has 1,667 company accounts incorporated with bearer shares. Whilst beneficial ownership declarations are held for all cases, PBUS has identified 1,109 accounts where the declaration is more than three years old. It is noted that PBUS has obtained updated declarations for the high risk accounts and is in the process of obtaining the declarations for the remaining accounts.

**Background**

PBUS is in compliance with all group requirements with regards to beneficial ownership declarations for bearer share accounts. Management should continue with their efforts to obtain the remaining beneficial ownership declarations, for companies incorporated with bearer shares, that have not been updated in the last three years.

**Management Response:**

IPB Miami continues to obtain updated Beneficial Ownership Declarations for the identified 1109 accounts. We expect to complete this project by end of Feb 2008.

The Beneficial Ownership Declaration has an expiry date in EPIC and will appear on the monthly Missing Documentation Report once it has expired.



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Significant problems have been encountered with the implementation of the Norkom system. Four of the 20 'detection scenarios' built into the system have not been turned on. As a result, there are no scenarios for monitoring high account turnover, such as regular 'in and out' of funds. We also consider that some of the thresholds within the system have been set at too high a level to identify meaningful alerts.

Further, the functionality of the system has not been fully utilised, as high risk and SCC accounts are not being subjected to stricter thresholds than standard risk accounts; non-client initiated transaction types have not been excluded from the monitoring; and non-ATM cash activity is not included in the system monitoring.

#### Background

The Norkom system, used for monitoring client account activity, was implemented by PBUS in February 2007. We noted the following:

- i) From a total of 20 'detection scenarios', four scenarios have not been switched on and are therefore not generating any alerts. Two of these scenarios are designed to identify patterns of activity such as high turnover of money coming in and out of an account. There are no further scenarios which would identify such patterns. Further, two of the scenarios which are not in use are designed to identify suspicious activity on SCC and high risk accounts on a daily and weekly basis.
- ii) The thresholds for scenarios five and six have been set too high. Scenario five and six compare expected activity to actual activity for the number of transactions coming in and out and the value of transactions coming in and out. The threshold has been set to create an alert where actual activity is 300% over the expected levels.
- iii) Norkom allows clients to be grouped together and subjected to different thresholds in each of the detection scenarios, however PBUS is not using this functionality. As a result, the standard thresholds are applicable to the entire client base, including SCC and high risk clients.
- iv) The ability within the Norkom system to exclude certain types of transactions from the monitoring (such as account fees or corporate actions), which would not present a money laundering threat, has not been used.
- v) Cash activity, other than ATM activity, is not included in the ongoing monitoring in Norkom. As a result, four of the 20 scenarios are not working effectively. We note that additional procedures have been implemented within Compliance for cash transactions to be monitored on a weekly basis. Further, cheque, money order and traveller's cheque activity is not identified directly in Norkom and Compliance perform additional manual monitoring.

PBUS management has notified its concerns regarding these issues to senior Compliance management on several occasions. Control of the thresholds used within Norkom rests with senior Compliance management in New York and therefore scenarios and thresholds cannot be changed by PBUS.

- i) All detection scenarios should be active unless deemed to be 'not applicable' by Senior Compliance Management and the GM/CC. Appropriate thresholds should be agreed with Senior Compliance Management for the four scenarios which are not turned on and these should be turned on at the earliest opportunity.
- ii) All thresholds should be reviewed and updated, where necessary, to ensure that they are appropriately identifying suspicious activity. In particular, thresholds for scenarios five and six should be reduced to a more reasonable level.
- iii) The 'Group' facility should be used to implement stricter thresholds for SCC and other high risk customers. Consideration should be given to implementing separate Groups for different types of client accounts, such as operating accounts.
- iv) The transaction types included in Norkom for monitoring should be restricted to those transaction types which may be subject to suspicious activity or susceptible to money laundering.
- v) Management should consider the implementation of a system fix to allow the monitoring of cash, cheque, money order and traveller's cheque activity within Norkom. In the absence of a system fix, Compliance should continue the manual monitoring procedures.

MLPP - 16

#### Management Response:

i) Detection scenarios 13, 14, 15, and 16 are not turned on. Scenarios 14 and 16 are being modeled and stroke tested currently with the intention of activating them in 1Q2008. Scenarios 13 and 15 will need more extensive work to ensure the results are meaningful in terms of identifying potential suspicious activity. These 2 scenarios have not been activated elsewhere in GPB.

ii) Corporate compliance has reviewed the thresholds for all scenarios.

Scenarios 5 and 6 require more analysis. In conjunction with the lowering of thresholds for scenarios 5 and 6, we are working on implementing customer level thresholds with the goal of producing more risk focused alerts and lowering general thresholds. This will be worked on during 2008, with delivery by 4Q08.

iii) In early November, reduced thresholds were implemented for SCC and HR accounts for targeted scenarios. During 1Q08 we will consider/analyze the possibility of implementing different groups for different types of accounts.

iv) Non-relevant transaction data feeds were turned off in October 2007. Resolved.

v) This project will be prioritized for completion in 4Q 2008. It should also be noted that the cash activity in Miami monitored against various structuring scenarios by the CAMP monitoring team in Buffalo. This is performed by the Atchley surveillance system. In addition, the Compliance team in Miami will continue to perform manual surveillance of the activity.

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**OCC-PSI-00227523**  
**COMPLIANCE CERTIFICATE**

To: Carolyn Wind, AML Director for HBUS  
From: Daniel Jack, AML LCO for Global Banknotes

I certify that to the best of my knowledge and belief:

- (a) save as disclosed to you below, no company, division or branch (as listed on the Compliance Chart) or any of its employees is or has at any time during the period June 1, 2007 to December 31, 2007 been in material or significant breach of any applicable law, code, rule, regulation or standard of good market practice (as listed on the attached Compliance Chart);
- (b) there is no other law, code, rule, regulation or standard of good market practice carrying significant compliance risk which is applicable;
- (c) save as disclosed to you and detailed on the attached schedule, no company, division branch, (as listed on the attached Compliance Chart) nor any employee of such company, division or branch has been the subject of any disciplinary measures or investigation (not including a routine inspection visit) by a regulatory body;
- (d) save as disclosed to you below there have been no customer complaints evidencing bad faith, malpractice or impropriety by a Group employee or which individually or collectively indicate a significant systemic problem;
- (e) save as disclosed to you below there have been no internal frauds which taken alone or with other similar frauds may involve monetary loss of US\$750,000 (or equivalent) or more and/or may involve a material or significant breach of any law, code, rule, regulation or standard of good market practice and/or may reflect adversely upon the control systems in place within the company or branch concerned;
- (f) save as disclosed to you below there has been no irreconcilable disagreement with line management over any significant compliance issue;
- (g) in respect of every breach which is not of a material or significant nature, remedial action has been taken or initiated and/or the relevant regulatory authority notified if appropriate.
- (h) there are no other matters which should be drawn to your attention.

***NB: For RCO/GCO certificates, Compliance Charts need not be attached.***

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Disclosure Statement (if any) for matters arising during the reporting period, including brief particulars of remedial action taken and/or notification made to relevant regulatory authority:

• [Redacted]

Status reports on any items disclosed in previous Compliance Certificates and still outstanding at the beginning of the reporting period:

• [Redacted]

Regulatory issues since the previous certificate (including any impending significant regulatory development and how it will be addressed; any topic which regulators have indicated as a priority; and any significant matter affecting the relationship with regulators):

- In response to a request from the Financial Crimes Enforcement Network (FinCEN) of the US Treasury, on 20-Jul-07 the AML LCO and Banknotes management met with FinCEN research specialists to discuss our wholesale banknotes business with clients in Mexico as well as our AML program, CTR filing and other related issues. After a few follow-up phone calls, we have established a working relationship with FinCEN to assist each other in our AML efforts. We also met with an analyst from the National Drug Intelligence Center of the US Dept of Justice to explain our business and AML program along with discussing cross-border issues (on 17-Jul-07).

\_\_\_\_\_  
Daniel Jack  
Signature (LCO for Banknotes)

\_\_\_\_\_  
Christopher Lok  
Countersignature (Head of Global Banknotes)

December 20, 2007  
\_\_\_\_\_  
Date

December 20, 2007  
\_\_\_\_\_  
Date

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**Schedule of Investigations and Disciplinary Actions**

Company Name and Location: **None.**

Employee Name (where applicable):

Category<sup>1</sup>:

Investigating/Actioning Authority:

Purpose of Investigation:  
(Do not include routine inspection visits)

Date of Alleged Offence:

Dates of Investigation  
from .... to .... :

Date and Details of Sanction:

---

Commentary<sup>2</sup>:  
(Continue on separate sheet if necessary)

<sup>1</sup> Categories are:-

- (A) Investigation by a Regulator.
- (B) Criminal Conviction or possible criminal action.
- (C) Requirement to produce books and papers to Regulator (only where a Group company or employee is the target - rather than a mere information source).
- (D) Any other non-routine regulatory actions including any fine of the equivalent of US\$1,500 (or equivalent) or more, censure, warning as to future conduct, discipline or public criticism by, or Court Order at the instigation of, any regulatory authority not covered by A, B or C above.
- (E) Any civil action which by virtue either of the size or the basis of the claim is likely to be of interest to a regulator as reflecting on a Group company's or employee's fitness and properness.

<sup>2</sup> This should cover:-

- For Category (A) items - a status report including the reason for the investigation and including details of any disciplinary sanctions
- For Category (B) items - a status report including the nature of the offence, the court handing down the conviction and the penalty imposed.
- For Category (C) items - the nature of the data requested and the basis for the request.
- For Category (D) items - the nature of the action and the basis for it.
- For Category (E) items - the reason for possible interest to a regulator.

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Money Laundering Statistics

From: Daniel Jack, AML LCO for Global Banknotes

Region: US & Global

Date: December 20, 2007

Money Laundering Report for Half-year Ended: December 31, 2007

**1.1 CAMP or other automated monitoring system**

Country	Number of alerts generated	Number of reports sent to MLRO for validation	Number validated by MLRO.	Number of reports where review / validation by MLRO is outstanding for more than 30 days	Number of reports submitted to Authorities more than 7 days after validation.
Global	344	1	1	0 (none)	0 (none)

**1.2 Manual Reports**

Country	Number of manual reports received	Number validated by MLRO	Number of reports where review / validation by MLRO is outstanding for more than 30 days	Number of reports submitted to the Authorities more than 7 days after validation.
	Not applicable			

**2.1 Money Laundering Related Reportable Events**

Country	Number reported to LCO	Number reported to RCO	Number reported to CMLCO
USA/Mexico	1	1	1

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**2.2 Update of Reportable Events reported to the CMLCO and still outstanding at the end of the previous half-year.**

Country	GHQ Reference	Date of Report	Details and Current Status
USA	[REDACTED]	16-Nov-06	[REDACTED]

**2.3 Update of Reportable Events reported to the CMLCO during the half-year.**

Country	GHQ Reference	Date of Report	Details and Current Status
USA/Mexico	[REDACTED]	25-Jun-07	Law enforcement (District Attorney's office and Drug Enforcement Agency) interest in our banknote trading with Casa de Cambio Puebla (CCP), an MSB in Mexico. A seizure order was also filed against CCP and their accounts at Wachovia Bank were closed. CCP was also a client of HSBC Mexico with whom close liaison is maintained. Banknotes ceased trading with CCP on 1-Jun-07, conducted a site visit on 11-Jun-07, and has terminated the HBUS relationship.

**AML Key Performance Indicators**

KPIs	Details
Current failure rate (shown as a percentage) in respect of local regulatory identification and verification requirements.	0%
SCC Policy – Number of failures to identify clients correctly as SCC, to follow SCC procedures or to meet regulatory requirements in respect of SCCs.	0
Confirm the percentage of employees who have received AML training during the previous 12 months.	99%
Confirm percentage of staff employed in high-risk areas who have received AML training during the previous 12 months.	100%
Currency Transaction Reporting - Number of failures to report and/or aggregate transactions for the purpose of CTR requirements as required by local legislation.	0
Confirm the number of SARs validated during the reporting period subject to one or more previously validated SARs.	0
Confirm the number of relationships exited as a result of more than one validated SAR.	0
Confirm the number of relationships the subject of more than one validated SAR that are to be continued.	0



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**Business Unit Name:** Global Banknotes

**Date:** December 31, 2007

**Certification of Regulatory Changes / New Requirements Applicable to  
Business Unit**

*Covering Period: June 1, 2007 – December 31, 2007*

I hereby certify that procedures have been implemented or revised to address all new regulatory requirements/changes that are applicable to my business unit.

**RAR Number      Title**

- NIL

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Occ-Psi-00239206

From: DANIEL JACK/HBUS/HSBC  
Sent: 5/30/2008 10:44:52 AM  
To: ALAN P WILLIAMSON/HBUS/HSBC@HSBC02  
CC:  
Subject: KYC BN Profile pending CO approval for: AL RAJHI BANKING & INVESTMENT CORP

Alan,

Al Rajhi Bank is already an approved & active customer for HBUS London Banknotes. Gordon recently updated the linked KYC Customer Profile after you CO approved it:

Approved: (Old Status IB Approved), 04/01/2008 05:42 PM: Alan P Williamson  
AML risk should be discussed in visitation/call report, including whether MSB payout agent. Note that like prior approval, this is limited to banknotes only

Revision  
History

Editor	Date	Reason for Update	
Gordon BROWN	08/04/2008 14:17:30	updated with CO Approval (1 April 2008) issues.	
Gordon BROWN	25/03/2008 16:56:01	updated 2007 financials.	
Gordon BROWN	25/03/2008 16:28:16	updated incsr 2008, Section I (general comments), Section VIII (management).	
Gordon BROWN	28/02/2008 12:18:03	updated site visitation 23 July 2007 Shariq Siddiqi.	
Christopher BAYLISS	06/02/2008 12:01:19	Annual Review - grammar check	
Christopher BAYLISS	06/02/2008 11:49:05	Annual Review - updated ownership	

I think it will always be an SCC, and we have been diligent with KYC and activity monitoring.

So I recommend you CO approve the Banknote Profile for Hong Kong to begin trading with them now.

Thanks and regards,

Daniel Jack  
Vice President - Compliance Officer  
HSBC Bank USA, NA  
452 Fifth Avenue, 7th Floor, New York, NY 10018

Phone 212-525-8686  
Email daniel.jack@us.hsbc.com

Alan P Williamson/HBUS/HSBC  
05/30/2008 08:03 AM

To  
Betty F S NG/NBD RNH/HBUS/HSBC@HSBC  
cc  
christopher.tok@us.hsbc.com, Colin W L HUI/VP NBD RNH/HBUS/HSBC@HSBC, Daniel

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Jack/HBUS/HSBC@HSBC02, Denys K S CHAN/VP NBD RNH/HBUS/HSBC@HSBC, Gary C H YEUNG/SVP NBD RNH/HBUS/HSBC@HSBC, Jim K T HUI/VP NBD RNH/HBUS/HSBC@HSBC, John N H NG/NBD RNH/HBUS/HSBC@HSBC, Joseph C TAI/NBD RNH/HBUS/HSBC@HSBC, Roger T K SO/HD NBD RNH/HBUS/HSBC@HSBC

Subject

Re: Fw: KYC BankNote Profile is IB Approved for: AL RAJHI BANKING & INVESTMENT CORP

Betty

I will have to spend some time looking at this and discuss with Dan. There are long standing issues with Al Rajhi as I am sure you are aware.

Thanks

Alan

Betty F S NG/NBD RNH/HBUS/HSBC@HSBC  
05/29/2008 09:29 PM

To  
Alan P Williamson/HBUS/HSBC@HSBC02  
cc

Roger T K SO/HD NBD RNH/HBUS/HSBC@HSBC, Gary C H YEUNG/SVP NBD RNH/HBUS/HSBC@HSBC, Denys K S CHAN/VP NBD RNH/HBUS/HSBC@HSBC, Colin W L HUI/VP NBD RNH/HBUS/HSBC@HSBC, Jim K T HUI/VP NBD RNH/HBUS/HSBC@HSBC, Joseph C TAI/NBD RNH/HBUS/HSBC@HSBC, John N H NG/NBD RNH/HBUS/HSBC@HSBC, christopher.lok@us.hsbc.com@HSBC, Daniel Jack/HBUS/HSBC

Subject

Fw: KYC BankNote Profile is IB Approved for: AL RAJHI BANKING & INVESTMENT CORP

Dear Williamson

Kindly review and approve the banknote profile of the subject prospect client (Reference: 1000157). Thank you.

Best Regards

Betty

----- Forwarded by Betty F S NG/NBD RNH/HBUS/HSBC on 05/30/2008 09:09 AM -----

Christopher Lok/HBUS/HSBC@HSBC02  
30 May 2008 01:23 Mail size: 2055

To  
Betty F S NG/NBD RNH/HBUS/HSBC@HSBC  
cc

Subject

KYC BankNote Profile is IB Approved for: AL RAJHI BANKING & INVESTMENT CORP  
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occ-Psi-00239206

Our Ref

Your Ref

A BankNote Profile in SAUDI ARABIA for HSBC Office Hong Kong, has been IB Approved (Reference #1000157).

Click on the attachment to link to the BankNote Profile.

\*\*\*\*\*  
HSBC Bank USA, N.A. Hong Kong Branch  
whose registered address is Room 226 North Office Block  
Superterminal 1, Hongkong International Airport  
Hong Kong SAR  
\*\*\*\*\*

2235

**PBUS KYC Committee Meeting**

April 18, 2008  
11:00 – 12:30 PM  
425 Fifth Avenue, 6<sup>th</sup> Floor  
**Meeting Minutes**

**Chair:**

Paul O'Sullivan

**Present:**

Marlon Young	Bill Prichason
Mason Salit	Patrick Campion
Dennis Duggan	Mihaela Nistor
Steve Rockefeller	Stefan Hardy
Terry Westren	Alan Williamson

**On the Phone:**

Manuel Diaz  
Antonio Suarez-Obregon  
Clara Hurtado  
Jeff Clous

**Absent:**

Lou Marino

**1. Approval of Minutes**

Paul O'Sullivan opened the meeting with an overview of the agenda. The first item was the approval of the minutes for the February 13<sup>th</sup> meeting. A correction regarding Stefan's name as the person confirming the acceptable percentage for past due visitation was noted.

**2. Audit Issues**

▪ DPB Visitation and KYC updates

Bill Prichason presented the current status of the DPB visitations. He noted that the past due visitations situation has been resolved and the audit issue addressed. A graph showing the decrease in the number of past due visitations from month to month was distributed and discussed.

Bill also gave a brief update on the development of a system solution for visitation tracking. It is expected that RMD2 will be the host system for a visitation tracking module to be developed in the 3<sup>rd</sup> or 4<sup>th</sup> quarter of 2008. Bill has met with Hitesh Ghandi, the RMD2 Project Manager, to discuss business requirements. The KYC updates

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are part of the visitation process and the system solution for tracking the KYC updates will be developed at the same time as the visitation tracking module.

The quality of call memos is improving, although issues remain mainly due to the fact that many of the clients KYC profiles are part of the remediation project (RMs will not update the KYC profile after a visitation if the profile is scheduled to be remediated). Marlon asked if the same quality issues have been noted with the IPB call memos. Mihaela and Teresa confirmed that in recent Compliance testing the quality of the call memos for IPB was found to be good.

The identification of the population of clients due to be segmented has been largely completed. The migration of these clients though will take a longer time than originally planned.

- IPB NY Visitation and KYC updates

Mason Salit presented the current status of the visitations and calls overdue. Although the business continues to make progress in performing required visitations and KYC updates, due to a tight travel schedule a small number of visitations have been delayed. The status is as follows:

- Clients over \$5 million in AUMs requiring a face-to-face visit: 37 (or 10%) overdue, compared to February 5.65% overdue (due to delays in travel)
- Clients below \$5 million in AUMs requiring a phone call: 5.7% overdue, compared to February 6.04% overdue.

With respect to the past due KYC updates, Mason announced that the action plan to bring the KYC profiles up-to-date is practically completed. This has been a great success, as the backlog was 1350 past due KYC updates last November, and by April there were only 79 profiles still left. Manuel asked if there is a quality control in place for the KYC updates. In Miami Clara is doing the quality control and works with the bankers to make corrections if necessary. In IPB NY Teresa is doing the quality control. In the latest test of 15 KYC profiles 3 were returned to the bankers for additional information. In DPB the KYC updates are part of the larger remediation project.

- IPB Miami Visitation and KYC updates

Currently there are no issues with the visitation and the KYC updates in Miami.

- High risk client definition

The new risk rating methodology has been reviewed and agreed on by David Ford, the GFA, and was subsequently approved by the HBUS AML Director. With respect to the implementation, Compliance is working very closely with the Project Office and the IT teams to get the risk calculation methodology into production as an integral part of RMD2. The initial IT estimates were 7 man months for the entire project. A decision was

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made to have the risk calculation developed first, with an estimated delivery time of July 2008, and the reporting functionality to be developed in the next stage, with an estimated delivery time of end of 3<sup>rd</sup> quarter 2008.

The initial plan was to have IPB migrate to the RMD2 platform this year, but it appears that this initiative has been delayed. Marlon commented that RMD2 might not be selected as the system of choice for the Private Bank platform. Currently all systems are being evaluated. There is also a new head of the IT unit Chen Picard who will need time to assess the systems.

The intention is to have consistent procedures between the business units. There is going to be a bifurcated approach initially between IPB and DPB, as DPB will implement the new risk rating methodology first, as soon as it's developed in RMD2. IPB will continue to use the existing risk rating methodology.

- California Audit Issues

All action plans have been closed:

Number of Action Plans	22
Action Plans Closed	22

- Other DPB Audit Issues Outstanding

Steve mentioned that in DPB the only other outstanding audit issues in the New York Audit Report pertain to the high risk account definition, still awaiting official publication of the procedures. The business must identify the high risk accounts and monitor them appropriately. For the accounts in remediation the identification of the correct risk rating will be done at the time of the remediation according to the new risk rating methodology. The monitoring of high risk accounts is dependent on the implementation of Norkom later this year. A more detailed discussion on Norkom to be led by Paul next.

- Norkom updates

In IPB scenarios 14 -16 have been turned on with the result that the number of alerts has risen significantly (for example, in Miami there have been more than 1000 alerts generated for the month of March including quarterlies). A fix for scenario 6 was put in by Geneva. Further analysis is required to fine tune the customer level thresholds, which is expected to yield substantial benefits by reducing the number of alerts for regular activity thus allowing us to focus on and investigate the more unusual activity.

In DPB the monitoring of the transactions is performed by the team in Buffalo using CAMP. The DPB business is expected to migrate to Norkom in the 3rd quarter of 2008. A steering committee for the Norkom implementation is being assembled to provide project leadership.

OCC-PSI-00241046

Patrick Campion expressed his discomfort with the date for migration to Norkom. He pointed out the RMD2 will not have been fully populated by the time Norkom is implemented. It is estimated that only 16% of the clients will have been remediated and updated in RMD2; however this represents 85% of the asset. Also, with so many critical projects going on at the same time it seems that it would be a waste of resources to divert them to work on Norkom much earlier than it would be necessary. He proposed that DPB continues to remain on CAMP until the KYC remediation is completed. Stefan asked if, as an alternative, CIF can be used as the basis for Norkom monitoring. Patrick responded that the CIF data is stale and the most recent information is in RMD.

### **3. Bearer Share Companies**

HBUS introduced a Policy requiring custody of the Bearer Shares by the end of 2008. This policy poses significant implementation challenges for the Private Bank and discussions are being held with HBUS. Since there is a separate industry requirement that the BVI shares are required to be registered by the end of 2009, the business proposes that the BVI bearer shares companies are allowed to be registered under these requirements. Our other bearer share clients have clearly expressed their concerns with plans to entrust their bearer shares to a Panamanian company, as a third party custodian. A solution is still being worked on.

### **4. Special Categories of Clients (SCCs)**

The formal annual review of all the SCC clients took place on March 28<sup>th</sup> and was very successful. The details of that meeting and the resulting decisions are documented separately as part of the SCC review process. Marlon asked that Alan reports up the Compliance chain such that senior Compliance executives are aware of the SCC review process undertaken in the Americas Private Bank.

### **5. Metrics**

Paul discussed the Metrics report, noting the increase in the number of monitoring alerts to record levels. We are still working through the backlog. March has also been a record month for new accounts opened across all business units. Nevertheless, the AML team has managed to keep the average turnaround time to less than 1 day. There have been 10 SARs filed for the month. Other metrics discussed were the accounts Returned to RM for additional information, Pouch reviews, and Reviews of KYC processes.

### **6. Operating Companies**

Paul informed the Committee about the Regulator concerns regarding Operating Companies. There is an expectation that the business is aware of the purpose of the

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company and the nature of transactions, and that the activity is closely monitored. Marlon proposed a review of the top 10 operating companies in each business unit, with a focus on the ones where there is no private wealth being managed for the principals of the business. He expects Compliance to make recommendations targeted at reducing the risk to the bank.

**7. Any Other Business**

There was no other business to discuss and the meeting was adjourned.

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Occ-Psi-00246334

From: DANIEL JACK/HBUS/HSBC  
Sent: 9/23/2008 9:11:03 AM  
To: ALAN P WILLIAMSON/HBUS/HSBC@HSBC02  
CC: DENIS E O'BRIEN/HBUS/HSBC@HSBC02  
Subject: OFAC MATCH - IIRO - KYC on Social Investment Bank Ltd. in Bangladesh (PCM)

Alan,

Do you want me to ask Gillian/Valerie in PSRR to follow-up on current ownership, or have you asked already?

Social Investment Bank Ltd. in Bangladesh - has been a PCM client since Oct-03  
--->

The KYC profile indicates the last annual KYC review was on 08/17/2007 (overdue).

\* Name of Principals or Beneficial Owners: (List all shareholders with 10% or more ownership. If Corporate Client not publicly traded, Special Category Client or High Risk Country, then list all shareholders with 5% or more ownership):

\* % of ownership:

Int'l Islamic Relief Organization (IIRO)  
Social Trust Fund  
Publicly Traded; widely Held - None with 5% or > holdings      8.62  
8.19  
83.19

Thanks and regards,

Daniel Jack  
Vice President - Compliance Officer  
HSBC Bank USA, NA  
452 Fifth Avenue, 7th floor, New York, NY 10018

Phone 212-525-8686  
Email daniel.jack@us.hsbc.com

----- Forwarded by Daniel Jack/HBUS/HSBC on 09/23/2008 10:00 AM -----

Alan P Williamson/HBUS/HSBC  
09/23/2008 06:32 AM

To  
Denise A Reilly/HBUS/HSBC@HSBC02, Mary A Caskin/HBUS/HSBC@HSBC02, Anne Liddy/HBUS/HSBC@HSBC02, Gloria Strazza/HBUS/HSBC@HSBC02, "Daniel Jack"  
<daniel.jack@us.hsbc.com>  
cc

Subject  
Re: POSITIVE OFAC MATCH - IIRO -KYC NOTES DATABASE

will do.

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Occ-Psi-00246334

----- Original Message -----

From: Denise A Reilly  
Sent: 09/23/2008 06:10 AM EDT  
To: Mary Caskin; Anne Liddy; Alan P Williamson; Gloria Strazza  
Subject: Re: POSITIVE OFAC MATCH - IIRO -KYC NOTES DATABASE

I think we should first confirm that IIRO is still a shareholder - email below indicates that they were to be "ousted" and the KYC profile may not be up to date. Alan, can you cover this?

If they are still a shareholder, I do think we need to check with OFAC.

----- Original Message -----

From: Mary A Caskin  
Sent: 09/23/2008 05:59 AM EDT  
To: Anne Liddy; Denise Reilly; Alan P Williamson; Gloria Strazza  
Subject: Fw: POSITIVE OFAC MATCH - IIRO -KYC NOTES DATABASE  
Do we want to review the activity on this account?

If you want me to refer it to OFAC for their guidance, let me know.

----- Original Message -----

From: Monique Codjoe  
Sent: 09/22/2008 10:22 PM EDT  
To: Gloria Strazza  
Cc: Daniel Jack; Mary Caskin; Andy Im  
Subject: POSITIVE OFAC MATCH - IIRO -KYC NOTES DATABASE  
Dear Gloria,

----- = Redacted by the Permanent  
Subcommittee on Investigations

I am just writing to put you on alert that after reviewing the 9/15/08 KYC Notes OFAC report - I have found one positive match to the IIRO (International Islamic Relief Organization). They are a minority owner of Social Investment Bank Ltd. Account [REDACTED]. It appears to be ok as the below was noted in their KYC profile. I just wanted to alert you to the existence of this positive OFAC match that appeared in my report. Please let me know if you have any questions or concerns. Thanks.

General comments: COMPANY BACKGROUND

Social Investment Bank Ltd. (SIBL) was incorporated on 5th July, 1995 as a result of dedicated efforts of a group of established Bangladeshi entrepreneurs and international import personalities. The bank started commercial operations on 22nd November, 1995, with a clear manifesto to demonstrate the operational meanings of economy, banking and financial activities as an integrated part of Islamic code of life. SIBL is beginning a new era of Islamic Banking having social, ethical and moral dimensions in each of its activities ranging from credit to construction, trading to transport, farming to fishing, manufacturing to mining and so on. Some renowned personalities and institutions are sponsors and directors of this bank.

SOURCE: www.sib1bd.com

>>>GRM Support was provided on 06/28/07 by Anthony Julian

IMPORTANT NEWS RELEASE

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Occ-Psi-00246334

The U. S. Department of the Treasury had announced on August 03, 2006, the designation of the Philippine and Indonesian branch offices of the Saudi-based International Islamic Relief Organization (IIRO) for facilitating fundraising for al Qaida and affiliated terrorist groups. Treasury additionally designated Abd Al Hamid Sulaiman Al-Mujil, the Executive Director of the Eastern Province Branch of IIRO in the Kingdom of Saudi Arabia.

COMPLIANCE'S ACTIONS

As of 08/03/06, client's USD PCM account has been placed on a debit block subject to the receipt of a response from Sr. Management of SIB and HSBC, Dhaka.

On 08/07/06 Compliance's issued an email as follows:

\*\*\*\*\*After reviewing the information provided by HSBC Dhaka my provisional decision is that this relationship be allowed to continue. It will be designated as a SCC Category 4 (reputational risk) with immediate effect and will be subject to closer monitoring as a result.\*\*\*\*\*

\*\*\*\*\*IIRO's shareholding is a minority holding and information received indicates that they exert neither management control nor have board representation. While this entity clearly represents a heightened reputational risk to the bank, I believe that with the knowledge we have today and the controls that are being implemented we have mitigated that risk adequately.\*\*\*\*\*

\*\*\*\*\*The block on outbound payments that was imposed on 08/03/06 may be lifted and the account returned to normal operation.\*\*\*\*\*

CLIENT'S RESPONSE

~~On 9/19/06 client was visited by Hershel Mehani, Iftexhar Alam, Richard Boyle and GRM, Muhammad Shohiduzzaman regarding the US Treasury announcement on IIRO. Client provided the following information regarding their relationship with IIRO:~~

- they do not have any contact with the IIRO, only a PO Box and therefore referred this matter to their Security Exchange Agency, indicating that they wish to remove them as a shareholder.
- they do not like having an association with a shareholder which is listed OFAC and do not wish to be associated with the IIRO in any way.
- they are not aware of any Nominee shareholders relationship or other ownership structure which would entitle IIRO to hold more than 8% of Social Investment Bank.
- they are not aware of any actions taken by IIRO in response to the US Treasury Department.
- IIRO do not maintain or operate any accounts with the bank.
- IIRO is not involved in the management of the bank or is not represented on the Board of Directors.
- there have been no dividend payout to IIRO
- they seek guidance from the Security Exchange Agency in Bangladesh and they advised they have the power to oust them in the next board of director meeting.

Compliance advised on 09/29/06 that the responses provided were satisfactory and that the fact that IIRO has no involvement in the running of the bank, is not a client of the bank and will likely be ousted as a shareholder give considerable grounds for comfort.

ROF was received on 08/10/06, with no further additional information, that was not already mentioned in the previous findings. The most recent information, was the US Treasury announcement, that was stated above under Important News Release, which Compliance was aware of.

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RAU

\*\*\*\*\*

In an e-mail dated 08/26/2008, RAU found no matches on OFAC. However, they did find a match on World-Check for International Islamic Relief Organization with the following description: "Terrorism-linked non-profit organisation. Established by Mohammed Khalifa (1978). Member of the world Muslim League network and of the Union of Good. Purported links to Osama bin Laden, al-Qaida, Hamas and the Palestine Islamic Jihad (PIJ). Connected to plots to assassinate Bill Clinton, the Pope and attacks on the Lincoln Tunnel and the Brooklyn Bridge. Operated extensively in Afghanistan during Taliban regime. Considered major sponsor of Afghan terrorist training camps.

[IDENTIFICATION]

Based in Jeddah, Saudi Arabia. Secretary general - Dr Adan Basha. Former secretary general - Mohammed Khalifa.

[FUNDING]

Suspected of engaging in whole or in part in the misappropriation of charitable funds to finance terrorist activity in the Middle East. Believed to receive funding from Saudi Arabia. Reportedly involved in providing financial support to and money laundering for al-Qaida, Hamas, PIJ and Islamic fundamentalist groups in Mindanao, Philippines.

[REPORTS]

1993 - reportedly linked with world Trade Centre bombing in the U.S. 1997 - offices raided by FBI as part of a Hamas laundering investigation. Feb 2002 - declared to be an unlawful organisation by the Israeli government. Dec 2002 - 1 of 10 non-governmental organisations indicted in a class action lawsuit by the families of the 9/11 world Trade Centre victims. 2007 - reported to fund the Yala Islamic college in Southern Thailand. May 2008 - declared to be an illegal organisation by the Israeli government for a second time.

Kindest Regards,

Monique Codjoe

AVP - Manager, Reporting & Analysis Unit - AML Compliance | HSBC BANK USA, N.A.  
452 5th Avenue, Tower 7, New York, NY 10018

Phone 212-525-6712

Fax 212-525-5769

Email monique.codjoe@us.hsbc.com

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Occ-Psi-00246337

From: DANIEL JACK/HBUS/HSBC  
Sent: 9/23/2008 9:23:04 AM  
To: ALAN P WILLIAMSON/HBUS/HSBC@HSBC02  
CC: DENIS E O'BRIEN/HBUS/HSBC@HSBC02  
Subject: Re: Fw: Social Investment Bank

Alan - Is Gillian aware of this?

PSRR staff need to do an annual KYC review on this PCM client asap - including ownership & mgmt, visitation, financials, AML program/changes, etc.

Thanks and regards,

Daniel Jack  
Vice President - Compliance Officer  
HSBC Bank USA, NA  
452 Fifth Avenue, 7th floor, New York, NY 10018

---

Phone 212-525-8686  
Email daniel.jack@us.hsbc.com

---

Alan P Williamson/HBUS/HSBC  
09/23/2008 10:12 AM

To  
Daniel Jack/HBUS/HSBC@HSBC02, Denis E O'brien/HBUS/HSBC@HSBC02  
CC  
Subject  
Fw: Social Investment Bank

fyi

----- Forwarded by Alan P Williamson/HBUS/HSBC on 09/23/2008 10:11 AM -----

Hersel Mehani/HBUS/HSBC  
09/23/2008 08:37 AM

To  
Muhammad SHOHIDUZZAMAN/IB DAK/HBAP/HSBC@HSBC03  
CC  
Anthony Julian/HBUS/HSBC@HSBC02, Alan P Williamson/HBUS/HSBC@HSBC02  
Subject  
Re: Social Investment Bank

Shohid  
Please can you send us an update on SIB as requested below . Last call report appear to be from May 2007  
Call Report KYC issues

Page 1

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Occ-Psi-00246337

Client Social Investment Bank Deal or CAO

Main details

Date of Call 29 May 2007

Products

Country of Call Bangladesh Location Details

Subject KYC issues

Call type Client Meeting at Client

Attendees

Reported on behalf of SAAD, Ahmed

Internal (HSBC) SAAD, Ahmed ; MEHANI, Hersel ;

SHOHIDUZZAMAN, Muhammad

External Attendees ISLAM, Md. Azharul; SOHEL, Abu

Sadek Md.; ASADUZZAMAN, K M;

IQBAL, Mohammad

Other attendees

Detailed Description

Existing Attachments

Had a discussion about their AML and KYC issues. We inquired the status of ousting IIRO which is on OFAC suspension ist. Social Investment Bank could not manage to oust IIRO yet due to some regulatory complexities. However, as per the central bank and SEC's directive they have stopped all transaction on the share holding (ie. buy/sell of the shares, issuance of bonus/right shares, payment of dividend).

Mr. Asaduzzaman appreciated our continuous support and ensured us that they will also continue and grow their USD PCM volume with HSBC.

Follow-up Tasks

Hersel Mehani

Senior Vice President

Global Payments and Cash Management

1212 525 6239 Office

1212 961 6614 Cell Phone

Alan P Williamson/HBUS/HSBC  
23/09/2008 07:50 AM

To  
Anthony Julian/HBUS/HSBC@HSBC02, Hersel Mehani/HBUS/HSBC@HSBC02  
cc

Subject  
Social Investment Bank

Tony, Hersel

Can you provide an update on the status of IIRO and SIBL? The last visit seems to have been in May and the situation was still up in the air.

Thanks

Alan

Social Investment Bank Ltd. (SIBL) was incorporated on 5th July, 1995 as a result of dedicated efforts of a group of established Bangladeshi entrepreneurs  
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and international import personalities. The bank started commercial operations on 22nd November, 1995, with a clear manifesto to demonstrate the operational meanings of economy, banking and financial activities as an integrated part of Islamic code of life.

SIBL is beginning a new era of Islamic Banking having social, ethical and moral dimensions in each of its activities ranging from credit to construction, trading to transport, farming to fishing, manufacturing to mining and so on. Some renowned personalities and institutions are sponsors and directors of this bank.

SOURCE: www.siblb.com

>>>GRM Support was provided on 06/28/07 by Anthony Julian

IMPORTANT NEWS RELEASE

The U. S. Department of the Treasury had announced on August 03, 2006, the designation of the Philippine and Indonesian branch offices of the Saudi-based International Islamic Relief Organization (IIRO) for facilitating fundraising for al Qaida and affiliated terrorist groups. Treasury additionally designated Abd Al Hamid Sulaiman Al-Mujil, the Executive Director of the Eastern Province Branch of IIRO in the Kingdom of Saudi Arabia.

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On 08/07/06 Compliance's issued an email as follows:

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\*\*\*\*\*IIRO's shareholding is a minority holding and information received indicates that they exert neither management control nor have board representation. While this entity clearly represents a heightened reputational risk to the bank, I believe that with the knowledge we have today and the controls that are being implemented we have mitigated that risk adequately.\*\*\*\*\*

\*\*\*\*\*The block on outbound payments that was imposed on 08/03/06 may be lifted and the account returned to normal operation.\*\*\*\*\*

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On 9/19/06 client was visited by Hersel Mehani, Iftekhar Alam, Richard Boyle and GRM, Muhammad Shohiduzzaman regarding the US Treasury announcement on IIRO. Client provided the following information regarding their relationship with IIRO:

- they do not have any contact with the IIRO, only a PO Box and therefore referred this matter to their Security Exchange Agency, indicating that they wish to remove them as a shareholder.
- they do not like having an association with a shareholder which is listed OFAC and do not wish to be associated with the IIRO in any way.
- they are not aware of any Nominee shareholders relationship or other ownership structure which would entitle IIRO to hold more than 8% of Social Investment Bank.
- they are not aware of any actions taken by IIRO in response to the US Treasury Department.
- IIRO do not maintain or operate any accounts with the bank.
- IIRO is not involved in the management of the bank or is not represented on the Board of Directors.

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Occ-Psi-00246337

- there have been no dividend payout to IIRO  
- they seek guidance from the Security Exchange Agency in Bangladesh  
and they advised they have the power to oust them in the next board of director meeting.

Compliance advised on 09/29/06 that the responses provided were satisfactory and that the fact that IIRO has no involvement in the running of the bank, is not a client of the bank and will likely be ousted as a shareholder give considerable grounds for comfort.

On site visit took place on 05/29/2007.

HSBC attendees, Muhammad Shohiduzzaman- Manager, Hesel Mehani- RGNL Sales Officer, Ahmed Saad- Assist Manager Sales met with client attendees, Mohammad Iqbal- SVP, Md. Azharul Islam- AVP, K M Asaduzzaman- Managing Director, and Abu Sadek Md. Sohel- Dep Managing Director.

Details:

Had a discussion about their AML and KYC issues. We inquired the status of ousting IIRO which is on OFAC suspension ist. Social Investment Bank could not manage to "oust" IIRO yet due to some regulatory complexities. However, as per the central bank and SEC's directive they have stopped all transaction on the share holding (ie. buy/sell of the shares, issuance of bonus/right shares, payment of dividend).

Mr. Asaduzzaman appreciated our continuous support and ensured us that they will also continue and grow their USD PCM volume with HSBC

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OCC-PSI-00248215

**GROUP FINANCIAL SERVICES AND EUROPEAN AUDIT**  
**REPORT ON**  
**HSBC PRIVATE BANK INTERNATIONAL – NEW YORK**  
**OCTOBER 2008**

**AUF GEN 080195**

*This report is intended solely for the information and use of the management, the Audit and Senior Compliance Committees, and others within HSBC Group and is not intended for use by anyone other than these specified parties.*

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Permanent Subcommittee on Investigations**

6.8 Bearer Share Accounts	12
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Permanent Subcommittee on Investigations**

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GROUP FINANCIAL SERVICES AND EUROPEAN AUDIT      OCTOBER 2008  
HSBC PRIVATE BANK INTERNATIONAL – NEW YORK

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**HSBC PRIVATE BANK INTERNATIONAL – NEW YORK**

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**1.      INTRODUCTION****1.1      Background**

This report covers our findings identified during the audit of HSBC Private Bank International - New York (IPB NYK) which is a division of HSBC Bank USA (HBUS).

IPB NYK offers a range of private banking services to non-US resident high net worth individuals, including investment advice, foreign exchange, funds, structured products, deposits and loan/overdraft facilities. In addition, advice on offshore trust structures is provided by Global Wealth Solutions.

The client base consists mainly of Central and South American nationals and Middle Eastern clients, principally from Israel. A number of lower value clients are scheduled to be transferred to HSBC Private Bank International in Miami. IPB NYK also has four Representative Offices based in Uruguay, Chile, Argentina and Israel. These offices have not been visited as part of this audit as they are covered by separate audits.

As at 31 July 2008, IPB NYK has 191 staff. The total Assets Under Management (AUM) as at 31 July 2008 is USD 10.22billion (USD 10.23billion) and the total approved credit facilities total USD 1.3billion. IPB NYK has approximately 1,800 client relationships. For the 7 months to 31 July 2008, IPB NYK generated an operating profit of USD 21.1million (USD 34.5million) attributed to revenues of USD 42.5million (USD 73.2million) and expenses of USD 21.4million (USD 38.7million). Comparatives are for the 12 months to 31 December 2007.

**1.2      Scope and Objectives**

The audit covered all of the activities of IPB NYK, with the exception of Information Technology. The Investment Advisory Group, who provide support to all of Private Banking Americas, was covered in the audit of the Fiduciary Activities of HSBC Private Banking Americas, which was performed concurrently with this audit. Local Compliance requirements have only been considered to the extent they are included within the Compliance Chart for the business.

Our work was based on the accounting records as at 31 July 2008. The objectives of the audit were to ensure that the key risks arising from the activities of the business are being managed in an appropriate manner and in accordance with Group Standards.

The audit was carried out by Alain Amann, Laurent Ulrich and Vianney Trajin of GAJ; Gareth Amos, Viral Shah, Chirag Parekh, Dhairya Kapadia, Kailash Bhatia and James White of AUF; Ralph Guillou of GAU and Alona Lapena of the CRU, between 15th September and 3rd October 2008.

We wish to thank the management and staff of the office for their assistance and cooperation during the course of the audit.

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GROUP FINANCIAL SERVICES AND EUROPEAN AUDIT . . . . . OCTOBER 2008

HSBC PRIVATE BANK INTERNATIONAL – NEW YORK

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HSBC PRIVATE BANK INTERNATIONAL – NEW YORK

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6.8      Bearer Share Accounts**Finding**

There are 21 cases, from a total of 610 bearer share accounts, where the beneficial ownership declarations are overdue by more than one year. There are 31 overdue in all as at September 2008. Further, we note that no beneficial ownership declarations have been obtained from clients with bearer share companies based in the BVI and the location of these bearer shares is not known in all instances. We understand that under BVI regulations all shares will be registered during 2009.

**Recommendation**

Management should ensure that beneficial ownership declarations are obtained for all bearer shares accounts on a regular basis.

AML Procedures for Private Bank Americas 2008 3.2.2

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HSBC PRIVATE BANK INTERNATIONAL – NEW YORK

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13-22



HSBC PRIVATE BANK INTERNATIONAL – NEW YORK10. COMPLIANCE10.1 NORKOM Monitoring (High Risk)**Finding**

A review of the list of aged alerts from the NORKOM system as of 21 September 2008 revealed that work had not commenced on a number of alerts that were outstanding for 30 days or greater. These outstanding alerts included several SCC and High Risk alerts. Further, the monitoring of client transaction across a number of accounts belonging to the same Beneficial Owner / group of Beneficial Owners is not yet in place, even though this functionality is now available.

**Background**

- i) As of 21 September 2008, 64 alerts were outstanding for 30 days or greater, of which 43 were outstanding for 52 days or greater. These outstanding alerts included four SCC and 26 High Risk alerts. We noted that during our audit, the backlog identified as of 21 September 2008 has been reduced.
- ii) The plan is to implement the CR011 functionality locally during Q2 2009.

**Recommendation**

- i) Management should ensure that work commences on the transaction alerts highlighted by the NORKOM system in a timely manner, prioritising the high risk cases.
- ii) Management should ensure that the monitoring of client transactions across accounts with the same Beneficial Owner / group of Beneficial Owners is implemented.

Private Banking FIM - B.9.6

10.2 NORKOM Alerts**Finding**

We have noted from our review that several NORKOM alerts were closed without appropriate the appropriate due diligence having been conducted or WorldCheck being performed on the correct names. These weaknesses all related to one temporary member of staff. This was subsequently detected by Management and rectification action took place.

**Background**

A review of 55 NORKOM alerts was conducted, of which 31 had a status of closed, five were confirmed to be reported and 19 were closed and reviewed by Quality Control. Within our sample, we have identified that there were six names that were not properly entered into the exact match mode on the WorldCheck database search and one reviewer's

**HSBC PRIVATE BANK INTERNATIONAL – NEW YORK**

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comments were not supported by any documented due diligence conducted (i.e. Google Search, World-Check search, etc).

There are three temporary employees reviewing alerts from the transaction monitoring system. We noted that alerts identified during the audit as not being properly documented have been closed by a former temporary employee.

**Recommendation**

Management should ensure that personnel (full time or temporary) are sufficiently trained before reviewing alerts on the transaction monitoring system. Consideration should be given on the appropriateness of the use of temporary staff to perform key Compliance tasks.

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GROUP FINANCIAL SERVICES AND EUROPEAN AUDIT      OCTOBER 2008  
HSBC PRIVATE BANK INTERNATIONAL – NEW YORK

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25-28

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Occ-Psi-00248782

From: TODD MADDISON/HBUS/HSBC  
Sent: 11/14/2008 11:05:17 AM  
To: ALAN P WILLIAMSON/HBUS/HSBC@HSBC02  
CC:  
Subject: Re: Bearer share question

Roger. I haven't discussed with [REDACTED] at all, so I'll get in touch with them. I'm on a conf. call right now about [REDACTED] alerts as well, hopefully will have updated news for you on this.

Todd C. Maddison, CAMS  
AVP, AML Compliance  
HSBC Securities (USA), Inc.  
452 Fifth Ave. New York, NY 10018  
212-525-5360 Fax 646-366-2528  
todd.maddison@us.hsbc.com

Alan P williamson/HBUS/HSBC  
11/14/2008 10:21 AM

[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations

To  
Todd Maddison/HBUS/HSBC@HSBC02  
cc

Subject  
Re: Bearer share question

Todd

Ok, please put some time on my calendar. Also note we'll have to discuss w/Pershing if not already done so.

Alan

----- Original Message -----  
From: Todd Maddison  
Sent: 11/13/2008 04:50 PM EST  
To: Alan P Williamson  
Subject: Fw: Bearer share question

Alan,

When you're back in, please let me know when you're available to discuss. Private Banking needs to know if we are providing dispensation for the 80 or so bearer share accounts that they have. I think this decision has been made already, but I just want to confirm with you before I tell Scott definitely yes. I say I think the decision has been made based on this email from Teresa Garcia to Terry westren that was forwarded to me by Jacques Herman:

Terry,

The policy is part of the AML Business Unit Procedure located on the I-Net - Policies & Procedures - AML Procedures. I copied and pasted this section for you.:

Bearer Share Corporation Account

Page 1

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Occ-Psi-00248782

Bearer shares are simply stock certificates of private corporations owned by the person who holds them", however the ownership is not recorded on the company's books. These shares are owned by and give all their rights to the holder. Bearer Share corporations can be used for legitimate investment or operating purposes (i.e. asset protection and privacy) and are usually structured as International Business Corporations ("IBCs") or Private Investment Corporations ("PICs"). Due to the potential for money laundering, terrorist financing and tax evasion, HBUS does not encourage establishing relationships with bearer share corporations. However, if a customer/entity who has bearer shares does approach the Bank, the applicant will be evaluated on a case-by-case basis. The account to be opened, whether for a new client or an existing client, will be subject to additional documentation requirement per guidance approved by the AML Director.

However, the AML Director through the approval of these procedures, has allowed the following exceptions to PB Americas:

- Since BVI authorities have granted till December 2009 for all bearer shares to be registered, all BVI bearer share corporations within PB Americas will follow this time frame;
- High risk bearer share accounts will provide an annual recertification of the beneficial owners through a properly executed BOL;
- Standard risk bearer share accounts will provide beneficial ownership recertification every three years through a properly executed Beneficial Ownership Letter ("BOL"); and
- Clients must attest that they will notify the bank of change in ownership, as and when it takes place. A new BOL will be required from the new beneficial owner.

The complete Bearer Share Corporate Account "Policy Guidance" can be viewed at the link appearing below:

[http://connect.us.hsbc/hnah\\_compliance/pdf/bearershare\\_guidance.doc](http://connect.us.hsbc/hnah_compliance/pdf/bearershare_guidance.doc)

Can you confirm for me? Thanks Alan,

Todd C. Maddison, CAMS  
AVP, AML Compliance  
HSBC Securities (USA), Inc.  
452 Fifth Ave. New York, NY 10018  
212-525-5360 Fax 646-366-2528  
todd.maddison@us.hsbc.com  
----- Forwarded by Todd Maddison/HBUS/HSBC on 11/13/2008 03:36 PM -----

Scott J Watson/HBUS/HSBC  
11/13/2008 12:49 PM

To  
Todd Maddison/HBUS/HSBC@HSBC02  
cc

Subject  
Re: Fw: 2 reg r items

That's appropriate. I was just confirming it was the GBM not PB opinion.

Scott Watson  
First Vice President

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Director - Specialized Compliance  
HSBC Bank USA, N.A.  
452 Fifth Avenue, 6th Floor  
New York, NY 10018  
Work 212-525-6247  
Fax 716-630-1826  
BlackBerry 516-439-9979

Todd Maddison/HBUS/HSBC  
11/13/2008 12:27 PM

To  
Scott J Watson/HBUS/HSBC@HSBC02  
cc

Subject  
Re: Fw: 2 reg r items

I want his opinion and think he would want to give it b/c he's GBM and not PB anymore.

Todd C. Maddison, CAMS  
AVP, AML Compliance  
HSBC Securities (USA), Inc.  
452 Fifth Ave. New York, NY 10018  
212-525-5360 Fax 646-366-2528  
todd.maddison@us.hsbc.com

Scott J Watson/HBUS/HSBC  
11/13/2008 12:05 PM

To  
Todd Maddison/HBUS/HSBC@HSBC02  
cc

Subject  
Re: Fw: 2 reg r items

Yes. Is Alan opining because of GBM or because of PB? If it is PB, then Paul not Alan should opine.

Scott Watson  
First Vice President  
Director - Specialized Compliance  
HSBC Bank USA, N.A.  
452 Fifth Avenue, 6th Floor  
New York, NY 10018  
Work 212-525-6247  
Fax 716-630-1826

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Occ-Psi-00248782

BlackBerry 516-439-9979

Todd Maddison/HBUS/HSBC  
11/13/2008 10:14 AM

To  
Scott J Watson/HBUS/HSBC@HSBC02  
cc

Subject  
Re: Fw: 2 reg r items

Scott, I left you a voicemail as well.

Before you take it as an absolute yes, let me reconfirm with Anthony and Alan Williamson as well. Alan is out until Monday, can you wait for an answer until then?

Todd C. Maddison, CAMS  
AVP, AML Compliance  
HSBC Securities (USA), Inc.  
452 Fifth Ave. New York, NY 10018  
212-525-5360 Fax 646-366-2528  
todd.maddison@us.hsbc.com

Scott J Watson/HBUS/HSBC  
11/13/2008 07:28 AM

To  
"Todd Maddison" <todd.maddison@us.hsbc.com>  
cc

Subject  
Fw: 2 reg r items

Todd,

Does Anthony's comment about you resolving bearer share issue mean that our current dispensation will include brokerage accounts opened by existing PB clients?

Scott Watson  
First Vice President  
Director- Specialized Compliance  
HSBC Bank USA, N.A.  
452 5th Ave, 6th Floor  
New York, NY 10018  
Work 212-525-6247  
Fax. 212-525-0611/0612

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BlackBerry 516-439-9979

Occ-Psi-00248782

— = Redacted by the Permanent  
Subcommittee on Investigations

----- Original Message -----

From: Anthony M Verga  
Sent: 11/12/2008 09:57 PM EST  
To: Scott J Watson/HBUS/HSBC@HSBC02@HSBC02@HSBC  
Subject: Re: 2 reg r items

According to Todd he resolved the bearer share account issues.

I posed several questions to Bruce and Steve Newman regarding the questionnaire, Bruce was supposed to provide me with a copy of the questionnaire, which I have not seen.

Please see if you can follow up with Bruce. Thanks.

----- Original Message -----

From: Scott J Watson  
Sent: 11/12/2008 06:56 PM EST  
To: Anthony M Verga  
Subject: 2 reg r items

Anthony,

At the 4:00 status meeting I was asked to follow up with you on 2 items:

- 1) [REDACTED] statement questionnaire - I believe you were taking one last look.
- 2) Bearer share accounts being opened in HSI. I believe 80 or so need to be opened so Todd was supposed to discuss with you whether HBUS dispensation will apply for these HSI PB accounts too.

Thanks,

Scott Watson  
First Vice President  
Director- Specialized Compliance  
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Occ-Psi-00256833

From: JANET L BURAK/HBUS/HSBC  
Sent: 2/15/2010 10:43:51 AM  
To: LESLEY MIDZAIN/HBUS/HSBC@HSBC02  
CC:  
Subject: Re: Advice requested

Lesley,

I coincidentally was on the telephone with David Bagley when I received your email. We agreed that it would be sufficient for you to provide an update on the OCC expanded banknotes exam only, and indicate that "there have been no other significant developments other than that communicated by Janet to David by email dated 4FEB, which she will update today if it is appropriate to do so". Not knowing where you are and what sort of technology you have access to, I have attached below the email I sent to Brendan for GMB last week which is largely based on what you provided me--obviously it is missing last Thursday's OCC/FRB meeting, but may provide a basis for you to respond to Ivor (and if it is not helpful just ignore it). Happy skiing!!

The OCC commenced a regularly scheduled banknotes examination on 20JUL09. The OCC's field work was completed 28AUG09. On 3SEP09 we were informed verbally that the OCC was expanding their banknotes exam, but had not yet set the scope or line of inquiry.

On 21SEP09 we received a request for an extensive amount of additional information, from 1JAN04 to the present, on 25 Latin America-based financial institutions, for all activities occurring in banknotes, correspondent banking and fx businesses. In addition, significant information regarding HBUS' policies, procedures and programs was requested.

On 29OCT09, the OCC raised concerns that cash letter (travelers' checks) monitoring was lacking sufficient analysis of suspicious activity, based on one week samples from each of 2007, 2008, and 2009. We immediately undertook a detailed review of all cash letters from 2009 (280 items), and determined as a result to now file 2 additional SARs (although at the time of the transactions there was no negative information on the individuals at the time of the transactions).

On 9NOV09, the examiner team was increased from 2 to 9, and now includes FRB examiners as well as OCC examiners. On 10NOV09, presentations were made to the OCC/FRB regarding the banknotes, PCM and fx businesses and their compliance programs. Based on the questions asked, the regulators appeared to be focused on resources, sufficiency of due diligence and monitoring with respect to HSBC affiliates, and linking information and processes across business lines.

Between 12NOV09 and 2FEB10 we received 8 additional requests for information, including: subpoenas received for banknotes clients from 2004 to the present; all enhanced due diligence on banknotes clients in Mexico following the change in Mexico's country risk; a list of all affiliates conducting a banknotes business; the monitoring program for affiliates; results of targeted compliance reviews in PCM, including a review of HBMX; to conduct and provide 2008 and 2009 wire searches for 32 entity names (money services businesses/casa de cambios); information on all banknotes and PCM clients, including HSBC affiliates, from 2005 to the present, in Paraguay, Uruguay, Ecuador, Panama, El Salvador and the Cayman Islands; KYC and activity information for specific financial institutions in Uruguay, Paraguay, Ecuador, El Salvador (including HSBC affiliates as well as [REDACTED]).

Throughout this process, the OCC declined to identify what their objectives or underlying concerns were, indicating a number of times that they were not authorized to do so. These comments led us to conclude that the OCC was conducting this expanded examination at the request of some enforcement

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agency. We were also aware that at least one other financial institution [REDACTED], and probably others, were being subjected to a similarly rigorous review in the same areas as ours.

On 7JAN10, the examiners finally provided us with some general comments/concerns, but no specifics. These issues were:

- adequacy of SAR process
- policy/procedures for foreign correspondent business
- weakness in due diligence and monitoring in banknotes program
- backlogs in PCM monitoring and enhanced due diligence, and resources

We have a 2 hour meeting scheduled with the OCC on 11FEB at which time they have indicated that they will provide more specifics around their concerns.

Janet

Janet L. Burak  
SEVP and General Counsel  
HSBC North America Holdings Inc.  
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HSBC Bank USA, N.A.  
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email: janet.l.burak@us.hsbc.com

[REDACTED] = Redacted by the Permanent  
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Lesley Midzain/HBUS/HSBC  
02/15/2010 09:13 AM

To  
Janet L Burak/HBUS/HSBC@HSBC02  
cc  
  
Subject  
Advice requested

Janet,  
GMO Compliance (Ivor Godfrey-Davies) has asked me for an update about expanded BN examination. This is needed for Douglas Flint today.  
I can easily update on regulator matters, but not sure how would you like me to convey the other matter? I could draft a complete note, and send to you for onward forwarding? Or do we need to suggest that David needs to give a verbal update to Douglas on that other aspect?

Lesley

Lesley Midzain  
Executive Vice President & Chief Compliance Officer | HSBC Bank USA  
452 Fifth Ave, New York, NY - 7th Fl.

Phone. 212-525-6410  
Fax. 212-525-5769

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Mobile.  
Email.

[REDACTED]  
Lesley.Midzain@us.hsbc.com

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**OCC & Chicago FED update Meeting February 11, 2010**

Attendees:

HSBC:

Janet L. Burak, SEVP  
Lesley Midzain, EVP  
Camillus Hughes, SVP  
Wyndham Clark, SVP & AML Director  
Denis O'Brien, Director

**OCC Supervision:**

Monica Freas, Washington OCC Enforcement  
Sally Belshaw  
Kerry Morse

**OCC Exam Team:**

Joseph Boss  
Bert Gregg  
Ray Pruszkowski  
Teresa Tabor  
Rita Watts  
Manny Torrijos

**Chicago Fed Exam Team:**

Mike Jarrell  
Pat Brunner  
Grace Rihani

Sally Belshaw thanked the Bank for arranging the meeting and explained they have not requested an earlier meeting with Management because of the extensive details of material under review and to ensure productivity. Sally emphasized and wanted to convey material concerns which should be deemed as "Significant". The exam is not over and will be ongoing.

Joseph Boss addressed the framework for the meeting as an "Informative forum" – not for extensive dialog at this time. Joe mentioned that our last meeting was in January with Cam, Wyn & Denis wherein a "general" discussion was had as the OCC was unable to provide details at that time. Joe stated he would provide some content at this time:

1. Pouch Exam – In November 2009 (Joe / Elsa) tested the Cash Letter Process, methods and analysis. The concerns identified relate to possible violations of 103.176 of the U.S.A. Patriot Act as it relates to "Due Diligence" of

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Correspondent Accounts; detailed procedures and escalation of open issues – no process documented to suspend activity, file a SAR or close the account.

- a. Joe acknowledged that a presentation was made Tuesday, February 9, 2010 to the exam team and he was pleased to report enhancements that were implemented as well as an internal look-back of cash letter activity for Travelers Checks and Money Orders. However, Procedures must be enhanced to reflect the changes inclusive of a process suspend activity, file a SAR or close the accounts when adequate responses to our queries are not received in a timely manor so as to comply with 103.176..
- b. Joe also verbalized concern as it relates to 11 pending reviews that date back to early 2009 and requested the Bank to enhance Procedures for clarity on how alerts are cleared – Aged items first.
- c. Additional concerns are if we have adequate resources to effectively manage the backlog of alerts and will be having further conversations with the AML Director as to how we propose to have proper resources in place.

Janet Burak asked if there is a specific instance or a failure.

Joe stated - One example is HSBC needed further information from Bank [REDACTED] who hid behind privacy law. The OCC contends there is no privacy issue with Canada; there were multiple instances with no resolution or action taken by the Bank. HBUS should include escalation procedures for remediation when appropriate in accordance with 103.176 of the US Patriot Act.

2. Joe went on to discuss the Banknote Accounts sampled – and stated there is concern as it relates to:
  - a. Adequacy of the level of analysis.
    - [REDACTED] - as detailed in the LN KYC ownership / principals – founder and owner of [REDACTED] in the US to provide services to Spanish clientele.

Cam asked for further explanation.

Joe stated – some level of enhanced due diligence or an indication that the common interests of [REDACTED] ownership should have triggered additional research – which was not documented in the file.

- b. Rita Watts stated that HSBC Policy as it relates to Enhanced Due Diligence for High Risk Customers. Whereas, Banknotes being a extremely High Risk Business our customer base of Cautionary and Medium Risk clients “seems” to water down the Policy & Procedures. Rita further questioned the Banks determination to classify the Dominican Republic as “Cautionary Risk” in particular notation to our handling of [REDACTED] Dominican Republic and a [REDACTED] owner. Rita asserted that the Bank is vague on the level of research performed on the Board, an internet search revealed a website for the

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owner that indicated they deal in "Real Estate". The website was under construction and subsequently shut down - (Desire to look further).

- c. Rita also commented on the level of due diligence as it relates to EDD performed on [REDACTED] Chile – no info on beneficial ownership – inadequate info – [REDACTED] Bank owner – Inadequate Review & Lack of Analysis was cited.
- d. Pat Brunner discussed a review of [REDACTED] Mexico – EDD did not denote identification and decision regarding a potential P.E.P. association; from the LN KYC Profile it seems the same individual noted to be the CFO, of [REDACTED] also shows as CEO of [REDACTED].
- Joe Boss added it appears the Principals & Owners of [REDACTED] also listed with a connection to [REDACTED]
  - Pat Brunner noted the common link of [REDACTED]

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Cam asked if we are certain they are the same individuals. Joe responded that based on the information available in the LN KYC and documented in the files, that they are the same individuals.

- e. Grace Rihani addressed a review of the KYC for [REDACTED] and stated that the RoF documented a Director is connected to a former Director that was accused in a criminal complaint related to violations of BSA and misuse of confidential information. Grace added that the review has not as yet been completed and further information will be requested of Gillian Bachstein and Denis O'Brien.
- f. Joe Boss stated as it relates to the Dominican Republic, that it appears Compliance is not getting information to adequately address KYC. — [REDACTED] — according to file, we conduct U.S. [REDACTED] per month in Banknotes activity. When the OCC asked Gyanen Kumar a specific question related to the percentage of remittance business; he responded that 40% - 50% attributed to remittance business. Joe went on to state the Business, who conduct the visitation calls, have wealth of information that does not always make it to the Profile of the customer and it appears that it is not shared with Compliance.
- g. Joe further observed that Risk Rating Client and Monitoring is mainly based on the Country Risk Matrix and that Compliance does not necessarily have all the information to perform adequate due diligence to rate the Customer. That there should be consideration for "Reputational Risk" under the SCC category and perhaps that would result in a different Risk rating if the Reputational Risk is considered heightened.

Janet asked if he thought the Business was withholding information. Joe replied that he has no proof of that and it seems that information is not evenly being shared.

- h. Joe went on to state that the issue is with the Due Diligence:
  - [REDACTED] visitation 2/09 narrative reflected [REDACTED] just ceased doing business with [REDACTED]: HSBC Rep stated he knew about the current media; and despite this, [REDACTED] was onboarded. There was no information on why [REDACTED] exited, no due diligence, no 23b request, etc... (Implied HSBC Rep was aware but went forward anyway). File did not show adequate due diligence on Media and rationale to open business.

Cam inquired as to how many Banknotes customers were reviewed. Joe responded that many were reviewed but their scope "Targeted" [REDACTED]

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**Rita also commented on the** Analysis of Clients, projected volumes and how we validate. She further stated that in a discussion with Banknotes staff, Michael Baez stated he does not maintain or retain these records.

- i. Ray Pruszkowski provided additional commentary on [REDACTED] Dominican Republic stating that the State Department has deemed the Dominican Republic as vulnerable to Money Laundering yet no Due Diligence was identified in his review to determine if our customer base dealt with Casa de Cambios or other MSB's. The KYC Profile discussed possible exposure to money transfer businesses in general; but they did not consistently consider the extent of that particular exposure or to other businesses identified as facilitators of money laundering.

#### **Risk Ranking of Clients**

1. Joe Boss commented that the reviewers deemed that HSBC relies too heavily on the Country Risk Matrix to assess customer risk. Another category of risk – reputational risk, should be “higher risk”. He noted that we rate many Banknotes customers as SCC's but, as it relates to the Dominican Republic, a “Jurisdiction of Primary Money Laundering” with concerns – “Vulnerable of Money Laundering” and in consideration that Banknotes is a High Risk Business, we should reassess our Customer Risk methodology. Also, in certain instances, as it relates to Country Risk rating matrix – particular rating may not be accurate.

Lesley asked if this is based just on the State Department information or are there other factors or information that can be shared with us. Joe referred back to [REDACTED] as one example – Ownership, across borders, connections with MSB's & Casa di Cambios....

2. Joe stated they have not, as yet, started what he proposed to be “extensive work” on Affiliate transactions. Policy Procedures silent on monitoring of Affiliate transactions, as well as KYC on affiliates on products and services.

Sally asked if there was a specific policy as it relates to KYC/CIP and monitoring of Affiliates. Janet commented that it may vary. Lesley added Policy does not segregate affiliates. Business Unit Procedures and Desk Instruction Manuals note different procedures on affiliates as we have more comfort on controls. Sally followed up with a question on KYC standards. Lesley responded that it's a little different as we know the ownership - 50% or more is clear, for under 50% we follows HSBC standard.

#### **Banknotes Monitoring Program**

Joe commented that HBUS methodology for monitoring is tracking Sales and Purchases, Spikes trigger alerts; but there is no other aspect of the review. He further stated that it should be reasonable and expected to do more – what other products & services is the



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customer utilizing – just as one example. The Bank cannot continue to justify the activity as “Tourism” or “Remittances, etc” with no further explanation.

**PCM Monitoring Program**

Joe Boss stated that his team identified unacceptable patterns of activity as it relates to [REDACTED] and [REDACTED]

- A. Manny Torrijos commented on his observations of [REDACTED]. The account was opened January 2009 – with minimal activity up to October 2009. Sudden onset of pattern of activity concentrated to a single Beneficiary. Various (30) money remittances companies and Casa di Cambios sending funds to a single beneficiary at [REDACTED] [REDACTED] 1.3 million U.S. Dollars daily – 19 million to a single Beneficiary at [REDACTED]. Also of note were originator’s which were previously subject of negative media:
- [REDACTED]  
 [REDACTED]  
 [REDACTED]

December 2009 had a similar pattern. However, 1½ times the volume and value of transactions. It was also noted that based on the alert pattern, our thresholds would only pick up half of these transactions.

Denis commented that this pattern was identified by the Monitoring team, we had preliminary meetings and have this pattern under review.

- B. Grace & Ray commented on a review of [REDACTED] stating that a pattern of Structured – Multiple originators to a single beneficiary was identified, commonly known as “Shotgun” transactions. This pattern was identified in transactions from 2004 – 2009 with multiple originators to one Beneficiary and the same individuals on both sides of the transaction. This Structuring was also below the thresholds in the AMS system.

Janet commented that this is of interest, wasn’t [REDACTED] recently approved for a failed bank acquisition by the FED?

**BANK PROFILES**

Joe Boss made additional comments as examples of how information in the profiles could be used in the enhancement of our monitoring program.

[REDACTED] has an asset size of 744 million – yet the activity through wires July – October was minimal; In November it was 776 million - 500 million increase, December is \$1.7 billion. Based on the asset size, does this activity

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make sense? [REDACTED] stated in 2009 that they cleared 70.5 billion in FX transactions for the year; that would relate to 3.2 million individual transactions.

[REDACTED] was a Banknote only client with an asset size of only 179 million; yet from 2006 – 2009 – sold 1.6 billion to HSBC.

Cam stated the account was closed. Joe commented that yes, it may have been closed but did the relationship make sense to onboard.

Michael Jarrell commented on material concern as it relates to Reports of Findings and backlogged alerts. Out of 89 requests, 51 RoF's were still outstanding as of October 2009 also noteworthy was the fact that it took an excess of 100 days to accomplish the reports of Finding.

Pat commented as it related to [REDACTED] EDD was requested in June 2009, the report was not completed until October 2009. KYC was approved contingent on no negative findings. It was noted that there is no process in place to go back for re-approval.

#### AMS ALERTS

Joe noted a Significant Backlog in alerts and is aware that the Bank (Wyn/others) are working toward a solution to control and handle the backlog. Sally is also concerned and is working with Wyn. This is a Big Risk and must be cleared quickly – as we are “Working out of a deep hole”.

Pat and Grace commented on the Quality of Alerts as it relates to [REDACTED] as well as what the Policy/Procedures are to ensure that aged alerts are cleared first. Manny commented that they are unable to assess the potential vulnerabilities' with [REDACTED] as the alerts from November 2009 have not been worked.

#### SARs

Joe and Ray stated concerns - failure to file SARs as it relates to:

[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

BARTON ADAMS - 5/2005 – 12/2008 various accounts in the U.S., Canada, Hong Kong and China for himself, his children, wife and business. Material concerns with the:

- depth, breadth scope of review
- review of activity prior to alert activity
- 12/2006 – 30K wire to Philippines
- 5 check dep. Less than 10K in 12/2006
- Employee contacted customer to ask on wire

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- Did not ask why 5 checks from Jefferson Savings

Janet asked for a clarification

Joe commented that the Bank did not perform a comprehensive look-back, nor across other Business Units – did not consider similar activity previously processed in 2007, 2008 or 2009. SAR analysis did not consider wire activity – 3 Bank to Bank wires for 9K to same checking A/C that alerted.

Concerns to monitoring process did not analyze on overall customer relation basis. Over 3 Million Dollars through HSBC of which 2.3 Million to offshore entities. Potential “Layering – Money Laundering” was not deemed suspicious or questioned and not discussed on case alerts. The quality review requested and suggested additional review which was not documented as being done.

World Check showed a possible match for medical fraud.

- The alert narrative, stated not a match to our customer. Different address. But alert also shows customer just moved from another address....
- November 2008 reflected a hit, exact name and country – which showed that it could not be confirmed as there was no date of birth whereas, EPLs listing matched the name and DOB of the banks customer.

General strong examples – SAR should have included all activity.

Joe stated that SAR’s are not being completed in a timely manner. The AMS Alert constitutes a trigger, Branch referrals, etc. – the bank was past the 30 day. Joe also commented that there is a potential deficiency in the “Accuracy of filings” and HBUS has informed foreign affiliate of filings.

Teresa Tabor commented on [REDACTED] Brazil KYC Profile and EDD. She stated that there was negative Money Laundering news on the customer. It was not directly related to the MSB, but on the [REDACTED] individual that owned the MSB. Banknotes staff had verbally stated they had a letter refuting the information – it has yet to be provided.

Teresa Tabor commented that she is in the process of reviewing FX and has provided GBM FX 55 questions from a review of the FX Procedures and monitoring provided. She has requested a response on February 17, 2010.

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OCC-PSI-00285742

MEMORANDUM

**Date:** July 14, 2008  
**To:** David Dew, Chief Operating Officer  
Lesley Midzain, EVP Compliance/AML Director  
Cam Hughes, Sr. VP Specialized Compliance  
**From:** Debra Bonosconi  
**Topic:** GIB AML Matters

David:

Per your request, I am providing you with an update of our status regarding the following:

- Alert disposition progress,
- Staffing issues, and
- Libya's account information.

**ALERT DISPOSITION**

As shown in the chart below, we currently (as of 7/15) have a total of 1,793 open alerts which is a reduction of 1,519 from 3,312 on June 27th. There are a total of 203 that are open in excess of 120 days and 147 open in excess of 90 days (350 combined) and we are concentrating our efforts on reducing those first. We are closing an average of 84 alerts daily (including Saturdays) and based upon current projections, we should have total of 1,499 pending alerts when the OCC arrives on July 21, 2008.<sup>1</sup>

Actual	Total	Jan-08 & Earlier	Feb-08	Mar-08	Apr-08	May-08
		>120 Days	91-120 Days	61-90 Days	30-60 Days	Current
06/27/2008	3,312	470	380	792	792	878
07/11/2008	2,051	227	153	490	509	672
07/15/2008	1,793	203	147	422	407	614
<b>Estimates</b> (based on current average production)						
07/16/2008	1,709	175	119	413	398	605
07/17/2008	1,625	147	91	403	388	595
07/18/2008	1,541	119	63	394	379	586
07/19/2008	1,499	105	49	389	374	581
<b>FINAL ESTIMATE</b>						
07/21/2008	1,499	105	49	389	374	581

<sup>1</sup> This does not include June alerts which we should have on July 21, 2008.

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OCC-PSI-00285742

Kathy Gladkowski's team (five staff) has been graciously providing assistance to us with our alerts since last week and will continue to do so for the near term. Our staff is currently working overtime and Saturdays to address both the backlog and aged alerts. We will continue to maintain this work schedule until we have reduced the number of alerts to a manageable level.

**STAFFING**

Currently, GIB has a total of 8 FTEs, two temporary staff, and one intern. As you are aware, senior management approval has been obtained to hire two additional FTEs in Buffalo, NY and those positions will be fully dedicated to alert management. We are currently interviewing for these positions and anticipate that they will be filled by August 15, 2008.

**Libya**

On June 25, 2008, the Libyan People's Bureau submitted a letter to GIB requesting the closure of the Money Market account and the remittance of the funds by cashier check. On June 30, 2008, GIB acknowledged the receipt of the letter and advised the Ambassador that GIB would also be closing the remaining checking account (balance \$5,011,818.71 as of June 30, 2008) by July 30, 2008. The Money Market account, with a closing balance \$22,304,521.51, has been closed as of June 30<sup>th</sup> 2008.

The Libyan Embassy has indicated that it has ceased issuing new checks and expects most outstanding checks to clear by July 30, 2008. Nevertheless, the account will be closed on July 30, 2008.

Please advise if you have any questions.

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OCC-PSI-00292367

**MEMO**

**To:** Lesley Midzain  
**From:** Ali S. Kazmy *AK*  
**Date:** July 3, 2008  
**Subject:** Modifications to the Approved Private Bank Americas AML Procedures

The following modifications have been made to the Private Bank ("PB") Americas AML Procedures for 2007/2008.

1) **Bearer Shares**

- Since BVI authorities have granted till December 2009 for all bearer shares to be registered, all BVI bearer share corporations within PB Americas will follow this time frame;
- High risk bearer share accounts will provide an annual recertification of the beneficial owners through a properly executed BOL;
- Standard risk bearer share accounts will provide beneficial ownership recertification every three years through a properly executed Beneficial Ownership Letter ("BOL"); and
- Clients must attest that they will notify the bank of change in ownership, as and when it takes place. A new BOL will be required from the new beneficial owner.

2) **Visitation Schedule**

Client Risk Category/Product	Domestic Clients		International Clients		Minimum Timing/Period
	Face to Face	Phone	Face to Face	Phone	
Special Categories of Clients (SCCs)	All		All		Annual
High Risk	All		All		Annual
Standard/Medium Risk			>\$5MM	\$1-\$5MM	Annual
	>\$15MM				Every 2 years
	\$3-\$15MM	<\$3MM		<\$1MM	Every 3 years
Approved Intermediaries	All		All		Annual

3) International Private Bank (Miami) Risk Rating Methodology

The International Private Bank will risk rate categories of customers to establish appropriate levels of EDD. Clients are identified as Special Categories of Clients (SCC), High Risk, and Standard Risk based on products and services, activity, type of business or entity, occupation, and geographic location. The risk assessment is performed at the time of account opening and is updated on a quarterly basis based on changes in account activity.

For a new account the initial risk assessment is completed by the RM upon account opening using a Risk Assessment Worksheet. The final assessment as calculated on the Worksheet is entered into the CUSTOMER RISK RATING field in the Account Profile/Purpose Tab of the KYC Form. New accounts that are classified as SCC or High Risk require a completed EDD checklist prior to account opening.

Risk Factor 1 – Industry / Occupation

Certain Industries and/or Occupations are deemed to have a higher risk of money laundering potential. As determined by the AML Director. Given world circumstances and the developing intricacies of money laundering and terrorist financing, this listing is subject to amendment at any time.

Risk Factor 2 – Country of Exposure

Using the Group Countries list as a starting point, the AML Oversight Committee reviews the High Risk Country listing as necessary. Again, the world political and financial situation can affect this listing and it should be carefully monitored for change.

Risk Factor 3 – Product / Transaction Type & Volume

The client's actual usage of high risk products and services are tracked by client and are considered along with other factors to determine the overall client risk assessment.

Risk Factor 4 – Customer's Corporate Structure for Business Activity

Certain types of structures are considered high risk when combined with high activity (Offshore Operating Shell Company, Personal Holding Company, Personal Operating Account) are considered along with other factors to determine the overall client risk assessment

Clients who match any of the following six conditions are considered High Risk Clients:

- High Risk Occupation And High Risk Activity And High Risk Country
- Or High Risk Occupation And High Risk Activity
- Or High Risk Occupation And High Risk Country And Total Debits>=\$500,000
- Or Offshore Operating Company And High Risk Activity
- Or High Risk Activity And Personal Holding Company
- Or High Risk Activity And Personal Account or Personal Operating Account

Your consideration to this matter is appreciated.

Thanks & regards,

9:41 am  
 Discussed this memo with  
 Lerley Madron & she  
 confirms that she is OK  
 with the changes and  
 concurs with the contents of  
 the memo. This conversation  
 is to be treated as formal  
 approval. 7/11 J.

OCC-PSI-00299323

<<<DRAFT ONLY>>

OFAC Pre-penalty Notice

Reactive Statement:

HSBC abides by all OFAC rules and regulations and seeks clarification from OFAC when needed.

In 2006, HSBC Bank USA, N.A. (London Branch) processed one gold bullion transfer instruction based on a good-faith and reasonable interpretation of OFAC rules. It has since rejected similar transfer requests in instructions.

Background Talking points only/Not for attribution:

- > HSBC abides by all OFAC rules and regulations and seeks clarification when needed.
- > Transfer occurred because of a good-faith and reasonable interpretation of the legal requirements pertinent to the exemption provided at Sect 560.515(a) (1).
- > HSBC self disclosed the transaction to OFAC.
- > This type of transfer has only happened only once, N and no further similar requests transfers of this type have been processed.
- > There was no physical delivery of gold to Iran or direct dealings by HSBC with Iran.
- > HSBC only acted on authenticated instructions transmitted electronically via SWIFT SWIFT to make book entry payments between accounts.

Comment [21]: We are also potentially being fined regarding the Burma sanction. Should we not include information about that?

Comment [22]: Would we want to include reference to the fact that these were accounts of [redacted]

Q: If asked, why did it take OFAC so long to issue a Pre-Penalty Notice on this matter? We cannot comment for OFAC. Please direct this question to their office.

- FOR INTERNAL USE ONLY -

BACKGROUND - - What happened:

On May 24, 2006, the HBUS London branch received an instruction from one of its clients-- [redacted] in Paris-- to transfer [32,000 oz] of gold to an account of [redacted] London, which was held by [redacted] in the US (acting as clearer). [redacted] client was favouring Bank Markazi Iran. The transaction did not involve the physical movement of gold and was solely book entries.

An internal assessment was made at the time by HSBC UK compliance. B based on information contained on the U.S. Treasury web site. Therefore, UK compliance allowed this the transaction to take place.

When HBUS London branch received a second such instruction the next day, May 25, it decided to reconfirm the position and verify the interpretation of the OFAC rules in relation to gold clearing activity.

On Friday, May 26, HSBC rejected the second transfer.

Subsequently, on Tuesday, May 30<sup>th</sup>, OFAC confirmed on 30<sup>th</sup> May that this transaction was not permitted and should be rejected.

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[redacted] = Redacted by the Permanent Subcommittee on Investigations



OCC-PSI-00299323

Full details were self-disclosed by HSBC to OFAC in a letter dated 27th June 2006. On 8th May 2009, OFAC issued a Pre-Penalty Notice with a proposed penalty of \$125,000. On June 4, 2009, HSBC sent a response letter to OFAC and is currently awaiting feedback from OFAC.

**Q&A**

Note: If a penalty is assessed, the fine will be posted on the OFAC's website. On June 4, 2009, HSBC sent a response letter to OFAC and is currently awaiting feedback from OFAC.

**Did HSBC sell gold to Iran?**

No. As a "clearing bank", HSBC Bank USA, N.A. acted on a SWIFT standard payment instruction from ██████ in Paris to transfer "unallocated" metal to ██████ for the account of ██████.

There was no physical delivery of gold to Iran or direct dealings with Iran. HSBC only acted on authenticated instructions transmitted electronically via SWIFT to make book entry payments between accounts.

HSBC's involvement was limited to acting as a clearer between ██████ and ██████ Bank.

**Why did HSBC allow this transfer?**

HSBC Bank USA, N.A. (London Branch) processed one gold bullion transfer instruction based on a good-faith and reasonable interpretation of OFAC rules.

HSBC acted as a clearer between ██████ and ██████ Bank. The transaction was flagged by HSBC's internal systems and referred to compliance for approval.

**Why did HSBC not process subsequent transfers?**

The second transaction was rejected after HSBC London conferred with US compliance, which in turn referred to OFAC on 25th May 2006.

On 26th May 2006, HSBC rejected the second transaction and no further dealings took place.

On 30th May, OFAC confirmed that the U-turn rules applied to cash but not gold and therefore the transaction should be rejected.

**When did HSBC report this violation?**

Full details were self disclosed to OFAC in the letter dated 27th June 2006 (date has been confirmed).

**Has HSBC been fined?**

NO. On 8th May 2009, OFAC issued a Pre-Penalty Notice with a proposed penalty of \$125,000. (The potential fine can be up to 2x the value of the transaction—in this case \$4.1mm).

Comment [23]: I don't think we need to mention the upper range of penalty as it is simply not relevant here.

HSBC has 30 days to contest the ruling, and sent its response letter to OFAC on June 4, 2009. HSBC is currently awaiting feedback from OFAC.

— = Redacted by the Permanent Subcommittee on Investigations

## OCC-PSI-00299323

**Timeline**

24th May 2006: Date of the original transaction.  
 25 May 2006: Date of the proposed second transaction.  
 25th May 2006: HBUS Compliance discussed the transaction with OFAC.  
 25th May 2006: HBUS applied for a licence to process the transaction.  
 26<sup>th</sup> May 2006: HSBC rejected the second transaction.  
 30th May 2006: OFAC advised the license application would not be approved and the transaction should be rejected (which HSEC had already done).  
 27th June 2006: Full details of the first transaction were communicated self-disclosed in a letter to OFAC in the letter dated .  
 8th May 2009: OFAC issued a Pre-Penalty Notice with a proposed penalty of \$125,000  
 4<sup>th</sup> June 4, 2009: HSBC responded to letter and is waiting further feedback from OFAC.

Formatted: Superscript

**Glossary:**

Unallocated account - an account where specific bars are not set aside and the customer has general entitlement of the metal.

**Background: what is the U-turn exemption?**

Before it was amended in November 10, 2008, the Iranian Transactions Regulations authorized transfers ordered by a non-US bank from its own account in a US bank to an account held by a second US bank for a second non-US bank. This is commonly referred to as the "U-turn" exemption.

2281

Occ-Psi-00304783  
From: "PAUL K. STECKER" <PSTECKER@PHILLIPSLYTLTLE.COM>  
Sent: 8/8/2008 3:56:45 PM  
To: ELIZABETH PROTOMASTRO/HBUS/HSBC@HSBC02  
CC: ANNE LIDDY/HBUS/HSBC@HSBC02;DEBBIE M D'AUBNEY/GMO/HSBC@HSBC;JOHN M HALLIDAY/HGHQ/HSBC@HSBC;LESLEY MIDZAIN/HBUS/HSBC@HSBC02;  
MARY A CASKIN/HBUS/HSBC@HSBC02;MICHAEL T RYAN/HBUS/HSBC@HSBC02;PATRICIA KOPF/HBUS/HSBC@HSBC02;SUSAN A WRIGHT/HGHQ/HSBC@HSBC  
Subject: RE: USS Cole Case (Rux)

Thank you, Elizabeth; please let me know what Ms. Lawlor tells you, as this is an issue the bank counsel as a group are trying to decide how to address; and the sooner we know OFAC's position, and what if any role they plan to play in the lawsuit, the better.

-----Original Message-----  
From: elizabeth.protomastro@us.hsbc.com  
[mailto:elizabeth.protomastro@us.hsbc.com]  
Sent: Friday, August 08, 2008 4:14 PM  
To: Paul K. Stecker  
Cc: Anne.Liddy@us.hsbc.com; debbiedaubney@hsbc.com;  
johnhalliday@hsbc.com; Lesley.Midzain@us.hsbc.com;  
mary.a.caskin@us.hsbc.com; michael.t.ryan@us.hsbc.com;  
patricia.kopf@us.hsbc.com; susanwright@hsbc.com  
Subject: RE: USS Cole Case (Rux)

I was told by OFAC that (A) the funds cannot be transferred without a license and (B) that they needed to see if the Executive Branch has any issues with this. I was told that OFAC should have some information for us by next week. (We were originally told they would have a preliminary answer for us today, but that did not happen.)

I will follow up with OFAC (Lorraine Lawlor) on Monday.

"Paul K. Stecker"  
<PStecker@phillip  
slytle.com>  
To  
Anne Liddy/HBUS/HSBC@HSBC02,  
Susan  
08/08/2008 03:55 A WRIGHT/HGHQ/HSBC@HSBC  
PM  
cc  
Lesley Midzain/HBUS/HSBC@HSBC02,  
Mary A Caskin/HBUS/HSBC@HSBC02,  
Elizabeth  
Protomastro/HBUS/HSBC@HSBC02,  
Michael T RYAN/HBUS/HSBC@HSBC02,

Page 1

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Occ-Psi-00304783

Patricia Kopf/HBUS/HSBC@HSBC02,  
Debbie M D'AUBNEY/GMO/HSBC@HSBC,  
John M HALLIDAY/HGHQ/HSBC@HSBC

Subject  
RE: USS Cole Case (Rux)

Anne, Susan et al. - I am on a conference call with the other bank counsel right now, and one of the issues we are discussing is whether a license from OFAC is needed to transfer the funds, as there is some uncertainty as to whether the TRIA statute preempts the license requirement. Would whomever was advised by OFAC that it is their position that the funds cannot be transferred to the court without a license (as described below) please give me further details about what OFAC said, and whether we have any sense as to what action OFAC is expected to take (e.g., issue a license or challenge the court's order).

-Paul

Paul K. Stecker  
Phillips Lytle LLP  
3400 HSBC Center  
Buffalo, NY 14203-2887  
Direct tel.: 716.847.7044  
Fax: 716.852.6100

-----Original Message-----

From: Anne.Liddy@us.hsbc.com [mailto:Anne.Liddy@us.hsbc.com]  
Sent: Friday, August 08, 2008 3:37 PM  
To: susanwright@hsbc.com  
Cc: Lesley.Midzain@us.hsbc.com; mary.a.caskin@us.hsbc.com;  
elizabeth.protomastro@us.hsbc.com; michael.t.ryan@us.hsbc.com;  
patricia.kopf@us.hsbc.com; debbiedaubney@hsbc.com;  
johnhalliday@hsbc.com; Paul K. Stecker  
Subject: USS Cole Case

---

Susan, as per our conversation on Thursday afternoon pls see the below.

On October 12, 2000, the USS Cole was attacked in Yemen resulting in the deaths of 17 U.S. sailors. The families of these victims have filed suit

Page 2

2283

Occ-Psi-00304783

and are awaiting compensation.

Under the subject lawsuit, the family members seek to collect the judgment they obtained against the Republic of Sudan out of blocked funds HBUS and other banks are holding pursuant to OFAC's Sudanese Sanctions Regulations (SSR). HBUS holds four wire payments blocked pursuant to the SSR totalling \$3,265,151.58 which are subject to be turned over to the court's registry by August 25, 2008 in compliance with this order. These four payments involve HSBC Group Members:

- 1.) HSBC Hong Kong \$300,000;
- 2.) British Arab Commercial Bank Ltd \$58,442.25;
- 3.) HSBC Dubai \$367,770; and
- 4.) HSBC Johannesburg \$2,538,939.33

Pls see the attached spreadsheet detailing the blocked payments.

(See attached file: Sudan Blocked Funds.xls.zip)

We have been advised by our external and internal legal counsel that we should notify the affected Group entities and their impacted customers of this court action prior to August 25th. Background on the court order, issued on July 29, 2008, as well as dates requiring specific action are included below. We will need your advice regarding the manner in which we should contact the Group entities. We can certainly contact them directly ourselves, or would you like us to work through Group Compliance? OFAC has advised that the funds cannot be released until a license is issued. We have spoken with OFAC today and they indicated they will be providing us details regarding this issuance next week.

(See attached file: Order Regulating Proceedings.pdf)

Key Dates:

By August 25, the banks are ordered to release and transfer the blocked funds to the court's registry.  
By September 25, the banks are required to send formal notice to impacted parties. Formal notification is being drafted by the banks and reviewed by the court.  
Our legal counsel has confirmed that HBUS is permitted to provide informal notification to the impacted parties prior to September 25. Impacted parties will have 60 days in which to take action and submit objections to the court.

I will be out of the office on Monday and Tuesday. During that time please contact Mary Ann Caskin on 212 525 5530 if you have any questions.  
Thank

Page 3

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Occ-Psi-00304783

you.

Anne Liddy  
SVP, AML Compliance | HSBC Bank USA, N.A.  
452 5th Avenue, Tower 7, New York, NY 10018

---

Phone 212-525-5906  
Fax 212 525 5769  
Email anne.liddy@us.hsbc.com

---

-----  
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\*\*\*\*\*  
SAVE PAPER - THINK BEFORE YOU PRINT!

-----  
\*\*\*\*\*  
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\*\*\*\*\*

2285

Occ-Psi-00307701

From: ALI S KAZMY/HBUS/HSBC  
Sent: 2/26/2007 4:22:13 PM  
To: MARY A CASKIN/HBUS/HSBC@HSBC  
CC: NERISSA P HALL/HBUS/HSBC@HSBC; CAROL J HARVEY/HBUS/HSBC@HSBC; ANNE LIDDY/HBUS/HSBC@HSBC;  
ALAN P WILLIAMSON/HBUS/HSBC@HSBC; ALEXINE VON KESZYCKI/HBUS/HSBC@HSBC  
Subject: Re: APC Interim Procedures

I have the following comments/suggestions:

At present, we do not have a standard Bearer Share Policy. I am actually working on it and expect it to be finalized this week, however, it will require senior management approval. I will try my best to secure that as well, but believe that we should have a note on the training deck that a Bearer Share policy will apply and that for the time being the one in existence being that of PB Americas should be utilized.

Three months (90 days) is reasonable for a site visit. I concur with Carol.

If the initial deposit is a check and it ends up being sent on collection, I believe there are certain disclosure requirements regarding the time frame it takes to collect proceeds of a collection item. A reference to that effect is in order to deter customer dissatisfaction/complaints.

No mention is made of OFAC check.

Proper documentation, including that which relates to work done to ascertain customer identification, type of government issued ID, KYC requirements, etc., must be maintained in the customer file. This should also include any reports generated by ICRO, EDD reports, etc. Additionally documentation related to resolution of discrepancies (ID numbers, address, etc.) must be maintained in the file as well.

Regards,

From: Mary A Caskin on 26 Feb 2007 15:57

To: Nerissa P Hall/HBUS/HSBC@HSBC  
Carol J Harvey/HBUS/HSBC@HSBC  
Anne Liddy/HBUS/HSBC@HSBC  
Alan P Williamson/HBUS/HSBC@HSBC  
Alexine von Keszycki/HBUS/HSBC@HSBC  
Ali S Kazmy/HBUS/HSBC@HSBC

Subject: APC Interim Procedures

Nerissa and I worked up a revised document reflective of Carol's suggestions, indicated with tracking. There are some comments that need to be addressed to help with clarity:

The Visitation Policy needs a management decision. There was an original suggestion to require the visitation within 6 months of account opening. Carol is asking that we consider a 3 month window, instead.  
We included a call report, modeled after the IPB Call Report.  
We still need a decision on the "Hold All Mail" policy.

Also, it is important to note that HSBC has the capability to assist the customer in the establishment of a PIC or IBC. This issue is addressed in this proposed procedure.

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Occ-Psi-00307701

Please send any additional comments as soon as possible so we can draft a training deck.

Mary Ann Caskin VP  
AML Compliance  
HSBC Bank USA NA  
452 Fifth Ave Floor 7  
NY, NY 10018  
212-525-5530

Nerissa P Hall/HBUS/HSBC  
02/26/2007 03:03 PM

To  
Mary A Caskin/HBUS/HSBC@HSBC  
cc  
  
Subject  
FW: APC Interim Procedures (draft)

=====  
Nerissa P. Hall  
Vice President, Senior Manager  
Anti-Money Laundering Compliance  
HSBC Securities (USA) Inc.  
452 Fifth Avenue, NY 10018  
Tel. No. (212) 525-5579  
Fax No. (212) 525-5769  
Email: nerissa.p.hall@us.hsbc.com  
=====

----- Forwarded by Nerissa P Hall/HBUS/HSBC on 02/26/2007 03:03 PM -----

Carol J Harvey/HBUS/HSBC  
02/26/2007 02:25 PM

To  
Nerissa P Hall/HBUS/HSBC@HSBC  
cc  
  
Subject  
Re: APC Interim Procedures (draft)

Nerissa,

I made some comments and questions that I high-lighted in yellow:  
Page 2



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occ-Psi-00307701

[attachment "APC Interim Procedures (draft) 26FEB07.doc" deleted by Mary A Caskin/HBUS/HSBC]

Carol J Harvey, CAMS  
Senior Compliance Officer  
AML Retail Compliance  
1441 Brickell Ave, 16th floor  
Miami, FL 33131  
Phone: (305) 536-8113 Fax: (305) 539-4910  
Email: Carol.J.Harvey@us.hsbc.com

Nerissa P Hall/HBUS/HSBC  
02/26/2007 09:52 AM

To  
Carol J Harvey/HBUS/HSBC@HSBC, Anne Liddy/HBUS/HSBC@HSBC, Alan P  
Williamson/HBUS/HSBC@HSBC, Mary A Caskin/HBUS/HSBC@HSBC, Alexine Von  
Kesztycki/HBUS/HSBC@HSBC, Ali S Kazmy/HBUS/HSBC@HSBC  
cc

Subject  
APC Interim Procedures (draft)

All,

Mary Ann and I drafted interim APC procedures for your review. We tried to consider all previous comments. The one topic we did not address is the "hold all mail" issue which we need to research further.

Please provide you comments no later than end of day, 2/26, so that we may obtain appropriate sign off and plan the training document reflective of the final draft.

[attachment "APC Interim Procedures (draft) 26FEB07.doc" deleted by Carol J Harvey/HBUS/HSBC]

Thank you

=====  
Nerissa P. Hall  
Vice President, Senior Manager  
Anti-Money Laundering Compliance  
HSBC Securities (USA) Inc.  
452 Fifth Avenue, NY 10018  
Tel. No. (212) 525-5579  
Fax No. (212) 525-5769  
Email: nerissa.p.hall@us.hsbc.com  
=====

Attachment: APC Interim Procedures (draft) 26FEB07 carol edits.doc

Page 3

2288

Occ-Psi-00312153

From: ALAN P WILLIAMSON/HBUS/HSBC  
Sent: 5/9/2007 8:14:15 PM  
To: GEORGE TSUGRANES/HBUS/HSBC@HSBC  
CC: ALAN T KETLEY/HBUS/HSBC@HSBC; ANNE LIDDY/HBUS/HSBC@HSBC; DENIS E O'BRIEN/HBUS/HSBC@HSBC;  
DENISE A REILLY/HBUS/HSBC@HSBC; ROBERT X GUTHMULLER/HBUS/HSBC@HSBC  
Subject: Re: Fw: Visit to Brooklyn Ops

George

I am sorry I have not had a chance to comment before on your proposal. Couple of questions:

How much effort/manhours would it be to institute the process Alan described for [REDACTED] and one other client of equivalent size, if Brooklyn recorded the info rather than you using check image?

How much time do you estimate could be saved by revising the process for group members?

How much time do you estimate would be added by your heightened monitoring process for SCC's?

Thanks

Alan W

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

George Tsugranes/HBUS/HSBC  
05/09/2007 01:49 PM

To: Alan T Ketley/HBUS/HSBC@HSBC  
CC: Alan P Williamson/HBUS/HSBC@HSBC, Anne Liddy/HBUS/HSBC@HSBC, Denis E O'Brien/HBUS/HSBC@HSBC, Denise A Reilly/HBUS/HSBC@HSBC, Robert X Guthmuller/HBUS/HSBC@HSBC  
Subject: Re: Fw: Visit to Brooklyn Ops

Alan - I had Bill Wehmeyer do a quick analysis on [REDACTED] account and the stats for the last 5 days - average of 22 checks per day. Using the data for the last 5 days and incorporating the process noted below would take about 2+ hours each day.

This process if instituted would make the cash letter review process a 6+ hour per day process absent some relief in other parts of the daily cash letter monitoring.

Analysis below:  
From May 2nd to May 8th, [REDACTED] account had a deposit on each day. None of these deposits had an item count on the cash letter deposit ticket. I used check image to obtain the exact item count for each day, this process was time consuming. I have summarized each day below.

Items	Dollars
02May 14	101,837.00

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Occ-Psi-00312153

03May 26 76,311.14  
04May 26 33,820.83  
07May 21 63,498.41  
08May 21 37,617.00

regards,  
George

Alan T Ketley/HBUS/HSBC  
05/09/2007 10:26 AM

To  
George Tsugranes/HBUS/HSBC@HSBC  
CC  
Alan P Williamson/HBUS/HSBC@HSBC, Anne Liddy/HBUS/HSBC@HSBC, Denise A  
Reilly/HBUS/HSBC@HSBC, Robert X Guthmuller/HBUS/HSBC@HSBC, Denis E  
O'Brien/HBUS/HSBC@HSBC  
Subject  
Re: Fw: Visit to Brooklyn Ops

— = Redacted by the Permanent  
Subcommittee on Investigations

George

We have been asked by the OCC what specifically we are going to do about the monitoring for [REDACTED] cash letter. I think the suggestion below is a good start but we need some more detail.

How feasible would it be to pull every one of the [REDACTED] cash letters and record on a spreadsheet the names of the makers of the cash letter items? The spreadsheet should identify items that were made payable to [REDACTED] separately from other items; it should record the names and address of the [REDACTED] purchasers and the names of the purchasers of the official checks. The record could then be reviewed monthly and we would create some rules governing escalation such as we will ask [REDACTED] about names that we see more than x times with values greater than y dollars where 'x' and 'y' may vary according to instrument type.

We could incorporate this into our risk based model by applying the same monitoring to any US bank that offers a remittance service and gives us cash letter.

Alan T. Ketley  
Senior Vice President, Anti Money Laundering  
Tel: 212 525 6147 / Fax: 212 382 7580

George Tsugranes/HBUS/HSBC  
05/07/2007 02:28 PM

To  
Alan T Ketley/HBUS/HSBC@HSBC  
CC  
Alan P Williamson/HBUS/HSBC@HSBC, Anne Liddy/HBUS/HSBC@HSBC, Denise A  
Reilly/HBUS/HSBC@HSBC  
Subject

Page 2

2290

Occ-Psi-00312153

Re: Fw: Visit to Brooklyn Ops

Alan - I have discussed the issues with the Delaware AML team and asked for some input on ways to improve our cash letter monitoring. Below are some recommendations which will allow for both operational benefits and a more risk based monitoring approach.

Immediately revise the daily process to exempt check reviews for group members receiving checks from large Fortune 100 names (provide Albert the list). Apply this exemption to [REDACTED] Bank checks deposited through HSBC HK - example below. Appear trade related transactions and average 5-6 checks every other day.

[attachment "HSBCHK\_Wachovia.pdf" deleted by Alan P williamson/HBUS/HSBC]

Revise the HSBC Group deposit limit for deposit reviews to \$1,000,000 for Group members in non HRCS.  
Revise the dollar limit for review on SCC accounts to \$100,000

List of SCCs with 2006 activity below:  
SCC Clients with Cash Letter Activity/ 2006 volume

**Redacted by the  
Permanent Subcommittee on Investigations**

**[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations**

Total Hokuriku Bank (Japan) and [REDACTED] deposits and MIFs and compare to subtotals on the daily ICS reports - eliminate the check by check comparison and only investigate if an apparent MIF was not included.

Have the team do a review of the prior months daily cash letter activity on [REDACTED]. This will allow us to trend deposits, possibly ask questions and I can report the review findings monthly.

To summarize we would be focusing more on SCC clients, cutting back on some Group reviews in non HRCS and also tracking [REDACTED] office activity each month.

Please review and we can discuss at your convenience.

Page 3

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Occ-Psi-00312153

regards,  
George

Alan T Ketley/HBUS/HSBC  
04/27/2007 02:17 PM

To  
"Anne Liddy" <anne.liddy@us.hsbc.com>, "Alan Williamson"  
<alan.p.williamson@us.hsbc.com>, Denise A Reilly/HBUS/HSBC@HSBC, "George  
Tsugranes" <george.tsugranes@us.hsbc.com>  
cc

Subject  
Fw: Visit to Brooklyn Ops

Food for thought.

George - please review and let me have your comments. I will read later and try  
to digest.

We will look to have a meeting with Bob next week to discuss further.

Alan T. Ketley  
Senior Vice President, Anti Money Laundering  
Tel: 212 525 6147 / Fax: 212 382 7580  
----- Forwarded by Alan T Ketley/HBUS/HSBC on 04/27/2007 02:11 PM -----  
~~Robert X Guthmuller/HBUS/HSBC~~  
04/27/2007 12:52 PM

To  
Alan T Ketley/HBUS/HSBC@HSBC  
cc

Subject  
Re: Visit to Brooklyn OpsLink

Just finished a high level review of cash letter processing with Albert Halley,  
Jonathan Dean and Mike McMann. We have identified the types of items processed  
and where the compliance monitoring takes place or doesn't take place. I'll  
give you a memorandum next week on the review but here is the Readers Digest  
version of what we agree on. Four opportunities to brainstorm:

- 1) Procedures treat all clients the same. This department processes  
Page 4

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Occ-Psi-00312153

cash letter items, including remote deposit capture items, as well as foreign mail teller items and PCM customer items from high risk clients, medium risk clients and low risk clients. We should be drilling down on our high risk customers (i.e.) middle east, Latvia etc and less time on the [REDACTED] checks. We should take the high risk client list from PCS for starters, match up volume figures for each, identify those clients that in the past have sent a large number of sequentially numbered travellers checks or high volume of money orders or personal checks and monitor accordingly.

2) Albert Halley and staff of three have "divided loyalty". Their main job is processing checks - 5:00PM deadline. But they are also asked to be the "front line" for monitoring, referring items to Delaware for further investigation. One job focusses on pushing items through, another is to go slower, review items, ask themselves questions - is it suspicious? - contact Delaware - what for a response - hopefully before 5:00PM.

one solution is to have a full time compliance person reviewing items FULLY, that means internet searches, OFAC, wordcheck etc. Additionally, the compliance person could drill down on the high risk accounts.

3) Must improve Trend analysis. Nothing done in Brooklyn. Very new process started in Delaware regarding money orders. (Lotus Notes database). We have reportedly had all travelers checks \$20k and over (from MIF) on Excel for 4 years but haven't used/sorted items for trend analysis. Lets start looking at it. WHAT ABOUT SEQUENTIALLY NUMBERED TRAVELERS CHECKS AGGREGATING SAY \$15k per day, same payee; WHAT ABOUT OFFICIAL CHECK TRENDS/PATTERNS????

4) Must improve EDD in Delaware. - Based upon our conversation regarding [REDACTED] we must improve EDD, more internet searches, calls on high risk clients asking questions, use of certifications, etc.

Operational problems:

1) At least one client - in Turkey submits over 50 cash letters in a day (something about Embassy requirement that individuals must have \$14k in US funds in order to buy a car????!!!!!!). Time consuming 2) Volume on Mondays 2 to 2 and a half times Tues through Fri. Just the way it is!!!!

Reviewed above with Emilio Ruiz, site mgr.

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

Alan T Ketley/HBUS/HSBC  
04/24/2007 04:32 PM

To  
Robert X Guthmuller/HBUS/HSBC@HSBC, Jonathan Dean/HBUS/HSBC@HSBC  
CC  
"George Tsugranes" <george.tsugranes@us.hsbc.com>, Denise A  
Reilly/HBUS/HSBC@HSBC, Emilio Ruiz/HBUS/HSBC@HSBC, Mark  
Balawender/HBUS/HSBC@HSBC  
Subject  
visit to Brooklyn Ops

2293

Occ-Psi-00312153

Bob, Jonathan

Can you make your arrangements to visit with the Brooklyn IPG Group on Friday April 27.

The purpose of the visit is to gain a thorough understanding of what is processed through Albert Halley's area with a specific focus on what items are reviewed and how as well as to get an understanding of whether anything that is not PCM ever flows through the department.

I will try to set up a conference bridge either tomorrow or Thursday to give you both a more thorough briefing.

Thank you both in advance for the time allocated to this

Alan T. Ketley  
Senior Vice President, Anti Money Laundering  
Tel: 212 525 6147 / Fax: 212 382 7580

2294

Occ-Psi-00316956

From: ALI S KAZMY/HBUS/HSBC  
Sent: 8/9/2007 7:18:33 AM  
To: ALAN P WILLIAMSON/HBUS/HSBC@HSBC  
CC: ANNE LIDDY/HBUS/HSBC@HSBC  
Subject: Re: Fw: On Boarding Bearer Share Corporation Policy Guidance

Alan,

In order to finalize the captioned policy, we need to agree on all provisions thereof. I have concurrence from all other business partners and now await PB's as well. As such, your early response/feedback will be appreciated.

At this juncture, your cognizance is drawn to the recently issued enforcement action against American Express entities, who were penalized up to \$55 million for BSA/AML violations including those associated with PICS/bearer share accounts. For ease of reference, copied below are the exact wording of the regulatory findings:

FRB action: "AEBI did not maintain effective control measures for bearer share and other PICS".

FinCEN action: "Measures to fully identify account relationships involving Private Investment Companies (PICS) and bearer share account, to assess and manage the potential risk for money laundering in these accounts were not effectively implemented".

American Express also has a Deferred Procession Agreement due to the referenced violations of the BSA. My email of 7th August refers in this respect, which I will be forwarding to PB Miami following this note for their review and necessary action.

Thanks & regards,

From: Alan P Williamson on 06 Aug 2007 13:29

To: ~~Ali S Kazmy/HBUS/HSBC@HSBC~~

cc: Anne Liddy/HBUS/HSBC@HSBC  
Subject: Re: Fw: On Boarding Bearer Share Corporation Policy Guidance

Ali

Thanks for the full disclosure, unfortunately I now question my prior inclination to make them be consistent.

Let's talk later

Alan

From: Ali S Kazmy  
Sent: 08/06/2007 11:07 AM EDT  
To: Alan P Williamson  
Cc: Anne Liddy  
Subject: Re: Fw: On Boarding Bearer Share Corporation Policy Guidance

I have forwarded 2 emails from Clara's prior to this one. She has concerns and do not think she can go back to "re-paper" all high risk bearer share corp. accounts.

Page 1



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Occ-Psi-00316956

Teresa's has been in all meetings reviewing the various drafts of this policy and she is on board with it.

Your involvement is now requested to finalize the issue.

Thanks,

From: Alan P Williamson on 06 Aug 2007 10:53

To: Ali S Kazmy/HBUS/HSBC@HSBC

cc: Anne Liddy/HBUS/HSBC@HSBC

Subject: Re: Fw: On Boarding Bearer Share Corporation Policy Guidance

Ali

The retro will cost some resource so has to be planned separately.

In principle we should have consistency but its Clara who's going to be most impacted. If she has not specifically commented I would like to send to her and Teresa before signing off.

Alan

Ali S Kazmy/HBUS/HSBC  
08/06/2007 08:47 AM

To  
Alan P Williamson/HBUS/HSBC@HSBC  
cc  
Anne Liddy/HBUS/HSBC  
Subject  
Re: Fw: On Boarding Bearer Share Corporation Policy Guidance

Alan;

Many thanks for your feedback. The minor edits within the documents are accepted. As regards the major concerns noted below, please note that:

we may have to do a retro review, however, over a period of reasonable time (one to two years possibly). A firm time frame has not been decided, as such, the Policy Guidance does not provide for an implementation date. Going forward it will apply on all Bearer Share Corp. customers. As soon as this draft is agreed to by all parties, we will issue it with immediate effect and advise with the Ops. Circular the retro review time frame.

I agree with your point regarding exception. No matter how much we try not to deviate from the policy, we cannot still control all situations. Accordingly, I am adding a line at the end of the Policy Guidance stating the following:

Exceptions to this Policy must be sought from the AML Director or designee in writing giving full details of the matter warranting such exception. The written approval must be maintained in customer file and reported to Oversight

Page 2

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Occ-Psi-00316956

& Control Group upon receipt.

At this stage, I would also like to confirm our discussion of last week, where you agreed that PB Miami should not be treated any separately. That being the case, we will have to ascertain as to how we will arrange practical implementation of this guidance on them with about 600 high-risk Bearer Share Corp. accounts.

Regards,

From: Alan P Williamson on 05 Aug 2007 11:46

To: Ali S Kazmy/HBUS/HSBC@HSBC

Subject: Re: Fw: On Boarding Bearer Share Corporation Policy Guidance

[attachment "On Boarding Bearer Share Corporation Policy Guidance (comments).doc" deleted by Ali S Kazmy/HBUS/HSBC]

Ali

I made some fairly minor comments, mostly to emphasise the unique nature of bearer share companies. My major concerns are:

I think the policy should state that it is prospective from the date of issuance; otherwise we may have to do a retrospective looking for bearer share corps. This may be a good idea but we should avoid locking ourselves in.

There has to be an exception process. We know from experience that there is always a special case somewhere. That should take care of the few instances in markets where this may come up.

I apologise for my lateness and lack of prior attention to this, but can you confirm that Nerissa, Teresa, Clara, and Martin have reviewed? what is the next step?

Thanks as always for your patience.

Alan

Ali S Kazmy/HBUS/HSBC  
08/03/2007 01:01 PM

To  
Alan P Williamson/HBUS/HSBC@HSBC  
cc

Subject  
Fw: On Boarding Bearer Share Corporation Policy Guidance

---

Per our discussion of Monday the 30th of July, this is to request your feedback on the aforementioned document.

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Occ-Psi-00316956

Thanks & regards,

----- Forwarded by Ali S Kazmy/HBUS/HSBC on 08/03/2007 01:00

PM  
-----  
Ali S Kazmy on 25 Jul 2007 17:23

Note  
25 Jul 2007 17:23

From: Ali S Kazmy Tel: 212-525-5560  
Title: Vice President Location: 5TH-21  
WorkGroup: COMP/ANTI-MONEY LAUNDERING Mail Size: 36166

To: Alan P Williamson/HBUS/HSBC@HSBC  
Alan T Ketley/HBUS/HSBC@HSBC  
Alexine Von Keszycski/HBUS/HSBC@HSBC  
Anne Liddy/HBUS/HSBC  
Bernie Mackara/HBUS/HSBC@HSBC  
Clara Hurtado/HBUS/HSBC@HSBC  
Daniel Jack/HBUS/HSBC@HSBC  
Deborah R Price/HBUS/HSBC@HSBC  
Denis E O'Brien/HBUS/HSBC@HSBC  
George Tsugranes/HBUS/HSBC@HSBC  
Judy P StoIdt/HBUS/HSBC@HSBC  
Kathleen L Gladkowski/HBUS/HSBC@HSBC  
Mary A Caskin/HBUS/HSBC@HSBC  
Nerissa P Hall/HBUS/HSBC@HSBC  
Richard Salvatore/HBUS/HSBC@HSBC  
Robert Abreu/HBUS/HSBC@HSBC  
Salvatore Iocolano/HBUS/HSBC@HSBC  
Steven J Rockefeller/HBUS/HSBC@HSBC  
Susan Hoggarth/HBUS/HSBC@HSBC  
Teresa Garcia/HBUS/HSBC@HSBC

Subject: On Boarding Bearer Share Corporation Policy Guidance

Thanks to all the participants of today's meeting. I believe we are getting close to finalizing the guidance. In this regards, please provide your final ~~comments/feedback/suggestion/question in writing to me by Tuesday the 31st of July.~~

For ease of reference, the draft guidance is attached.

[attachment "On Boarding Bearer Share Corporation Policy Guidance.doc.zip" deleted by Alan P Williamson/HBUS/HSBC]

The minor changes discussed today will be incorporated after receipt of all comments on Tuesday.

Regards,

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Occ-Psi-00327917

From: TERRY WESTREN/HBUS/HSBC  
Sent: 12/11/2007 11:36:28 AM  
To: PAUL J O'SULLIVAN/HBUS/HSBC@HSBC02  
CC: ALAN P WILLIAMSON/HBUS/HSBC@HSBC; ANTONIO SUAREZ-OBREGON/HBUS/HSBC@HSBC; CLARA HURTADO/HBUS/HSBC@HSBC;  
DENNIS J DUGGAN/HBUS/HSBC@HSBC; JEFF CLOUS/HBUS/HSBC@HSBC; LOUIS MARINO/HBUS/HSBC@HSBC;  
MANUEL DIAZ/HBUS/HSBC@HSBC; MARLON YOUNG/HBUS/HSBC@HSBC; MASON C SALIT/HBUS/HSBC@HSBC02;  
PATRICK M CAMPION/HBUS/HSBC@HSBC; STEVEN J ROCKEFELLER/HBUS/HSBC@HSBC; TERESA GARCIA/HBUS/HSBC@HSBC02;  
STEFAN HARDY/HBUS/HSBC@HSBC  
Subject: Re: Fw: Bearer Share Corporation Policy

Paul,  
If I read this correctly, it is saying that one year from the issuance of this policy, we have to have all outstanding bearer shares (currently with clients), either registered or in the hands of an approved Custodian. Is this correct?

I recall when the OCC was here, they asked for this. AML Compliance was able to negotiate for this requirement to be applicable only to High Risk accounts. We then complied with this. It looks like this is now expanded to all outstanding bearer shares? Of course, with the new BVI rules coming into play in 2009, they will have to do this anyway, but I think it should be noted this could be a considerable exercise.

Thanks and regards,

Terry Westren  
SVP, Head of International Operations, HSBC Private Bank  
452 Fifth Ave. 6th Floor, New York, N.Y. 10018

Phone. 212-525-5325  
Fax. 212-525-1680  
Email. terry.westren@hsbcpcb.com

Paul J O'Sullivan/HBUS/HSBC@HSBC02  
12/10/2007 06:36 PM

To  
Terry Westren/HBUS/HSBC@HSBC, Mason C Salit/HBUS/HSBC@HSBC02, Teresa Garcia/HBUS/HSBC@HSBC02, Antonio Suarez-Obregon/HBUS/HSBC@HSBC, Jeff Clous/HBUS/HSBC@HSBC, Manuel Diaz/HBUS/HSBC@HSBC, Clara Hurtado/HBUS/HSBC@HSBC, Patrick M Campion/HBUS/HSBC@HSBC, Steven J Rockefeller/HBUS/HSBC@HSBC, Dennis J Duggan/HBUS/HSBC@HSBC  
Cc  
Marlon Young/HBUS/HSBC@HSBC, Louis Marino/HBUS/HSBC@HSBC, Alan P Williamson/HBUS/HSBC@HSBC  
Subject  
Fw: Bearer Share Corporation Policy

All,

Page 1

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Occ-Psi-00327917

Attached is the final draft of proposed policy covering Bearer Share Company clients. There is a little more flexibility than was originally planned and we will be able to maintain bearer share company accounts once the requirements of the policy are met.

I will follow up with each group individually (DPB, IPB NY, and IPB Miami) to discuss implementation steps.

regards,

Paul

----- Forwarded by Paul J O'Sullivan/HBUS/HSBC on 12/10/2007 06:21 PM -----

Ali S Kazmy/HBUS/HSBC@HSBC  
12/10/2007 04:38 PM

To  
Paul J O'Sullivan/HBUS/HSBC@HSBC02  
CC

Subject  
Bearer Share Corporation Policy

Attached is the aforementioned document for implementation purposes. Please note that we will be announcing the policy by the end of the week.

[attachment "Bearer Share Corporation Account Policy Guidance (Final Draft 082907).doc.zip" deleted by Terry Westren/HBUS/HSBC]

In case of any questions, please let me know.

Regards,

Page 2

<b>HSBC GROUP PRIVATE BANKING NORTH AMERICA COMPLIANCE REPORT 14 DECEMBER 2007</b>
--

**1 ISSUES ARISING****(A) NEW ISSUES****(i) HSBC Private Bank Division of HSBC Bank USA ("HBUS-PB"),  
New York and California - DPB**

Compliance is working closely with the DPB Retrospective Review Committee as a plan is prepared for Phase 2 of the Retrospective Review project. The earlier draft is being updated for comments received. Compliance is working to finalize the definition of "High Risk" client which is important in terms of prioritization of the remediation work in phase 2.

**(ii) HSBC Private Bank International Miami (PBUS)**

The Atlanta Fed concluded the on-site review of Miami PB on 29 November 2007. An exit meeting was not held (it will be scheduled for January).

Compliance Management and the Miami LCO had a meeting with the Examiners on November 20, 2007 to understand how the examination had gone. The following are the major themes: Norkom – we need to continue the work to make scenarios more granular, turn on the remaining scenarios where appropriate, address issues raised by GFA in the November audit. Bearer Share Companies – they will await the revised HBUS Policy but made a comment about the recertifications. More NY oversight – visits, review of specific issues (evidence thereof) and review of operating companies. Offshore accounts – no comments for now as they had not spoken with the examiner handling this area. High Risk Methodology – Fed agreed with our approach in this area. Staffing levels and experience - still a concern. They are also looking at Compliance compensation levels. Audit coverage / CRU independence – they need to talk further with GFA and consider this. They mentioned some client activity which they had identified from the data mining they had performed. It is clear that they have performed more work than in the past – but they were not necessarily pointing to any new control weaknesses they had identified.

**(iii) ~~Bearer Share Company – Policy Changes:~~**

The HBUS Board of Directors has approved a revised Bearer Share Company policy. The changes are not as restrictive as expected and the changes permit the opening of and maintaining of accounts for bearer

2301

OCC-PSI-00328384

share companies under strictly controlled conditions. Compliance management and PB Business management will be discussing next steps over the next week.

**(B) MATTERS REPORTED PREVIOUSLY**

**(i) HSBC Private Bank Division of HSBC Bank USA ("HBUS-PB"), New York and California and HSBC Private Bank International, Miami ("PBUS")**

**Planning Meeting with PB Americas Management:** A planning meeting was held to discuss and agree Priorities, Issues and Resources going forward. Several issues were discussed and agreed including:

(i) Centralize the AML CMP functions for DPB and IPB in NY and Miami respectively, (ii) increase the Miami CMP resources from 5 to 8, including a General CMP resource in Q1 08 to allow for a build up prior to migration, (iii) unlike DPB where stage 1 and 2 monitoring are performed in Buffalo, IPB monitoring will remain within the IPB AML CMP teams, (iv) Establish a KYC Committee chaired by CMP in NY by December 31, (v) Consider increasing the scope of the ORU function to cover business documentation and KYC matters. CRU scope would then be adjusted accordingly based on ability to rely on ORU work, and (vi) AML CMP Management are in the process of reviewing the definition and classification of high risk accounts with the GMLCO before the relevant audit issues can be addressed. Target dates for these items are therefore being delayed. Progress is being made on several of the above issues.

**Bearer Share Company – Policy Changes:** HBUS Compliance Management has undertaken a review and is likely to announce significant changes to the Bearer Share Company policy. These changes are likely to include a prohibition on the opening of new bearer share company relationships and a retrospective review of all current bearer share company relationships with a view to having such relationships transition to a non-bearer share structure within a defined period. The changes are likely to be announced over the next month and will apply to HBUS and subsidiaries including HSBC Bank International. HBUS will seek comments from the impacted business units including Private Banking regarding an implementation plan and dates.

**HBUS –PB California**

A-2

**Domestic Private Banking West Coast AML Program:** GFA Audit completed an audit of the DPB California region and, as previously reported, identified a number of serious issues regarding timeliness of reviews, updating of client information, and filing of suspicious activity reports. An action plan to address these issues has been implemented and a status report was distributed to management on 10/31/07. All issues should be resolved by year end with most due to be resolved by end November. Compliance Review Unit (CRU) visited California in early December 2007 and confirmed that all actions due to have been completed had been. Compliance is planning to implement in the near future a revised structure under which AML Compliance support will be provided to California region from the AML team in New York.

## 2. COMPLIANCE PRIORITIES

- (i) **HSBC Private Bank Division of HSBC Bank USA (“HBUS-PB”), New York and California and HSBC Private Bank International, Miami (“PBUS”)**
- The Norkom transaction monitoring system was implemented in International Private Bank Division on 6 February 2007. PBUS continues to review the scenarios and workflows to ensure the most effective results are produced;
  - A project has commenced to review compliance resource needs for the US PB operations. This project is part of the HBUS 1509 initiative which includes an analysis of cost allocations. HBUS-PB and PBUS is in the process of restructuring its operations and centralizing certain functions. As part of this restructuring, resource needs and allocations are being evaluated;
  - Compliance is working with the Legal Department to evaluate the documentary requirements associated with business referred to other Group Private Banking Units. As part of this review, referral agreements in place between HBUS/PBUS and other booking centres are being evaluated;
  - Continue to work with legal, business and US and Group Compliance towards developing an approach to make HSBC CIBM research materials available for private banking clients;
  - AML Compliance is participating in the weekly Retrospective Review Steering Committee. Compliance, Business Risk, and the Operational Review Unit have committed to jointly review the first 100 completed files to ensure all of HSBC requirements are being fully met. The review of the first 100 files is now complete and the Steering Committee is now reviewing feedback received regarding the plan for phase 2 of the Retrospective Review project.



## 3. REGULATORY EXAMINATIONS

## (i) HSBC Private Bank Division of HSBC Bank USA ("HBUS-PB") and HSBC Private Banking International, Miami ("PBUS")

- **The OCC (Custody and Personal Trust & Pouch):** The OCC had performed anti-money laundering examinations of the Custody and Delaware Personal Trust businesses and Pouch activity (which refers to any monetary instrument or document received or sent in the mail through any means such as regular mail, overnight delivery service, courier/messenger service) for all of Private Bank Americas. The major issues identified included the status of the retrospective review, which had been identified by Group Financial Audit in their October 2005 audit, and policies/procedures and monitoring/controls over the Pouch activity. The OCC was generally satisfied with the Retrospective Review plan but will review progress in their next examination. In the OCC's "Report of Examination as of 31 March 2007" ("the Report"), the Pouch matter was elevated into a Matter Requiring Board Attention ("MRBA") as a firm wide issue. This is being addressed by a cross-business, cross-disciplinary task force under the leadership of AML Compliance. Private Banking is actively participating and has implemented all the agreed actions/procedures by the deadline of 10/31/07.
- **The OCC (Consistency of Execution):** It was stated in the Report that HSBC business units "lack consistent, vigilant adherence to BSA/AML policies. Bank policies are acceptable; however the execution of these policies in the various business lines requires strengthening." This observation arose out of the OCC's reviews over the last few years, and is not linked to any specific review. David Dew, the COO of the Bank, is sponsoring an effort to address the issue working with AML Compliance and the business COO's. "Best Practices" recommendations to address this point were issued to business COO's on 18 September 2007. Of particular relevance to PB are the recommendations that there be a KYC quality control program within each business and that there be measured accountability for KYC issues within each business. PB will review its policies and procedures to meet these recommendations.

## 4. RESOURCING

## (i) HSBC Private Bank Division of HSBC Bank USA, N.A. ("HBUS-PB") and HSBC Private Banking International, Miami ("PBUS")

- **AML Compliance:** A candidate has been identified, and an offer has been made to join the AML Compliance team in Miami. Candidate has accepted and will start on 2/4/07. One New York based AML Compliance Officer is on medical leave. One New York based AML Compliance Officer position was eliminated in November 2007. PBUS is up to

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**OCC-PSI-00328384**

planned staffing levels. Compliance management is reviewing the impact of IPB business consolidation plans. The senior compliance officer in California will not be replaced.

A-5

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Occ-Psi-00331923

From: PAUL J O'SULLIVAN/HBUS/HSBC  
Sent: 1/31/2008 5:31:52 PM  
To: ALAN P WILLIAMSON/HBUS/HSBC@HSBC; CAROLYN M WIND/HBUS/HSBC@HSBC  
CC:  
Subject: Fw: De- risking

FYI  
----- Forwarded by Paul J O'Sullivan/HBUS/HSBC on 01/31/2008 05:30 PM -----

Paul J O'Sullivan/HBUS/HSBC  
01/31/2008 05:16 PM

To  
Clara Hurtado/HBUS/HSBC  
CC

Subject  
De- risking

Clara,

De-Risking Strategy for Miami

I was talking with Carolyn and Alan about the Fed and the comments about the high risk nature of our client base. We agreed some action steps:

- Can we get / prepare and analysis of the Mr. V. related accounts. (Inflows /outflows / where to / where from and why ?)  
Assess the reports from HSBC BI and work out what we should do based on these ? we will work out a strategy based on the results and then approach David.
- Same process for the Mr. D. accounts
- Identify the operating companies where we do not have the principals personal ~~accounts or other glue to cement the relationship. Lets see how many we have~~ and work out a strategy to de-risk the bank by terminating some relationships.
- Same for some High Risk Bearer share companies.
- Lets discuss any other accounts you think we should disengage from.
- Lets discuss any other thoughts you may have that would reduce AML risk in the business.

regards,  
Paul

Page 1

2306

Occ-Psi-00343451

From: DANIEL JACK/HBUS/HSBC  
Sent: 6/2/2008 7:13:33 PM  
To: ANNE LIDDY/HBUS/HSBC@HSBC02; DENISE A REILLY/HBUS/HSBC@HSBC02; GLORIA STRAZZA/HBUS/HSBC@HSBC02  
CC: ALAN P WILLIAMSON/HBUS/HSBC@HSBC02  
Subject: Banknotes with Al Rajhi Banking in S.A.

All - to provide more info in response to Alan's note:

As noted in the KYC Customer Profile, they are a long-standing Banknotes-London customer:

"Initial date of activation was 1 January 2001, relationship exited and deactivated on 2 February 2005 due to TF issues (see Section VIII AML under Reputational Risk controls) as agreed with AML Compliance New York. However this bank had a long-standing 25+ years relationship with Banknotes, London until that time. Also this client still has relationships with HSBC in the UK, UAE, France, Hong Kong and Italy. Approved as a London Banknotes customer 4 December 2006 after TF issues were cleared through AML Compliance New York."

Now they want to deal with us in Hong Kong - mainly buying Asian currencies from us, as noted in the KYC Banknote Profile (for HK) now pending CO Approval:

"Client is an existing customer of HBUS London office and would like to set up business relationship in Hong Kong. Al Rajhi is mainly interested in buying Asian currencies from us, they have regular demand for the major Asian currencies including THB, PHP, IDR, INR and HKD which Bahrain Finance is their main current supplier. They sell currencies through their nationwide retail network and those Asian overseas workers, tourists and business-men are the main buyers. They will utilize our services for their retail banknotes activities only. In the meantime, client will become one of the counterparts to liquidate our Middle East currencies surpluses that we purchase from other markets. The projected trading volume are in original currency and the monthly average of purchase and sale was about USD3,000,000 and USD8,000,000 respectively."

Monthly Trade Volume Estimates:  
Currency: Sales by HSBC: Purchases by HSBC:  
USD Currency: 0 0  
Other Major Currency: THAI BAHT 40,000,000 0  
Other Major Currency: HONG KONG DOLLAR 2,000,000 0  
Other Major Currency: SAUDI RIYAL 30,000,000 0

Thanks and regards,

Daniel Jack  
Vice President - Compliance Officer  
HSBC Bank USA, NA  
452 Fifth Avenue, 7th floor, New York, NY 10018

Phone 212-525-8686  
Email daniel.jack@us.hsbc.com

Alan P Williamson/HBUS/HSBC  
06/02/2008 06:45 PM

To  
Anne Liddy/HBUS/HSBC@HSBC02, Denise A Reilly/HBUS/HSBC@HSBC02, Gloria  
Page 1

2307

occ-Psi-00343451

Strazza/HBUS/HSBC@HSBC02  
cc  
Daniel Jack/HBUS/HSBC@HSBC02  
Subject  
al Rahji

All

I am being asked to approve a HK Banknotes profile for Al Rahji. We will be dealing the same products from a different office, so from one point of view there is no expansion of risk, but I know from prior discussions there is sensitivity around this name. Please let me know if you have any concerns.

Thanks

Alan

Page 2

2308

Occ-Psi-00378989

From: JUDY P STOLDT/HBUS/HSBC  
Sent: 2/18/2010 4:30:21 PM  
To: DENIS E O'BRIEN/HBUS/HSBC@HSBC  
CC: CAMILLUS P HUGHES/HBUS/HSBC@HSBC02; WYNDHAM S CLARK/HBUS/HSBC@HSBC02  
Subject: Re: June 2008 Audit - Payment Services

Denis,

We need to discuss with Cam before you go back to Pat but I responded to the questions below with the information I have now.

Judy P Stoldt  
Vice President, AML Compliance | HSBC Bank USA, National Association  
One HSBC Center - 24th Floor  
Buffalo, New York 14203

---

Phone. (716) 841- 6425  
Fax (212) 382 - 7586  
Mobile [REDACTED]  
Email. judy.p.stoldt@us.hsbc.com

---

From: Denis E O'Brien/HBUS/HSBC  
To: Judy P Stoldt/HBUS/HSBC@HSBC02, Camillus P Hughes/HBUS/HSBC@HSBC02  
Cc: wyndham S Clark/HBUS/HSBC@HSBC02  
Date: 02/16/2010 06:00 PM  
Subject: June 2008 Audit - Payment Services

Can we discuss first thing in the AM?

Thanks and regards,

Denis E O'Brien

Director, Head of Global Transaction Banking Compliance, | HSBC Bank USA,  
National Association  
452 Fifth Avenue, New York, NY 10018

---

Phone. (212) 525-1147  
Fax. (917) 229-5257  
Mobile. [REDACTED]  
Email. denis.e.o'brien@us.hsbc.com

----- Forwarded by Denis E O'Brien/HBUS/HSBC on 02/16/2010 05:58 PM -----

From: Patricia A Brunner/HBUS/HSBC  
To: Denis E O'Brien/HBUS/HSBC@HSBC02, Joseph Boss/HBUS/HSBC@HSBC02, Michael X Jarrell/HBUS/HSBC@HSBC02  
Date: 02/16/2010 05:52 PM  
Subject: June 2008 Audit - Payment Services

Denis,

Based on research of audit workpapers related to the June 2008 Payment Services GAU GEN 080013 - examiners identified a memo titled "Wall Street Journal Page 1

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

2309

Occ-Psi-00378989

Article Regarding Wachovia", which provides information regarding Sigue Corp. As such, we have some follow-up questions regarding the escalation process related to this Memo:

1. Who else was aware of this memo besides Denise Reilly, Judy Stoldt and Gloria Strazza? Was this Memo escalated further up? I have no knowledge of the memo being passed to anyone.
  2. What was the rational and/or thought process to not add Sigue to the wire filter? Please provide documentation noting the rational to not add Sigue to the wire filter. The rational is documented in the attached memo (last bullet under Sigue). I have no other documentation regarding this decision.
  3. What documentation do Judy or Gloria have about what FIG did in response and/or regards to the information provided in the aforementioned Memo? I have no documentation on actions FIG took in response to the memo.
  4. Are there committee minutes reflecting any sort of discussions over the content of this Memo? It is my understanding that you checked the minutes and the content was not discussed at the committee.
  5. Was a review performed on HSBC Mexico's account for the other products and services that HBUS provides in light of the negative information regarding customers of HSBC Mexico - namely Sigue?
- Two reviews were conducted on HSBC Mexico's account activity. The first looked at 1Q08 activity and [REDACTED] No formal write-up was done. The second reviewed looked at 4Q08 activity and [REDACTED] They should have this on the database but the write-up is attached.

Attached is the memo for your convenience:

Per Joe Boss, please provide answers to these questions by COB 02/17/10.

Thank you in advance for your help with this matter,

Pat

Attachment: HSBC Mexico Write Up 4th quarter 2008.doc.zip  
Attachment: Targetted Review\_wachovia Summary 1MAY08.doc.zip

[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations

2310

Occ-Psi-00381727

From: DENISE A REILLY/HBUS/HSBC  
Sent: 3/19/2002 3:53:04 PM  
To: JOE HARPSTER/HBUS/HSBC@HSBCAMERICAS  
CC: ALBA KHOURY/HBUS/HSBC@HSBCAMERICAS;MICHAEL B GALLAGHER/HBUS/HSBC@HSBCAMERICAS  
Subject: Re: Al Rajhi Trading establishment

The questions I need answered are:

What is the target date of transfer?  
Does transfer include establishing the account(s) on WDA?  
Who holds the client documentation today?  
What activity occurs over the account, e.g. products and services?  
What special handling is required, e.g. all activities that require manual intervention?  
Given compliance concerns, is there any special monitoring or reporting required?  
What is the revenue from the account and billing specifics? I presume transfer to Delaware includes future revenue.  
Maintaining the account in Delaware means assignment of an account officer in addition to pure operational support from Funds Transfer and Investigations?  
If IPB retains relationship management responsibility, what interaction is required between Delaware and IPB?

Perhaps Alba can assist. with replies. As we get in more deeply, there may be additional questions.

Joe Harpster on 19 Mar 2002 14:54

Note

19 Mar 2002 14:54

From: Joe Harpster Tel: 212-525-6347  
Title: Executive Vice President Location: 452 5th Ave, Floor 5  
WorkGroup: RNB Int'l ops Administration Mail Size: 18322

To: Denise A Reilly/HBUS/HSBC@HSBCAMERICAS

cc: Alba Khoury/HBUS/HSBC@HSBCAMERICAS  
Subject: Re: Al Rajhi Trading establishment

Sandy Flockhart has agreed to the recommendation to maintain the account in Delaware. Alba Khoury, the account officer, will be transferring this account to Delaware

Joe

Denise A Reilly on 19 Mar 2002 12:32

Note

19 Mar 2002 12:32

From: Denise A Reilly Tel: 302.636.2500 Del  
Title: Senior Vice President Location: Delaware  
WorkGroup: Payment Services Mail Size: 16903

To: Joe Harpster/HBUS/HSBC@HSBCAMERICAS  
Subject: Al Rajhi Trading establishment

Page 1



2311

Occ-Psi-00381727

Can you advise if any further discussion/correspondence has taken place on this topic?

Thanks.

----- Forwarded by Denise A Reilly/HBUS/HSBC on 03/19/2002  
12:31 PM -----

Carolyn M Wind on 11 Mar 2002 16:25

Note  
11 Mar 2002 16:25

From: Carolyn M Wind Tel: 212-525-5503  
Title: Executive Vice President Location: 452 5th Ave, Floor 07  
WorkGroup: Corporate Compliance Mail Size: 15552

To: Denise A Reilly/HBUS/HSBC@HSBCAMERICAS  
Subject: Al Rajhi Trading establishment

----- Forwarded by Carolyn M Wind/HBUS/HSBC on 03/11/2002  
04:25 PM -----

Carolyn M Wind on 11 Mar 2002 14:32

Note  
11 Mar 2002 14:32

From: Carolyn M Wind Tel: 212-525-5503  
Title: Executive Vice President Location: 452 5th Ave, Floor 07  
WorkGroup: Corporate Compliance Mail Size: 14197

To: Camillus P Hughes/HBUS/HSBC@HSBCAMERICAS  
Subject: Al Rajhi Trading establishment

FYI

----- Forwarded by Carolyn M Wind/HBUS/HSBC on 03/11/2002  
02:32 PM -----

Douglas Stolberg  
11 Mar 2002 09:06

To: Sandy Flockhart/HBUS/HSBC@HSBCAMERICAS  
cc: Niall SK Booker/HBUS/HSBC@HSBCAMERICAS  
Joe Harpster/HBUS/HSBC@HSBCAMERICAS  
Carolyn M Wind/HBUS/HSBC@HSBCAMERICAS  
Subject: Al Rajhi Trading establishment

Sandy,

As we discussed previously, Compliance has raised some concerns regarding the ongoing maintenance of operating/clearing accounts for Al Rajhi group. The account relationships are presently managed directly by IPB, yet the nature of the account activity suggests a more systemic approach to account monitoring is appropriate. Harpster has worked directly with Compliance and IPB's RM, and recommends that:

1. The accounts be maintained until further due dilligence can be conducted on the group and account usage.
2. Retain IPB as the relationship management domicile for continuity purposes, and as we understand there is interest in further developing private banking business with family members.

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Occ-Psi-00381727

3. Domicile the actual accounts with Delaware where HBUS's most robust account screening capabilities reside.

I concur with Harpster's suggestions, but believe you may wish to discuss with Paul Lee and Niall Booker as this has become a fairly high profile situation. Compliance's concerns relate to the possibility that Al Rajhi's account may have been used by terrorists. If true, this could potentially open HBUS up to public scrutiny and/or regulatory criticism. SABB are understandably keen to maintain the relationships.

As this matter concerns primarily reputational and compliance risks, we felt it appropriate for SMC members to be briefed on the proposed way forward so that they may opine on the acceptability of the plan. Please advise how you would prefer us to proceed.

Regards,

Doug

----- Forwarded by Douglas Stolberg/HBUS/HSBC on 03/11/2002

08:56 AM

-----  
Joe Harpster on 06 Mar 2002 18:46

Note

06 Mar 2002 18:46

From: Joe Harpster Tel: 212-525-6347  
Title: Executive Vice President Location: 452 5th Ave, Floor 5  
WorkGroup: RNB Intl Ops Administration Mail Size: 4934

To: Douglas Stolberg/HBUS/HSBC@HSBCAMERICAS

cc: Carolyn M Wind/HBUS/HSBC@HSBCAMERICAS  
Alba Khoury/HBUS/HSBC@HSBCAMERICAS  
Michael B Gallagher/HBUS/HSBC@HSBCAMERICAS  
Subject: Al Rajhi Trading establishment

As you are aware, International Private Banking Department (IPB) has requested Institutional Banking to agree to the transfer of two accounts to our Delaware facility. ~~Al Rajhi Trading is a well established Saudi Arabian money exchanger owned by Abdulrahman Saleh Al-Rajhi that has had a relationship with HSBC/Republic for over 20 years. Compliance Dept. is concerned with the operating accounts being housed in IPB due to the nature of their activities and the inability for IPB to properly monitor. The most recent concern arose when three wire transfers for small amounts(\$50k, \$3k and \$1.5k) were transferred through the account for names that closely resembled names, not exact matches, of the terrorists involved in the 9/11 World Trade Center attack.~~

Republic had a policy of not dealing with Money Exchangers but an exception was made in 1994 for Al Rajhi and seven other Saudi based exchange houses. Approval was given by the Chairman of the Board and the Vice Chairman - International Banking based on the long relationship with the bank, their knowledge of the stiff penalties(death) for drug trafficking and money laundering within the country and the general good reputation of exchange houses in Saudi Arabia.

~~The profile of the main account reflects a doubling of wire transfer volume since 9/01, a large number of travellers checks but with relatively low value and some check/cash deposits. According to the account officer, traffic increased because they have chosen to send us more business due to their relationship with [REDACTED] Bank and the added strength of HSBC versus Republic. The travellers checks represent less than 1% of the volume(\$132M in~~

Page 3

-----  
- Redacted by the Permanent  
Subcommittee on Investigations

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1/02) but the average balance is a bit high at \$1,750/check. The cash/check deposits need to be reviewed to better understand their profile. There is a second account with minimal activity that is used for FX transactions.

I recommend we transfer both accounts to be serviced by our Delaware payment center. Delaware has installed the CAMP system to monitor payment patterns which is actively managed by experienced Compliance staff independent of the business and the account officer. Therefore, traffic will be well screened and controlled addressing Compliance's concern. IPB supports this recommendation since they realize they can not adequately monitor the payment traffic and their high confidence in the integrity and operations of the customer. Maintaining our business with this name is strongly supported by David Hodgkinson of SABB and Andre Dixon, Deputy Chairman of HBME. Niall Booker and Alba Khoury also support.

There remain some "loose ends" that need to be done over the next few months in order to complete our due diligence

1. Review the traveller checks and cash/check deposits when received from Saudi Arabia. I will arrange with Alba.
2. Review the anti-money laundering plan and account opening procedures of Al-Rajhi and incorporate into our KYC file. Alba has requested and the customer is forwarding.
3. Perform a background check through the Compliance Dept on the owner and his son, the Manager of the overall operation. Compliance will arrange.
4. Finally, detailed monitoring of the account once transferred to Delaware on an ongoing basis.

In summary, this is a well established client in a sensitive business located in a country under close scrutiny. At this time, there is insufficient evidence to support closing the account but further due diligence and monitoring is necessary to ensure, to the best of our ability, that Al-Rajhi Trading remains a suitable customer. Our findings over the next two to three months should crystallize their status.

----- Forwarded by Carolyn M Wind/HBUS/HSBC on 03/11/2002 -----

02:32 PM  
Sandy Flockhart on 11 Mar 2002 14:05  
Note  
11 Mar 2002 14:05

From: Sandy Flockhart Tel: 716.841.7937  
Title: Senior Exec Vice President Location: CTR 24  
WorkGroup: Commercial Banking Admin Mail Size: 1492

To: Douglas Stolberg/HBUS/HSBC@HSBCAMERICAS

cc: Niall SK Booker/HBUS/HSBC@HSBCAMERICAS  
Joe Harpster/HBUS/HSBC@HSBCAMERICAS  
Carolyn M Wind/HBUS/HSBC@HSBCAMERICAS  
Subject: Re: Al Rajhi Trading establishment

Doug,  
I support the approach outlined in your memo of 11MAR and also consider that the Saudi authorities will have improved their surveillance post 9/11.

Sandy

Page 4

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Occ-Psi-00407498

From: JONATHAN DEAN/HBUS/HSBC  
Sent: 7/16/2008 12:11:39 PM  
To: MARY A CASKIN/HBUS/HSBC@HSBC02  
CC: ANNE LIDDY/HBUS/HSBC@HSBC02; DENISE A REILLY/HBUS/HSBC@HSBC02; GEORGE TSUGRANES/HBUS/HSBC@HSBC02;  
JUDY P STOLDT/HBUS/HSBC@HSBC02  
Subject: Re: Hokuriku Bank

Mary Ann,  
Please see attached twelve month volume report. We are averaging 7,800 T/Cs monthly, dollar value \$ 7,428,000.00/ month. All deposits are Travellers Checks, no Money Orders found.

Jonathan Dean  
AVP - AML Compliance Officer | HSBC Bank USA  
90 Christiana Road New Castle, Delaware 19720

---

Phone. 302-327-2055  
Fax. 212-382-5573  
Email. jonathan.dean@us.hsbc.com

---

Mary A Caskin/HBUS/HSBC  
07/10/2008 01:47 PM

To  
Alan P Williamson/HBUS/HSBC@HSBC02, Daniel Jack/HBUS/HSBC@HSBC02, Judy P Stoldt/HBUS/HSBC@HSBC02, George Tsugranes/HBUS/HSBC@HSBC02, Jonathan Dean/HBUS/HSBC@HSBC02, Nerissa P Hall/HBUS/HSBC@HSBC02  
Cc  
Denise A Reilly/HBUS/HSBC@HSBC02, Anne Liddy/HBUS/HSBC@HSBC02, Richard Annicharico/HBUS/HSBC@HSBC02  
Subject  
Hokuriku Bank

---

In light of the recent concerns expressed about the volume of traveler's checks passing through Hokuriku Bank, we need to delve a little bit deeper into their banking patterns.

We need to do a transaction volume analysis for the following:  
Incoming and outgoing wires (to/from whom, frequency and value)  
Volume of Traveler's Checks/ Money Orders submitted on a monthly basis  
BankNotes activity (currency, volume)  
FX activity (volume, currency)

We are looking to see if they are relying upon cash to transact with [REDACTED] and subsequently with HSBC. They seem to sell traveler's checks which are used to purchase cars in Japan. The purchasers of the cars often provide Russian passports as ID. The BankNotes activity may shed some light on the issue.

Please let me know if/when you will be able to supply some feedback.  
Page 1

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Occ-Psi-00407498

Mary Ann Caskin  
VP Compliance  
HSBC Bank USA NA  
452 Fifth Ave Floor 7  
NY, NY 10018  
212-525-5530

Attachment: Hokuriku\_Average.xls.zip

Page 2

2316

OCC-PSI-00409095

**MEMORANDUM**

**Date:** July 31, 2008  
**To:** David Dew, Chief Operating Officer  
Lesley Midzain, EVP Compliance/AML Director  
Cam Hughes, Sr. VP Specialized Compliance  
**From:** Debra Bonosconi  
**Topic:** GIB AML Matters

David:

Per your request, I am providing you with an update of our status regarding the following:

- OCC review conclusions
- Alert disposition progress,
- Staffing, and
- Libya

**OCC REVIEW**

The OCC just concluded their review of the GIB AML Compliance function today. They stated that they were quite pleased with the new controls that had been implemented and that the only concerns they had were minor (apart from the systems issue). These were some of the issues that they asked us to focus on prior to the commencement of the 2009 exam in April:

1. Alert Monitoring - When the OCC arrived on July 21st, they expressed some concerns about the alert levels and our existing alert backlog. Specifically, they expressed concern as to the sufficiency of existing staff levels to manage the number of alerts generated.

In order to mitigate their concerns, we provided them with both our short term plan to address the existing alert backlog (target date 9/15) as well as our long term plan to manage alerts on an ongoing basis. Both plans include the following components:

- Risk Based Alert Management: "Risk Buckets" of alerts to be assigned to specific staff based upon level of experience;
- Staffing: The addition of 2 FTEs (Buffalo) fully dedicated to alert management;
- Alert Management Forecasting: a proactive process that projects alert levels as a result of staff changes and alert levels and,
- Measurable Performance Management: Target number of alerts to be completed by staff during a specific period.

The OCC stated that this plan was a very positive step in managing alert levels on a risk-based basis (for both short and long term) and they advised us that they will be reviewing this area again when they return in April.

2. Pouch/PUPID - They expressed concerns on the quality of the comments in the Pouch/PUPID log. Specifically, they noted that the comments should be more concise and yet adequately convey the primary issue.

OCC-PSI-00409095

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We agreed with this comment and advised them that we had also recognized concerns with not only the comments but the process for populating the Pouch/PUPID log. We further advised them that we had already planned to have a revised Pouch/PUPID log in place by year end 2008.

3. RESA Relationship Summary - They made some minor suggestions on 4 provisions of the draft RS, including the possibility of a maximum cap on total cash withdrawals allowed over a given period. We explained that the RS includes maximums for petty cash throughout the document but a maximum allowable cash ceiling does not currently exist. We advised them that we will take this issue under consideration.

4. [REDACTED] The OCC asked that we continue to provide AML knowledge and training (internal and external) to [REDACTED] as [REDACTED] adjusts to [REDACTED] new role. They are in full agreement that [REDACTED] risk management skills are an integral part of the GIB AML Compliance process but that [REDACTED] needs to fully understand the laws, regulations, and expectations of a sustainable AML program. We agreed with this and have already implemented a process to ensure ongoing knowledge transfer as well as attendance at AML conferences and web seminars, as available.

#### ALERT DISPOSITION

As shown in the chart below (as of 7/31) we currently have a total of 1,486 open alerts. We are closing an average of 71 alerts daily and we anticipate, based upon our current progress, that we will be up to date with all alerts by September 15<sup>th</sup>. As noted previously, the OCC is aware of our progress and agrees with our approach to address existing and future alerts.

**GIB Open Alerts**

	<b>Overdue Alerts</b>	<b>Current Alerts</b>	<b>Total Open Alerts</b>
	(Feb-08 & Earlier)	(March & April)	
6/13/2008	<b>1,129</b>	<b>1,599</b>	<b>2,728</b>
6/20/2008	<b>870</b>	<b>1,584</b>	<b>2,454</b>
6/27/2008	<b>850</b>	<b>1,584</b>	<b>2,434</b>
7/11/2008	<b>380</b>	<b>999</b>	<b>1,379</b>
7/15/2008	<b>350</b>	<b>829</b>	<b>1,179</b>
7/16/2008	<b>289</b>	<b>721</b>	<b>1,010</b>
7/17/2008	<b>243</b>	<b>660</b>	<b>903</b>
7/18/2008	<b>202</b>	<b>601</b>	<b>803</b>
ADD May & June Alerts >>	(Apr-08 & Earlier)	(May & June)	
7/21/2008	<b>715</b>	<b>1,046</b>	<b>1,761</b>
7/28/2008	<b>484</b>	<b>1,135</b>	<b>1,619</b>
7/29/2008	<b>438</b>	<b>1,112</b>	<b>1,550</b>
7/30/2008	<b>392</b>	<b>1,094</b>	<b>1,486</b>

#### STAFFING

GIB has identified two individuals for the two open alert management positions in Buffalo. One individual is an HBUS employee (located in Buffalo) and is currently working alerts in Kathy

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OCC-PSI-00409095

Gladkowski's group, which will allow us to immediately benefit from his experience. The other individual (an external candidate), will require some training but we feel that his previous education and experience will benefit our group. Offer letters will be sent to both candidates next week and we expect them to begin on 9/1/08.

**Libya**

As of 7/31/08, the checking account (balance of \$31,136.14) and the credit card (balance \$46,920.53) are open. However, the balance in the checking account will be liquidated and applied toward the credit card and the checking account will be closed on 8/1/08. The credit card will be suspended and no transactions will be permitted. The Ambassador has been advised that the remaining balance on the card must be paid immediately. The money market account (balance \$22,304,521.51) was closed on 7/10/08.

Please advise if you have any questions.



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Occ-Psi-00453499

From: ALI S KAZMY/HBUS/HSBC  
Sent: 2/3/2010 6:31:04 PM  
To: JON K JONES/HBUS/HSBC@HSBC02  
CC: PSRR@HSBC02; CAMILLUS P HUGHES/HBUS/HSBC@HSBC02; JUDY P STOLDT/HBUS/HSBC@HSBC02  
Subject: Re: Islami Bank Bangladesh Ltd - Poss SCC

The information appearing below does merit SCC classification.

Regards,

Ali S Kazmy  
Vice President/Senior Manager - Anti-Money Laundering Policy | HSBC BANK USA,  
National Association  
452 Fifth Avenue, 7th Floor, New York, NY 10018

Phone. 212-525-5560  
Fax. 212-525-6994  
Mobile. [REDACTED]  
Email. ali.s.kazmy@us.hsbc.com

[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations

From: Jon K Jones/HBUS/HSBC  
To: Ali S Kazmy/HBUS/HSBC@HSBC02  
CC: PSRR@HSBC02  
Date: 02/03/2010 04:33 PM  
Subject: Islami Bank Bangladesh Ltd - Poss SCC

Ali,

In my review and research of the above client, I'd like to point out the below items and ask for your opinion on SCC status with regard to the above client:

~~Vice Chairman and 10% owner is Yousif Abdullah al-Rajhi, General Manager of Al-Rajhi Company for Industry & Trade, K.S.A. Earlier, he performed duties of Branch Manager and Project Finance Manager of Al-Rajhi Banking and Investment Corporation from 1987 to 1995.~~

At least three owners (ownership confirmation currently underway) for approx. 30% are connected to the al-Rajhi family / businesses.

Other Owners (listed as of now):

Islamic Development Bank  
The Public Institution for Social Security - Owned by Government of Kuwait  
Kuwait Finance House - 49% owned by Kuwait  
- listed as a PEP

Al-Rajhi Banking and Investment Corp., a client of CIB and Banknotes is SCC.  
Al-Rajhi Bank got its start as a money chaining network and (Chairman, Suleiman al-Rajhi appeared on the "Golden Chain" of wealthy investors who supported Osama bin Laden.)

Negative press: Per prior EDD ROF - "a notice of cause was issued by the Bank of Bangladesh to the CEO of Islamic Bank in March 2006 to explain accounts owned by suspected Islamic Militants. Client was subsequently fined by Bangladesh Bank and take measures against 20 officers for their involvement.

Page 1

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Occ-Psi-00453499  
Sources suggest this was the third time Islami Bank Bangladesh Ltd was fined for covering up militants transactions."

Current internet searches found no additional items.

Please review and advise,

Jon K Jones  
Senior Analyst | HSBC Bank USA  
90 Christiana Road, New Castle, DE 19720  
Phone 302-327-2017

Page 2

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Occ-Psi-00610498

From: ELIZABETH PROTOMASTRO/HBUS/HSBC  
Sent: 1/9/2007 1:08:39 PM  
To: TERESA PESCE/HBUS/HSBC@HSBC  
CC: ANNE LIDDY/HBUS/HSBC@HSBC; DONALD W MCPHERSON/HBUS/HSBC@HSBC; GRACE C SANTIAGO-DARVISH/HBUS/HSBC@HSBC;  
JOHN ALLISON/HGHQ/HSBC@HSBC  
Subject: Re: OFAC - Wire payments blocked from HSBC offshore entities - USD 32,000 (re SDGT) and USD 2,538,939.33 (re Sudan)

I was speaking with Grace about this. It appears that the reason may be due to the fact that the filters offshore are on a different setting, i.e., they will only stop a name and address match. If the address does not match, or there is no address provided, the filter will not stop the item. The filters here in the U.S. are set to stop on a name match only.

Neither one of these blocked entities had an address provided on the payment.

Teresa Pesce/HBUS/HSBC  
12/15/2006 09:59 AM

To  
Elizabeth Protomastro/HBUS/HSBC@HSBC  
CC  
Anne Liddy/HBUS/HSBC@HSBC, Donald W McPherson/HBUS/HSBC@HSBC, Grace C Santiago-Darvish/HBUS/HSBC@HSBC, John ALLISON/HGHQ/HSBC@HSBC  
Subject  
Re: OFAC - Wire payments blocked from HSBC offshore entities - USD 32,000 (re SDGT) and USD 2,538,939.33 (re Sudan)

How is it that these payments continue to be processed by our affiliates in light of the GCLs?

Teresa A. Pesce  
EVP/Managing Director  
Anti-Money Laundering Compliance  
HSBC North America Holdings  
452 Fifth Avenue  
New York, NY 10018  
ph - (212) 525-6099  
fax- (212) 525-5769

Elizabeth Protomastro/HBUS/HSBC  
12/14/2006 06:02 PM

To  
John ALLISON/HGHQ/HSBC@HSBC  
CC  
~~Teresa Pesce/HBUS/HSBC@HSBC, Anne Liddy/HBUS/HSBC@HSBC, Grace C~~  
Santiago-Darvish/HBUS/HSBC@HSBC, Donald W McPherson/HBUS/HSBC@HSBC  
Subject  
OFAC - Wire payments blocked from HSBC offshore entities - USD 32,000 (re SDGT)

Page 1

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and USD 2,538,939.33 (re Sudan)

Occ-Psi-00610498

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Subcommittee on Investigations

This email is to inform you of the following two payments, initiated by HSBC offices, and blocked due to OFAC sanctions. The first was blocked under terrorist sanctions. The second was blocked due to involvement of a Sudanese SDN.

Value date 9-Nov-2006

Debit: [REDACTED] HBME Ramallah Br., Ramallah Palestine  
Credit: JP Morgan Chase, Tampa, FL  
3rd party: Arab Jordan Investment Bank S.A., Amman, Jordan  
ORG: HBME, Ramallah, Palestinian Territory, Occupied  
BBI: Acc/For further credit to Palestine Investment Bank Head Office Ramallah  
branch account [REDACTED] for further credit to Al Aqsa Islamic Bank  
USD 32,000.00

Note that Al Aqsa Islamic Bank was designated by OFAC on 4-Dec-2001 as a "specially designated global terrorist". The press release from Treasury stated that it is a "direct arm of Hamas, established and used to do Hamas business." Below are links to the press releases.

<http://ustreas.gov/press/releases/po837.htm>

<http://ustreas.gov/offices/enforcement/ofac/actions/20011204.shtml>

<http://ustreas.gov/press/releases/po841.htm>

The payment was held at the direction of OFAC and additional information requested. On 20-Nov-2006, HBME sent a SWIFT message to cancel the payment as it was sent in error. On 7-Dec-2006, OFAC instructed HBUS to block the funds.

Details are below on the payment blocked under the Sudan sanctions.

Value date 6-Dec-2006

Debit: [REDACTED] HSBC Bank PLC (JOH), Johannesburg branch  
Credit: BNP Paribas New York  
3rd party: BNP Paribas (Suisse) SA, Geneva  
4th party: Sudanese Petroleum Corporation  
ORG: Ethiopian Petroleum Enterprise  
OGB: Commercial Bank of Ethiopia, Ethiopia  
OBI: Inv/M/10/2006.Dated Nov 05/06  
USD 2,538,939.33

"Sudances Petroleum Corporation" is listed by OFAC as an SDN under the Sudan program.

Please let us know if you have any questions or need any further information.

Thank you.

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Occ-Psi-00610597

From: ELIZABETH PROTOMASTRO/HBUS/HSBC  
Sent: 1/11/2007 9:56:41 AM  
To: ARUP ROY/HCZA/HSBC@HIBM  
CC: ANNE LIDDY/HBUS/HSBC@HSBC; GIMHANI TALWATTE/HCZA/HSBC@HIBM; GRACE C  
SANTIAGO-DARVISH/HBUS/HSBC@HSBC;  
HENK CROUSE/HCZA/HSBC@HIBM  
Subject: Re: Fw: Funds frozen in USA - payment on behalf of Commercial Bank of  
Ethiopia (HBUS ref : ██████████-06DEC06).

I just called the Licensing Division at (202)622-2480.

Arup ROY/HCZA/HSBC@HIBM  
01/11/2007 01:04 AM

To  
Anne Liddy/HBUS/HSBC@HSBC  
CC  
Elizabeth Protomastro/HBUS/HSBC@HSBC, Gimhani TALWATTE/HCZA/HSBC@HIBM, Grace  
C  
Santiago-darvish/HBUS/HSBC@HSBC, Henk CROUSE/HCZA/HSBC@HIBM  
Subject  
Re: Fw: Funds frozen in USA - payment on behalf of Commercial Bank of  
Ethiopia  
(HBUS ref : ██████████-06DEC06).

Thanks Anne / Elizabeth. We shall now follow up from our side. Can you let us  
have the contact number of OFAC ?

Regards

Arup—

Anne Liddy/HBUS/HSBC@HSBC  
10/01/2007 11:17 PM

To  
Arup ROY/HCZA/HSBC@HIBM  
CC  
Henk CROUSE/HCZA/HSBC@HIBM, Gimhani TALWATTE/HCZA/HSBC@HIBM, Elizabeth  
Protomastro/HBUS/HSBC@HSBC, Grace C Santiago-darvish/HBUS/HSBC@HSBC  
Subject  
Fw: Funds frozen in USA - payment on behalf of Commercial Bank of Ethiopia  
(HBUS ref : ██████████-06DEC06).

Arup, pls see the attached. Elizabeth Protomastro of our OFAC Compliance  
Page 1

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Subcommittee on Investigations

Occ-Psi-00610597  
team contacted OFAC today regarding your license application.  
----- Forwarded by Anne Liddy/HBUS/HSBC on 01/10/2007 04:11 PM -----

Elizabeth Protomastro/HBUS/HSBC  
01/10/2007 03:30 PM

To  
Anne Liddy/HBUS/HSBC@HSBC  
CC  
Donald W McPherson/HBUS/HSBC@HSBC, Grace C Santiago-Darvish/HBUS/HSBC@HSBC  
Subject  
Re: Fw: Funds frozen in USA - payment on behalf of Commercial Bank of  
Ethiopia  
(HBUS ref : ██████████-06DEC06).

I was able to get the following information from OFAC Licensing.

- 1) The license application was received December 19, 2006.
- 2) The status is "pending".
- 3) The case number is "SU-2108".
- 4) Further documentation pertaining to this application should be sent to the attention of "Elizabeth Farrow, Assistant Director for Licensing".

The case number should be included on all correspondence sent to OFAC Licensing.

I mentioned this to Grace when she called earlier this afternoon. She said that they need to stress the validity of the underlying trade transaction and provide the supporting documentation. (The application, on page 3, does state that "copies of documents related to the underlying transaction, i.e., invoices, bills of lading, original payment instructions, etc., should be included with the application.")

Anne Liddy/HBUS/HSBC  
01/10/2007 11:45 AM

To  
Elizabeth Protomastro/HBUS/HSBC@HSBC  
CC  
Grace C Santiago-Darvish/HBUS/HSBC@HSBC, Donald W McPherson/HBUS/HSBC@HSBC  
Subject  
Fw: Funds frozen in USA - payment on behalf of Commercial Bank of Ethiopia  
(HBUS ref : ██████████-06DEC06).

~~Elizabeth, attached is the license application and underlying details of the Sudan Petroleum blocked transaction. As we discussed this morning, can you pls contact the licensing section of OFAC and obtain confirmation that the application was received, status (is anyone working on it), case number, and an OFAC contact name to whom HSBC South Africa can send further documentation re the transaction. Any information you can obtain would be greatly appreciated~~  
Page 2

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Subcommittee on Investigations

Occ-Psi-00610597

by all. Thanks.  
----- Forwarded by Anne Liddy/HBUS/HSBC on 01/10/2007 11:32 AM -----

Arup ROY/HCZA/HSBC@HIBM  
01/10/2007 11:15 AM

To  
Anne Liddy/HBUS/HSBC@HSBC  
CC  
Henk CROUSE/HCZA/HSBC@HIBM, Gimhani TALWATTE/HCZA/HSBC@HIBM  
Subject  
Funds frozen in USA - payment on behalf of Commercial Bank of Ethiopia  
(HBUS  
ref : ██████████06DEC06).

Dear Anne,

It was indeed a pleasure talking to you and Grace today and we wish to take this opportunity to thank you for your valuable advice.

As discussed, I append below the following :

a) A scanned copy of our application to the US Department of Treasury

[attachment "SKMBT\_50006122714340.pdf" deleted by Elizabeth Protomastro/HBUS/HSBC] [attachment "SKMBT\_50006122714350.pdf" deleted by Elizabeth Protomastro/HBUS/HSBC]

b) A scanned copy of the instruction received from Commercial Bank of Ethiopia, an IB customer of ours requesting us to make payment to the debit of their account. Based on this instruction, the subject remittance was effected.

[attachment "SKMBT\_50006122714351.pdf" deleted by Elizabeth Protomastro/HBUS/HSBC]

Shall be grateful if you could take up the matter with your contact in OFAC and let us know whether the application has been received / being processed and the relevant reference number allotted if any. Based on your feedback and contact details, we shall take up the matter directly and will only involve you should we fail to make any progress.

Please forward a copy of the mail to Grace as I do not have her address.

We shall look forward to your support in addressing this particular case.

Best regards

Arup Roy  
Head of Transaction Banking  
HSBC Bank Plc  
2 Exchange Square, 85 Maude Street  
Sandown, Sandton 2196

Page 3

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Occ-Psi-00610597

Redacted by the Permanent  
Subcommittee on Investigations

South Africa  
Telephone + 27 (11) 6764534  
Email arup.roy@za.hsbc.com

George Dally/HBUS/HSBC@HSBC  
22/12/2006 08:16 PM

To  
Krishna PATEL/HCZA/HSBC@HIBM, Sandy WYND/HIBM/HSBC@HIBM  
cc  
Rob MCCALL/HCZA/HSBC@HIBM, Glen ROBERTS/HCZA/HSBC@HIBM, Arup  
ROY/HCZA/HSBC@HIBM, Henk CROUSE/HCZA/HSBC@HIBM, Sangita DESAI/HCZA/HSBC@HIBM,  
Louis JORDAAN/HCZA/HSBC@HIBM, Carmel Kisten/HCZA/HSBC@HIBM, Sandra  
Peterson/HBUS/HSBC@HSBC  
Subject  
Re: Fw: PCM operational error. Funds frozen in USA - payment on behalf of  
Commercial Bank of Ethiopia (HBUS ref : ████████-06DEC06).

Here are the answers to the below questions:

Question A: The time frame varies geographically, however, once OFAC has received the proper form for a license we can reach out to our contact in Washington DC for a possible time frame for the release of the block payment in question.

Question B: It is industry standard to place these funds in a Time Deposit at a compatible rate.

Question C: Your question related to the documentation, a copy of the original payment instructions is sent to OFAC Compliance Programs Division in Washington DC. Any additional documentation required would be requested from OFAC.

~~If you need any further assistance, please contact me directly.~~

Thanks.

Sandra Peterson/HBUS/HSBC  
12/22/06 10:15 AM

To  
George Dally/HBUS/HSBC@HSBC  
cc  
Subject  
Fw: PCM operational error. Funds frozen in USA - payment on behalf of  
Commercial Bank of Ethiopia (HBUS ref : ████████-06DEC06).

Can you investigate and get me the details.  
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Occ-Psi-00610597

Redacted by the Permanent  
Subcommittee on Investigations

Sandra Peterson  
SVP, Global Payments & Cash Management  
500 Stanton Christiana Road 3rd Fl.  
Newark, DE 19713  
302 636-2500  
Sandra.Peterson@us.hsbc.com  
----- Forwarded by Sandra Peterson/HBUS/HSBC on 12/22/06 10:14 AM -----

Arup ROY/HCZA/HSBC@HIBM  
12/22/06 08:44 AM

To  
Sandra Peterson/HBUS/HSBC@HSBC, Sandra Peterson/HBUS/HSBC@HSBCAMERICAS  
Cc  
Russell G GRAHAM/PCM ASP/HBAP/HSBC@HSBC, Richard C Boyle/HBUS/HSBC@HSBC,  
Gimhani TALWATTE/HCZA/HSBC@HIBM  
Subject  
Fw: PCM operational error. Funds frozen in USA - payment on behalf of  
Commercial Bank of Ethiopia (HBUS ref : ██████████-06DEC06).

Dear Sandra,

I refer to the appended mail and seek your guidance on the following :

- a) We have already forwarded our application seeking release order so that the funds can be sent back to the remitting bank/ remitter. Based on your experience, Can you please let us know the approximate time frame it could take to enable us to keep the remitting bank posted.
- b) We understand that the funds are held at HBUS in a Fixed Deposit account pending receipt of a release order. Please let us know the rate of interest being paid on the same.
- c) ~~Though the application for release order does not specifically call for any underlying documents, should we obtain the same from the remitter / remitting bank (ie invoice / contract etc) in order to substantiate the fact that the transaction relates to a genuine trade payment ?~~

If you are not the right person, please forward this request to the relevant person with a request to revert to us today. Needless to say that we are concerned on this matter and will look forward to your support in addressing the matter at the earliest.

We take this opportunity to wish you a Merry Christmas and a very happy new year !

Richard - wanted to speak to you in this regard and left a message in your voice mail box. Shall be grateful for any assistance you could extend in this regard.

-Many thanks-

Arup Roy  
Head of Transaction Banking

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Occ-Psi-00610597

HSBC Bank Plc  
2 Exchange Square, 85 Maude Street  
Sandown, Sandton 2196  
South Africa  
Telephone + 27 (11) 6764534  
Email arup.roy@za.hsbc.com

----- Forwarded by Gimhani TALWATTE/HCZA/HSBC on 2006/12/22 02:00 PM -----

Gimhani TALWATTE/HCZA/HSBC  
HCZA  
2006/12/18 10:18 AM  
Mail Size: 13772

To  
Sandra Peterson/HBUS/HSBC@HSBC  
cc  
Subject  
Fw: PCM operational error. Funds frozen in USA - payment on behalf of  
Commercial Bank of Ethiopia  
Entity  
--- Blank ---

Dear Sandra

I refer to the email below which explains the transaction in question. .

I would appreciate your assistance in finding out how long it usually takes for  
frozen funds to be released back to the originating party

Please let me know when you come in to work so I may call you

Many thanks

Gimi

Gimhani Talwatte  
Manager Operations  
Global Transaction Banking  
HSBC Bank plc - Johannesburg Branch  
Tel: 27-11-676-4541  
gimhani.talwatte@za.hsbc.com

----- Forwarded by Gimhani TALWATTE/HCZA/HSBC on 2006/12/18 10:15 AM -----

Russell G GRAHAM/PCM ASP/HBAP/HSBC@HSBC  
2006/12/15 10:13 PM  
Mail Size: 10405

---

To  
Gimhani TALWATTE/HCZA/HSBC@HIBM, Allen L Y WONG/PCM ASP/HBAP/HSBC@HSBC  
cc  
Subject  
Re: PCM operational error. Funds frozen in USA - payment on behalf of  
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Occ-Psi-00610597

Commercial Bank of Ethiopia  
Entity  
--- Blank ---

Gimi

I would recommend contacting Sandra Peterson who runs HBUS's Payments Operations in Delaware regarding this.

Russell

From: Gimhani TALWATTE  
Sent: 12/15/2006 05:33 PM ZE2  
To: Russell G GRAHAM; Allen L Y WONG  
Subject: Fw: PCM operational error. Funds frozen in USA - payment on behalf of Commercial Bank of Ethiopia

Dear Russell/Allen

At the risk of providing you with too much information on a local issue and perhaps also addressing the problem to the wrong people I am forwarding an issue we had at PCM in JOH for your information.

Please let me know the appropriate person who I should deal with on issue such as these.

As you know I just took over responsibility for PCM and have just started looking at procedures and knowledge levels which need attention. Unfortunately, we already had a situation where a staff member released a payment to a country that has Sanctions. The payment has now been frozen in the USA and we are uncertain as to how long it will take for us to have the funds returned. We have applied to the Office of Foreign Assets Control and I am hopeful that they will respond soon.

However, in the interim I am forwarding you a note I sent to our CEO and COO explaining the problem. We would greatly appreciate any guidance you can provide, specially in the way of when we could expect funds back.

I am concerned with the reputational risk involved here in addition to the problems we may face having the funds released

Best regards

Gimi

Gimhani Talwatte  
Manager Operations  
Global Transaction Banking  
HSBC Bank plc - Johannesburg Branch  
Tel: 27-11-676-4541  
gimhani.talwatte@za.hsbc.com

----- Forwarded by Gimhani TALWATTE/HCZA/HSBC on 2006/12/15 04:51 PM -----

Gimhani TALWATTE/HCZA/HSBC  
HCZA

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Occ-Psi-00610597

2006/12/14 06:07 PM  
Mail Size: 5516

To  
Krishna PATEL/HCZA/HSBC@HIBM, Sandy WYND/HIBM/HSBC@HIBM  
cc  
Rob MCCALL/HCZA/HSBC@HIBM, Glen ROBERTS/HCZA/HSBC@HIBM, Arup  
ROY/HCZA/HSBC@HIBM, Henk CROUSE/HCZA/HSBC@HIBM, Sangita DESAI/HCZA/HSBC@HIBM,  
Louis JORDAAN/HCZA/HSBC@HIBM, Carmel Kisten/HCZA/HSBC@HIBM  
Subject  
PCM operational error. Funds frozen in USA - payment on behalf of  
Commercial  
Bank of Ethiopia  
Entity  
--- Blank ---

Krishna, Sandy

PCM received an instruction from Commercial Bank of Ethiopia (CBE) on the 06th of December 2006. The instruction was for USD2,538,939.33 to be paid out to BNP Paribus in Switzerland for the account of Sudanese Petroleum Corporation. The instruction came in the way of a SWIFT message from CBE.

PCM staff turned the payment instruction around and released a telegraphic transfer to HBUS for further payment to BNP Paribus. The outgoing IT message was stopped by WOLF which flags all sanctioned countries/terrorist organisation etc. However, in this instance the staff member released the payment in error.

The payment hit HBUS and the funds were immediately frozen as per the guidelines set out by the US department of treasury. The funds now remain with HBUS in a fixed deposit. HSBC Johannesburg has to independently apply for the release of these funds from the Office of Foreign Assets Control in the US department of Treasury.

We have completed the application for the release of funds and will courier it to the USA tomorrow morning.

We understand that CBE was aware that this payment may not go through as they have attempted to make this payment via their other correspondent banks and failed. We need to decide what communication we make with CBE in this regard.

At PCM, I have spoken to the staff concerned and realise that it was a genuine error in an attempt to push the days work through before the cut-off time. I believe the loss of three staff in the department leaving only two permanent staff remaining is causing them to work towards clearing their queues rather than slow down to read the warnings such as these. Staff are also used to seeing warnings often seeing that most of the business we conduct is with CON and RST countries. They assumed the warning here was for CBE (which also get's flagged by our systems for being constrained - high risk or sensitive country). Having said that I also feel it is a matter of training where seeing the word 'Sudan' alone should have been warning enough.

At HTV we have discussions each time new sanctions come out so the entire department is aware of the sanctions and of HSBC's stand on these sanctions. We have clear guidelines on how to handle payments to certain countries with sanctions. We hope to start similar sessions with PCM and I will conduct the first such training next week. I see this as a transition phase where PCM

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first needs to be staffed and then trained up

We will await the outcome of our application and I will keep you informed as and when we have some news

Regards

Gimi

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Occ-Psi-00617514

From: ALI S KAZMY/HBUS/HSBC  
Sent: 6/18/2007 8:11:48 AM  
To: ANNE LIDDY/HBUS/HSBC  
CC:  
Subject: Fw: Job Aid - Bearer Share

FYI

----- Forwarded by Ali S Kazmy/HBUS/HSBC on 06/18/2007 09:11 AM -----  
From: Clara Hurtado on 18 Jun 2007 08:25

To: Ali S Kazmy/HBUS/HSBC@HSBC  
cc: Teresa Garcia/HBUS/HSBC@HSBC  
Subject: Fw: Job Aid - Bearer Share

Miami also has a large number of bearer share accounts. I too disagree with making these SCCs.

We are also getting an updated BOL every 3 years, not 2 years.

Before anything goes out to the units, we need to be careful that we do not change the agreed upon policies/procedures which have been put in place based on local regulator requirements.

Thanks.

Clara M. Hurtado  
Director of Anti-Money Laundering Compliance  
HSBC Private Bank - Miami  
Ph: 305 539 4998 Fax: 305 539 4850  
----- Forwarded by Clara Hurtado/HBUS/HSBC on 06/18/2007 08:23 AM -----

Teresa Garcia/HBUS/HSBC  
06/15/2007 11:05 AM

To  
Ali S Kazmy/HBUS/HSBC@HSBC  
cc  
Alan P Williamson/HBUS/HSBC@HSBC, Anne Liddy/HBUS/HSBC@HSBC, Steven J Rockefeller/HBUS/HSBC@HSBC, Susan Hoggarth/HBUS/HSBC@HSBC, Clara Hurtado/HBUS/HSBC@HSBC  
Subject  
Re: Fw: Job Aid - Bearer Share

Ali,

IPB-NY has about 500 non-high risk bearer share accounts. There is no way we are making all these accounts SCCs.

Teresa Garcia  
Senior Manager Specialized Compliance

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Occ-Psi-00617514

HSBC Private Bank New York  
452 Fifth Ave., T6, NY, NY 10018  
(PH)212-525-6014 (F) 212-525-8255

Ali S Kazmy/HBUS/HSBC  
06/15/2007 11:01 AM

To  
Alan P Williamson/HBUS/HSBC@HSBC  
cc  
Anne Liddy/HBUS/HSBC@HSBC, Steven J Rockefeller/HBUS/HSBC@HSBC, Susan  
Hoggarth/HBUS/HSBC@HSBC, Teresa Garcia/HBUS/HSBC@HSBC  
Subject  
Re: Fw: Job Aid - Bearer Share

The intention is to apply to all HBUS business units, including PB. Perhaps we  
could have a discussion on the potential bearer share exposure in Markets.

Thanks,

From: Alan P Williamson on 15 Jun 2007 10:54

To: Ali S Kazmy/HBUS/HSBC@HSBC  
cc: Anne Liddy/HBUS/HSBC@HSBC  
Steven J Rockefeller/HBUS/HSBC@HSBC  
Susan Hoggarth/HBUS/HSBC@HSBC  
Teresa Garcia/HBUS/HSBC@HSBC  
Subject: Re: Fw: Job Aid - Bearer Share

---

Just for clarity's sake then, the job aid applies to which business units? It  
appears not to apply to PB, and I am sure it doesn't apply to Markets.

Alan

Ali S Kazmy/HBUS/HSBC  
06/15/2007 10:29 AM

To  
Alan P Williamson/HBUS/HSBC@HSBC  
cc  
Teresa Garcia/HBUS/HSBC@HSBC, Steven J Rockefeller/HBUS/HSBC@HSBC, Susan  
Hoggarth/HBUS/HSBC@HSBC, Anne Liddy/HBUS/HSBC@HSBC  
Subject  
Re: Fw: Job Aid - Bearer Share

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Occ-Psi-00617514

Alan,

Thanks for your note. FYI - Anne & I are discussing additions to the AML Policy with regards to this as well as other topics.

Regards,

From: Alan P Williamson on 15 Jun 2007 09:52

To: Teresa Garcia/HBUS/HSBC@HSBC

cc: Ali S Kazmy/HBUS/HSBC@HSBC  
Steven J Rockefeller/HBUS/HSBC@HSBC  
Susan Hoggarth/HBUS/HSBC@HSBC  
Anne Liddy/HBUS/HSBC@HSBC  
Subject: Re: Fw: Job Aid - Bearer Share

Ali

I think this may represent a policy change. Probably a good one but not sure we are ready for it.

Alan

Teresa Garcia/HBUS/HSBC  
06/15/2007 09:48 AM

To  
Ali S Kazmy/HBUS/HSBC@HSBC  
cc  
Susan Hoggarth/HBUS/HSBC@HSBC, Alan P Williamson/HBUS/HSBC@HSBC, Steven J  
Rockefeller/HBUS/HSBC@HSBC  
Subject  
Re: Fw: Job Aid - Bearer Share

Ali,

In IPB we do not classify Bearer Shares accounts as SCCs, unless the nature of the beneficial owner warrants it.

This Job Aid is somewhat similar to the IPB-NY Bearer Share Policy. However, we request that the shares held in custody should be with an approved non-US resident third party custodian, who is authorized to advise HSBC of any changes in ownership.

Beneficial Ownership Letter should be every three years. We do not see the need of doing it every two year. We hardly ever see changes in the ownership.

Teresa Garcia  
Senior Manager Specialized Compliance

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Occ-Psi-00617514

HSBC Private Bank New York  
452 Fifth Ave., T6, NY, NY 10018  
(PH)212-525-6014 (F) 212-525-8255

Ali S Kazmy/HBUS/HSBC  
06/14/2007 04:34 PM

To  
Alan T Ketley/HBUS/HSBC@HSBC, Alexine Von Keszycki/HBUS/HSBC@HSBC, Bernie  
Mackara/HBUS/HSBC@HSBC, Clara Hurtado/HBUS/HSBC@HSBC, Deborah R  
Price/HBUS/HSBC@HSBC, Denis E O'Brien/HBUS/HSBC@HSBC, George  
Tsugranes/HBUS/HSBC@HSBC, John P Christiansen/HBUS/HSBC@HSBC, Nerissa P  
Hall/HBUS/HSBC@HSBC, Richard Salvatore/HBUS/HSBC@HSBC, Robert  
Abreu/HBUS/HSBC@HSBC, Salvatore Iocolano/HBUS/HSBC@HSBC, Steven J  
Rockefeller/HBUS/HSBC@HSBC, Susan Hoggarth/HBUS/HSBC@HSBC, Teresa  
Garcia/HBUS/HSBC@HSBC  
CC  
Alan P Williamson/HBUS/HSBC@HSBC, Anne Liddy/HBUS/HSBC, Denise A  
Reilly/HBUS/HSBC@HSBC, Georgia Stavridis/HBCA/HSBC@HSBC02  
Subject  
Fw: Job Aid - Bearer Share

Just a memory jogger that feedback on this matter is due by 15th June 2007.  
After addressing all concerns, the Job Aid will be submitted to the next line  
of senior management for approval by the 19th of June 2007.

Thanks,

----- Forwarded by Ali S Kazmy/HBUS/HSBC on 06/14/2007 04:29  
PM -----  
Ali S Kazmy on 05 Jun 2007 11:59  
Note  
~~-05 Jun 2007 11:59-~~

From: Ali S Kazmy Tel: 212-525-5560  
Title: Vice President Location: 5TH-21  
WorkGroup: COMP/ANTI-MONEY LAUNDERING Mail Size: 62458

To: Alan T Ketley/HBUS/HSBC@HSBC  
Alexine Von Keszycki/HBUS/HSBC@HSBC  
Bernie Mackara/HBUS/HSBC@HSBC  
Clara Hurtado/HBUS/HSBC@HSBC  
Deborah R Price/HBUS/HSBC@HSBC  
Denis E O'Brien/HBUS/HSBC@HSBC  
George Tsugranes/HBUS/HSBC@HSBC  
John P Christiansen/HBUS/HSBC@HSBC  
Judy P Stoldt/HBUS/HSBC@HSBC  
Nerissa P Hall/HBUS/HSBC@HSBC  
Richard Salvatore/HBUS/HSBC@HSBC  
Robert Abreu/HBUS/HSBC@HSBC  
Salvatore Iocolano/HBUS/HSBC@HSBC  
Steven J Rockefeller/HBUS/HSBC@HSBC  
Susan Hoggarth/HBUS/HSBC@HSBC  
Teresa Garcia/HBUS/HSBC@HSBC

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Occ-Psi-00617514

cc: Alan P Williamson/HBUS/HSBC@HSBC  
Anne Liddy/HBUS/HSBC  
Denise A Reilly/HBUS/HSBC@HSBC  
Georgia Stavridis/HBCA/HSBC@HSBC02  
Subject: Job Aid - Bearer Share

Attached is a Job Aid on Bearer Shares. It was previously circulated and comments received have already been incorporated. This opportunity is availed to seek comments/suggestion from a wider audience prior to presentation to the AML Director for final approval.

[attachment "Bearer Share Job Aid V3 052507.doc" deleted by Teresa Garcia/HBUS/HSBC]

Please reply along with reasoning if you do not believe the Job Aid to apply to your business unit(s). In either case, please provide comments/suggestions/feedback by June 15, 2007.

Thanks & regards,

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Occ-Psi-00620281

From: PETER G MAY/HBEU/HSBC  
Sent: 8/9/2007 7:13:10 AM  
To: ANNE LIDDY/HBUS/HSBC@HSBC  
CC: ALAN T KETLEY/HBUS/HSBC@HSBC  
Subject: Re: Arab Investment Company Reportable Event [REDACTED] Notification

Hi Anne,

I think it's important we are all comfortable with the issues here and for me to comment, I need to understand the questions HBUS have posed to TAIC and be clear on their responses.

If this cannot simply be forwarded, then let's have the call, but be aware that this alone is unlikely to bring this to a suitable conclusion.

Thanks,

PGM

\*\*\*\*\*

[REDACTED] - Redacted by the Permanent Subcommittee on Investigations

HSBC Bank plc  
Registered Office: 8 Canada Square, London E14 5HQ  
Registered in England - Number 14259  
Authorised and regulated by the Financial Services Authority

\*\*\*\*\*

From: Anne Liddy  
Sent: 09/08/2007 08:03 EDT  
To: Peter G MAY  
Cc: Alan T Ketley  
Subject: Re: Arab Investment Company Reportable Event [REDACTED] Notification

Peter, I thought we could discuss that over the phone however if you require the written correspondence prior to our call then unfortunately it will have to wait until Alan Ketley returns from vacation on Aug 13th, as I am not confident that I have each piece of correspondence. I will ask Alan to forward all applicable correspondence upon his return then we can set up a call. Hope this is ok with you. Thanks.

Peter G MAY/HBEU/HSBC  
08/07/2007 12:48 PM

To  
Anne Liddy/HBUS/HSBC@HSBC  
CC  
Alan T Ketley/HBUS/HSBC@HSBC  
Subject  
Re: Arab Investment Company Reportable Event [REDACTED] Notification

Hi Anne,

Thanks for the explanations but this does not really cover the issue of the  
Page 1

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client not answering the questions from HBUS to a satisfactory level.

I would like to see the correspondence between HBUS and TAIC which provides their explanation before we take any further action and before we have the call.

Happy to join a call next week.

Thanks,

PGM

— = Redacted by the Permanent  
Subcommittee on Investigations

Anne Liddy/HBUS/HSBC  
HBUS  
07/08/2007 14:45  
Mail Size: 28215

To  
Peter G MAY/HBEU/HSBC@HSBC  
cc  
Alan T Ketley/HBUS/HSBC@HSBC  
Subject  
Re: Arab Investment Company Reportable Event [REDACTED] Notification  
Entity  
HSBC Bank plc - HBEU

Peter, below is the summary and detailed information that was input into RED on 16JUL07 for RE [REDACTED]. Hopefully, this helps you to understand a little better the situation at HBUS. with regards to your request for details of the response from the client, rather than send you a flurry of emails I think it would make more sense for yourself, myself and my colleague, Alan Ketley (who has been dealing with the business re this matter) get on a call to walk you through the history. Alan is currently on holiday and returns the week of August 13th. Pls let me know if/when you would be available to spk with us during the course of that week. Thank you.

Summary:

Multiple Sudan-related payments have been directed over this account by Arab Investment Company. The majority were reported by other banks suggesting that HBUS has been processing cover payments for this client. The only payment where the Sudanese connection was apparent was stopped and blocked by HBUS. PCM is not satisfied with the explanations provided by the client and is aiming to have the account closed effective August 1, 2007.

Please refer to the details below for a full description of this issue.

Details:

The Arab Investment Company SAA ("TAIC"), TAIC Building 2309, Road 2830 Al Seef District 48, Manama, Bahrain, maintains a USD correspondent banking account No. [REDACTED] with HSBC Bank USA, N.A. ("HBUS"). We have received information indicating that seven wire payments requested to be processed for this account, by TAIC, were prohibited due to U.S. sanctions against Sudan, although we had no knowledge of this information at the time the wire transfers were processed or requested to be so processed. The events upon which we obtained this

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knowledge of the possible involvement of "Sudan" are summarized below.

In May 2007, HBUS responded to two '602' letters received from the Office of Foreign Assets Control ("OFAC") informing HBUS that it had processed two wire payments for TAIC in which the underlying transactions were related to Sudan. It is noted that both wire payments, as processed by HBUS upon instruction provided by TAIC, indicated no reference to "Sudan" or any other sanctioned interest. The two intermediary U.S. banks receiving the payments from HBUS rejected and blocked the payments, as required, in compliance with U.S. sanctions against Sudan. The intermediary U.S. banks reported the rejected and blocked payments to OFAC as required by regulation (since they apparently received information from their respective customers that entities located in Sudan were involved). OFAC in turn contacted HBUS requesting an explanation as to how each payment was handled by the Bank (which was done).

Below are details on the two wire payments referred to HBUS by OFAC

1) Value date 25-Aug-2006  
Amount: USD 36,900  
Debit Bank: The Arab Investment Company SAA  
Intermediary Bank: Bank of America NY  
Originator: State Bank of India, Mumbai  
Beneficiary: State Bank of India, Mumbai, A/C [REDACTED]  
Beneficiary Bank: State Bank of India Export Bills Receivable

Redacted by the Permanent Subcommittee on Investigations

Note: OFAC letter COMPL 0700200 indicated that Bank of America rejected the payment because the underlying transaction involved an export bill drawn on Alhaitham Chemical and Pharma Co. Ltd., of Khartoum, Sudan.

2) Value date 21-Dec-2006  
Amount: USD 20,300  
Debit Bank: The Arab Investment Company SAA  
Intermediary Bank: Sumitomo Mitsui Banking Corp., NY  
Originator: Sumitomo Banking Corp., Seoul  
Beneficiary: Sumitomo Mitsui Banking Corp., Seoul

Note: OFAC letter COMPL 0700245 indicated that the funds transfer was initiated on behalf of "Sudan Telecom Company".

~~HBUS responded to OFAC that both wire payments, as processed by HBUS, contained no reference to "Sudan".~~

After responding to these two OFAC letters, two additional wire payments sent upon the instruction of TAIC were, subsequently, again returned by Bank of America due to OFAC sanctions against Sudan. Again, neither payment as processed by HBUS contained any reference to "Sudan". Details on the payments are given below.

3) Value date 15-Jun-2007  
Amount: USD 631,532.70  
Debit Bank: The Arab Investment Company SAA  
Intermediary Bank: Bank of America N.A.  
Originator: State Bank of India, Indore, India  
Beneficiary Bank: State Bank of India, Export Bills Receivable A/C  
Beneficiary: State Bank of India, Indore, India

4) Value date 15-Jun-2007  
Amount: USD 154,760.66  
Debit Bank: The Arab Investment Company SAA  
Credit: Bank of America N.A.  
Originator: State Bank of India, Indore, India  
Beneficiary Bank: State Bank of India, Export Bills Receivable A/C  
Beneficiary: State Bank of India, Indore, India

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Upon review, we identified three additional wire payment instructions (note where wire transfers were not processed) received from TAIC which may have involved a Sudanese interest. Details are given below.

5) Value date 16-May-2006  
Amount: USD 485.22  
Debit Bank: The Arab Investment Company SAA  
Credit: Bank of New York, Oriskany, NY  
Originator: The Arab Investment Company SAA  
Beneficiary: Farmers Commercial Bank, Khartoum, Sudan

— = Redacted by the Permanent Subcommittee on Investigations

Note: This payment was blocked and reported by HBUS to OFAC on 16-May-2006, due to the involvement of the Sudanese bank. "Farmers Commercial Bank, Khartoum, Sudan" is listed as a blocked entity by OFAC under the Sudan program.

6) Value date 10-Oct-2006  
Amount: USD 34,505.00  
Debit Bank: The Arab Investment Company SAA  
Credit: Wachovia Bank NA - New York  
Intermediary Bank: Wachovia Bank, N.A. - Collections Clearance Account, NY, NY  
Beneficiary Bank: The Bank of Kyoto, Ltd., Kyoto, Japan

Note: The payment was returned by Wachovia to HBUS on 17-Oct-2006 with the notation "Return your SSN [REDACTED] Val 10/10/06 for our collection O/B (ordering bank) is Sudanese French Bank, Sudan. Cannot process due to sanctions."

7) Value 21-Feb-2007  
Debit: The Arab Investment Company SAA  
Credit: Bank of America, N.A., NY, NY  
Beneficiary Bank: State Bank of India (Export Bill Receivable)  
Originator: State Bank of India, Mumbai  
USD 287,158.75

Note: The payment was returned by Bank of America to HBUS on 23-Feb-2007 with the notation "Drawee is a Sudanese entity and that comml pymts involving Sudan cannot be proc under sanction."

The relationship with TAIC is currently under review by HBUS PCM and PCM in ~~HBME which has local calling responsibility for TAIC and a recommendation has been made by HBUS Compliance that the relationship be exited. The Group KYC on TAIC indicates that there is a treasury and trade relationship; it also indicates that TAIC has OFAC monitoring systems in place and that any transactions with OFAC names are rejected - our experience suggests this is no longer correct.~~

In summary, it is noted that the above seven (7) wire transfer requests possibly involving entities located in Sudan were all rejected by the U.S. banks and were not, therefore, processed.

Peter G MAY/HBEU/HSBC  
08/07/2007 06:46 AM

To  
Anne Liddy/HBUS/HSBC@HSBC  
cc

Subject  
Re: Arab Investment Company Reportable Event [REDACTED] Notification  
Page 4

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Occ-Psi-00620281

Anne,

I received no responses in your absence and would appreciate your assistance in providing me with information requested.

Many thanks,

PGM

Anne Liddy/HBUS/HSBC  
HBUS  
06/08/2007 14:27  
Mail Size: 13407

Redacted by the Permanent  
Subcommittee on Investigations

To  
Peter G MAY/HBEU/HSBC@HSBC  
CC

Subject  
Re: Arab Investment Company Reportable Event [REDACTED] Notification  
Entity  
HSBC Bank plc - HBEU

Peter, I have just returned from my vacation and saw this email. Do you still need this information?

Peter G MAY/HBEU/HSBC  
07/27/2007 10:58 AM

To  
Anne Liddy/HBUS/HSBC@HSBC  
CC  
Alan T Ketley/HBUS/HSBC@HSBC, Carolyn M Wind/HBUS/HSBC@HSBC, Ian  
EDEN/HBME/HSBC@HSBC, Joe E BROWNLEE/HBEU/HSBC@HSBC, Susan A  
WRIGHT/HGHQ/HSBC@HSBC  
Subject  
Arab Investment Company Reportable Event [REDACTED] Notification

Dear Anne,

Re the below, I have not been able to obtain all the relevant information on the event within HBUS and from our records, we don't have anything from HBEU with the client in question.

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Occ-Psi-00620281

Please could you shed some further light on this, including providing us with details of the response from the client, so that we can review the situation with all the facts. Additionally, I believe we are only the Regional Relationship Manager for the customer, who will have a GRM within HBME who should be kept in the loop.

Thanks,

PGM

---

Peter May  
Global Relationship Manager Public Sector & Reserve Managers  
HSBC Bank plc  
Corporate, Investment Banking and Markets  
Level 17  
8 Canada Square  
London, E14 5HQ

phone: + 44 (0)20 7992 3721  
fax: + 44 (0)20 7992 4480  
mobile: +44 (0)7767 006186

email: peter.g.may@hsbcib.com

----- Forwarded by Peter G MAY/HBEU/HSBC on 27 Jul 2007 15:42 -----  
Giovanni FENOCCHI/HBEU/HSBC on 27 Jul 2007 07:54

----- Forwarded by Giovanni FENOCCHI/HBEU/HSBC on 27 Jul 2007 07:54 -----  
Joe E BROWNLEE/IBEU/HSBC @ HIBM on 26 Jul 2007 18:14

Memo  
26 Jul 2007 18:14

From: Joe E BROWNLEE/IBEU/HSBC @ HIBM  
Mail Size: 2252  
~~Sent by: IBEU-CFAMB-SIGNATURE-AUTHORITY@HIBM~~  
Subject: Reportable Event #3948 Notification

Event DETAILS :-

Event Title: Arab Investment Company - Sudan OFAC issues  
Status: Open  
Region: North America  
Business: HSBC Securities Services  
Location: United States  
Exec Summary: Multiple Sudan-related payments have been directed over this account by Arab Investment Company. The majority were reported by other banks suggesting that HBUS has been processing cover payments for this client. The only payment where the Sudanese connection was apparent was stopped and blocked by HBUS.  
PCM is not satisfied with the explanations provided by the client and is aiming to have the account closed effective August 1, 2007.

Please refer to the detail tab for a full description of t  
Date Occurred:

Creation Date: 16 Jul 2007 12:53

Event Number: [REDACTED]

Page 6

[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations



2343

Occ-Psi-00620281

RED link: <http://intranet.uk.hibm.hsbc/IRIS/logon.do?eventId=30003077>

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Page 7

OFAC Compliance Team Monthly Update Date - January 2008		
Topic	Explanation	
Payments:	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;"> <b>Redacted by the Permanent Subcommittee on Investigations</b> </div>	
Reportable Events (RED) placed in RED in January 08		
December 13, 2007	<p>On 13DEC07 HBUS self-disclosed to OFAC the processing of five wire payments (6AUG-07-USD 22,254.99; 12MAR07 - USD 8,743.88; 31JAN07 - USD 26,269.74; 29JAN07 - USD 3,525.76; 28NOV07 - USD 33,486.47) in possible violation of Sudan regulations. HBUS received information from another U.S. bank informing us that the beneficiary on the 6AUG07 was a Sudanese company. The payment was processed straight through, i.e., it did not stop in the filter as there was no beneficiary address and no mention of "Sudan". HBUS researched the beneficiary and our customer, Credit Libanais, and identified four other payments processed for the same beneficiary. The beneficiary, "Medica Import and Distribution Co." was entered into the WOLF filter related to Sudan. [REDACTED]</p> <p>Under OFAC's strict liability policy, HBUS may face a potential penalty of USD 189,274 for processing the payments going to Sudan.</p>	\$189,274
	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;"> <b>Redacted by the Permanent Subcommittee on Investigations</b> </div>	

OCC-PSI-00631007

**Redacted by the  
Permanent Subcommittee on Investigations**

Other:	<ul style="list-style-type: none"><li>▪ OFAC Audit completed.</li><li>▪ OFAC Compliance Deskbook drafted and submitted to team for approval</li></ul>
	<ul style="list-style-type: none"><li>▪ 3 sessions of OFAC training completed for Private Banking for a total of 46 participants</li></ul>

OCC-PSI-00631007

2346

To: Lesley Midzain, EVP  
cc: Anne Liddy  
From: Elizabeth Protomastro, OFAC Compliance  
Date: 4/2/08  
Report: Management Report For 1Q2008 for OFAC Compliance

1. **Issues Arising**

(a) **NEW ISSUES**

*Include in this section:*

• ***New Reportable Events***

*On 30JAN08, HBUS disclosed to OFAC the facts surrounding the processing of a wire transfer transaction of USD 29,428.32 from HSBC Egypt on 7DEC07 which was subsequently blocked by [REDACTED] under sanctions against Sudan. The transaction did stop in the OFAC filter queue, but was released due to human error. HBUS faces paying a potential penalty under the Sudanese sanctions for processing this payment. (RED #4710)*

**Redacted by the  
Permanent Subcommittee on Investigations**

OCC-PSI-00633713

Redacted by the Permanent Subcommittee on Investigations



*On 28FEB08, HBUS disclosed to OFAC the facts surrounding the processing of a wire transfer transaction of USD 44,211.64 on 5NOV07 which was subsequently returned/rejected by [REDACTED] in compliance with sanctions against Sudan. The payment did stop in the OFAC queue, but released due to human error. HBUS faces a potential penalty under the Sudan sanctions for processing this payment. (RED #4797)*

Redacted by the  
Permanent Subcommittee on Investigations

OCC-PSI-00633713

**Redacted by the**  
**Permanent Subcommittee on Investigations**

(b) MATTERS REPORTED PREVIOUSLY

*See Schedule A attached.*

2. **Compliance Plan**

(a) **Deviations from Compliance Plan**

*Nil.*

(b) **Activities Outside of Plan Requiring Significant Compliance Support**

*Nil*

3. **Significant Accomplishments for the Period**

*Four OFAC Training 2007 make up sessions were presented to 59 staff members of IPB and DPB (NY and Miami). Two OFAC Training sessions for 2008 were presented to 44 AML Retail Compliance staff based in Vizag, India.*

4. **Resources**

*Nil*

5. **Significant Legislative Action**

The OFAC SDN list was updated 15 times during 1Q08. Updates/additions and changes were made under the following programs: Global Terrorism (5); Narcotics Trafficking and Drug Kingpin (3); Non-Proliferation (1); Iraq3 (1); NPWMD (1); Burma (3) and Lebanon/Syria (1).

On 14FEB08, OFAC published "Guidance On Entities Owned By Persons Whose Property And Interests In Property Are Blocked."

OCC-PSI-00633713

On 6MAR08, OFAC published "Guidance on the Blocking of Property of Certain Persons Undermining the Democratic Processes or Institutions in Belarus by Executive Order 13405." This specifically addressed the Guidance of 14FEB08 and its applicability to the Belarusian State Concern for Oil and Chemistry ("Belneftekim"), an entity which was designated on 13NOV07, and any dealings, direct or indirect, with entities in which this blocked party has a 50% or greater ownership interest.

OCC-PSI-00633713

**Redacted by the  
Permanent Subcommittee on Investigations**

OCC-PSI-00633713



2351

Occ-Psi-00652829

From: ALI S KAZMY/HBUS/HSBC  
Sent: 6/24/2009 2:09:55 PM  
To: ANNE LIDDY/HBUS/HSBC@HSBC02@HSBC  
CC:  
Subject: Re: Fw: Group CRRT and US Country Risk Assessments

The 2009 INCSR's report on Mexico was worst than that of 2008. The report does not apply a risk rating on countries, however, the report itself provides details of findings, which assists in such a process. For example, the 2009 reports provide the following new information:

During 2008, various Mexican government officials have come under investigation for alleged corruption and money laundering activities;  
In November 2008, government agents of the Special Group for Organized Crime (PGR) apprehended the former Deputy Attorney General of the Office of the Attorney General (SIEDO);

Eight enforcement agents from Federal Preventive Police (PFP) and PGR were apprehended and accused of leaking confidential information to drug cartels;  
The IMF's mutual evaluation report on Mexico conducted on behalf of FATF identified deficiencies, including a lack of criminal liability for legal persons and a lack of investigations for money laundering and cross-border cash smuggling;

As of November 2008, bulk-cash seizures amount to \$53 billion;  
For the past two years, U.S. authorities have observed a significant increase in the number of complex money laundering investigations by SIEDO, with support from the UIF and in coordination with U.S. officials. The number of investigations rose from 152 in 2004 to 198 as of October 2008 (In 2007, 85 of 112 apprehension orders corresponded to money laundering operations, this information was previously not available.);  
There were a number of noteworthy cases during 2008, which were reported in the 2009 INCSR:

In the beginning of 2008, the U.S. Government froze funds belonging to the Mexican money exchange house Casa de Cambio Puebla as part of a money laundering case filed in U.S. District Court in Miami against Venezuelan national Pedro Jose Benavides Natera, who participated in a complex money laundering scheme. Criminals used clean funds to purchase high-performance turbo-prop aircraft for drug smuggling operations. Drug proceeds from Venezuela were sent to Casa de Cambio Puebla where cooperating individuals sent the funds on to the U.S., into buffer accounts, operated by individuals who served as fronts for Venezuelan drug traffickers. The buffer account holders then transferred funds to aircraft brokers for the purchase of aircraft. The criminals then cancelled the aircraft registrations and had the aircraft shipped to front men in Venezuela.

In October 2008, at a mansion near Mexico City, PGR and PFP apprehended 15 major drug dealers and money launderers, 11 of them Colombians, with links to the Beltran Leyva brothers. The leader of the group, Teodoro Mauricio aka "El Gaviota", is under investigation for money laundering and narcotics trafficking.

In November 2008, SIEDO arrested Jaime Gonzalez Duran, aka "The Hummer", one of the most wanted criminals in Mexico and allegedly one of the leaders and founders of the criminal group "Los Zetas" (considered to be the armed branch of the Gulf Cartel). Gonzalez was apprehended in Reynosa, Tamaulipas where he had smuggled drugs into the U.S., on organized crime, drug smuggling, money laundering, and possession of weapons charges..

Please let me know if the above suffices.

Regards,

From: Anne Liddy@HSBC02 on 22 Jun 2009 17:37

Page 1

2352

Occ-Psi-00652829  
To: Ali S Kazmy/HBUS/HSBC@HSBC02@HSBC02@HSBC  
Subject: Re: Fw: Group CRRT and US Country Risk Assessments

Ali, did any of the agencies you reference in your email downgrade Mexico recently as a result of the issues Mexico is currently experiencing? What does INCSR have Mexico labelled as and is it worse than the previous rpt. I'd like to give Susan some more concrete examples she could use with the other Group offices. Thanks.

----- Original Message -----

From: Ali S Kazmy  
Sent: 06/19/2009 12:37 PM CDT  
To: Anne Liddy  
Subject: Re: Fw: Group CRRT and US Country Risk Assessments

Anne,

I am basically providing the same summary I did for our Catherine Bussery during May 2009, with a slight update.

A number of sources are reviewed, a majority of which are government and international agencies, such as World Bank, IMF, FATF, CFATF, BIS, Central Banks, Transparency International, etc. in order to determine risk levels inherent in each U.N. recognized country and affix a rating. With regards to U.S., we rely on reports issued by the Department of State, Department of Treasury and other similar governing agencies. The U.S. Department of State issues detailed annual assessment of each country via the International Narcotics Control Strategy Report highlighting, inter alia, money laundering, terrorist financing, corruption, and regulatory regime/oversight. An excerpt of such a report on Mexico, which also include some of our independent research findings, is attached below.

[attachment "Country Report 2009.doc.zip" deleted by Anne Liddy/HBUS/HSBC]

As a result of events occurring in Mexico during the past several months with respect to drug trafficking and money laundering, as well as the general unrest these developments have caused, we have downgrade Mexico to "high" risk. The deteriorated situation is recognized by the Government of Mexico as evidenced through the involvement of agencies tasked with the Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) efforts towards drafting an AML/CFT National Strategy. This strategy is expected to be issued sometime during 2009. It is expected to outline Mexico's AML/CFT short and long range objectives and, amongst other, examine emerging money laundering trends and identify and propose legal and regulatory measures to mitigate gaps. Our rating is in conformity with the view of the U.S. law enforcement.

Regards,

PS: Sorry for the delay. I have been busy with CTP issues.

From: Anne Liddy@HSBC02 on 18 Jun 2009 16:52

To: Ali S Kazmy/HBUS/HSBC@HSBC

Subject: Fw: Group CRRT and US Country Risk Assessments

Ali, can you pls pull this info together for summarization to Susan. Thanks.

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2353

Occ-Psi-00652829

----- Original Message -----

From: Susan A WRIGHT  
Sent: 06/18/2009 02:29 PM GDT  
To: Anne Liddy/HBUS/HSBC@HSBCAMERICAS  
Subject: Group CRRT and US Country Risk Assessments

Anne,

It has been drawn to my attention that in the latest US Country Risk Assessment Mexico has gone from a lower risk to high. I have received a number of queries from around the Group as to the reason for what they see as quite a dramatic change.

whilst I appreciate the risks involved in doing business with Mexico I would be grateful for some further and more detailed clarification as to why the change has been so dramatic. This will enable me to deal with a number of these queries.

Many thanks and regards

Susan Wright

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2354

Occ-Psi-00672571

From: CN=Wyndham S Clark/OU=HBUS/O=HSBC  
Sent: 5/9/2010 6:36:30 PM  
To: CN=Curt X Cunningham/OU=HBUS/O=HSBC@HSBC02  
Subject: Re: AML Townhall

Curt,  
Thanks for your note. It was exactly on point. Essentially AML decisions are now being made without AML SME. This will be very apparent to the regulators.  
wyn  
wyn Clark  
Anti-Money Laundering Director  
HSBC North America  
452 Fifth Avenue, 7th Floor  
New York, NY 10018  
(212) 525-8025  
wyndham.s.clark@us.hsbc.com

----- Original Message -----

From: Curt X Cunningham  
Sent: 05/09/2010 12:02 PM CDT  
To: Corbin Lirot; Anthony Gibbs  
Cc: "gpeterson" <gpeterson@imagny.com>; wyndham S Clark  
Subject: Re: AML Townhall

Corbin,  
We need to start including wyn in these discussions. He is the na AML director. He is ultimately accountable for the AML program. In that vein, we have a standing meeting regarding AML with the regulators this Tuesday. We need to discuss who will cover what topics at that meeting as well.  
I suggest a meeting early tomorrow, that includes all on this note plus wyn to discuss both topics.

Curt

----- Original Message -----

From: Corbin C Lirot  
Sent: 05/09/2010 10:44 AM CDT  
To: Anthony Gibbs; Curt Cunningham  
Cc: gpeterson@imagny.com  
Subject: Re: AML Townhall  
Yes, you me, Curt and Gary should meet to discuss the town hall...others (Karen Grom?)? I agree we need to draft speaking points/materials.

The main objective is to try to summarize where we are with AML backlog with the regulators and in building the AML BAU team to meet the current worklog (I would think this should include the impact of the CTP on AML). From there, we need to develop a clear view on the go-forward roles and responsibilities in AML BAU processing (under wyn) and roles related to the many projects and contractors. Off the top of my head, the short list is IMAG on Governance and Quality, Deloitte on Backlog, Mark Shaw on Backlog, Booz on AML Risk Assessment, Booz on Norkom (analyst and running the scoping session) and PwC in Compliance Program Review (deeper dive on Fair Lending) and possible staffing of some of the BAU opens (batch clearing and filter tuning work). We should provide a HR Recruiting Update (Comp update?). We should consider getting a Communications person from Laura Geibb to help go-forward post Townhall keeping people on the same page in the AML space...there are alot of locations to manage and communicate with.

Irene wants to put it out there that this is what we know, what is going on and open for Q&A so that people believe we are being open an honest and working WITH them to address the issues and fix the problems. Irene is the one driving  
Page 1

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Occ-Psi-00672571

this townhall and the sense of urgency to do by this Friday.

Kind Regards,

Corbin C Lirot  
Chief Financial Officer, HTSU | HSBC Technology & Services COS | HTS, North America  
26525 N. Riverwoods Drive, Three North East, Mettawa, IL

---

Phone. 224 544 6639  
Fax. 224 522 6639  
Mobile. 224 622 6075  
Email. corbin.c.lirot@us.hsbc.com

---

From: Anthony R Gibbs/HBUS/HSBC  
To: Corbin C Lirot/HBUS/HSBC@HSBC02  
Date: 05/09/2010 09:43 AM  
Subject: Re: AML Townhall

Just wanted to let you know all logistics have been completed and invitations sent to all. The only open item is content. Please let me know how I can help with that. As background, I usually work with the management team and others to accumulate info and draft speaking points for Janet's Townhalls, so I can share what I provide in the past or help as needed. Thank you.

Anthony Gibbs  
EVP, Chief Operating Officer  
HSBC North America Legal & Compliance  
Phone (224) 544-3547

Executive Assistant  
Isabel Trayer (224) 544-4970

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From: Corbin C Lirot/HBUS/HSBC  
To: Anthony R Gibbs/HBUS/HSBC@HSBC02  
Cc: Curt X Cunningham/HBUS/HSBC@HSBC02, Karen K Grom/HBUS/HSBC@HSBC02  
Date: 05/06/2010 09:31 AM  
Subject: Re: AML Townhall

Yes Irene and Gary Peterson should be invited.  
Many thanks and warm regards,

Corbin Lirot  
(Sent via BlackBerry)

Page 2

2356

Occ-Psi-00672571

----- Original Message -----

From: Anthony R Gibbs  
Sent: 05/06/2010 09:17 AM CDT  
To: Corbin Lirot  
Cc: Curt Cunningham; Karen Grom  
Subject: Re: AML Townhall

Absolutely Corbin. I will get right on scheduling. Outside of AML CMP personnel, senior management team, and you, was there anyone else that should attend from your meeting? i.e., Irene Dorner? consultants?

Thank you.

Anthony Gibbs  
EVP, Chief Operating Officer  
HSBC North America Legal & Compliance  
Phone (224) 544-3547

Executive Assistant  
Isabel Trayer (224) 544-4970

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From: Corbin C Lirot/HBUS/HSBC  
To: Curt X Cunningham/HBUS/HSBC@HSBC02, "Anthony Gibbs"  
<anthony.r.gibbs@us.hsbc.com>, "Karen Grom" <karen.k.grom@us.hsbc.com>  
Date: 05/06/2010 09:10 AM  
Subject: ~~AML Townhall~~

Irene and Janet have requested that we conduct a townhall with the extended AML team. The venue is to be NYC 11th floor and VC connection to remote site. Anthony, Janet says you organize for a broader team quarterly and know how to contact to make this happen. Can you reach out to schedule logistics for Friday May 17th? 90 minutes with time for Q&A.

Many thanks and warm regards,

Corbin Lirot  
(Sent via Blackberry)

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2357

Occ-Psi-00672582  
From: CN=Wyndham S Clark/OU=HBUS/O=HSBC  
Sent: 5/10/2010 6:03:10 AM  
To: CN=Anne Liddy/OU=HBUS/O=HSBC@HSBC02  
Subject: Re: AML Townhall

Thanks. With every passing day I become more concerned...if that's even possible.

Wyn Clark  
Anti-Money Laundering Director  
HSBC North America  
452 Fifth Avenue, 7th Floor  
New York, NY 10018  
(212) 525-8025  
wyndham.s.clark@us.hsbc.com

----- Original Message -----  
From: Anne Liddy  
Sent: 05/09/2010 08:03 PM CDT  
To: wyndham S Clark  
Subject: Re: AML Townhall

NO.

----- Original Message -----  
From: Wyndham S Clark  
Sent: 05/09/2010 01:30 PM CDT  
To: Anne Liddy  
Subject: Fw: AML Townhall  
Is this model working?

Wyn Clark  
Anti-Money Laundering Director  
HSBC North America  
452 Fifth Avenue, 7th Floor  
New York, NY 10018  
(212) 525-8025  
wyndham.s.clark@us.hsbc.com

----- Original Message -----  
From: Curt X Cunningham  
Sent: 05/09/2010 12:02 PM CDT  
To: Corbin Lirot; Anthony Gibbs  
Cc: "gpeterston" <gpeterston@imagny.com>; wyndham S Clark  
Subject: Re: AML Townhall

Corbin,  
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Curt

----- Original Message -----  
From: Corbin C Lirot  
Sent: 05/09/2010 10:44 AM CDT  
To: Anthony Gibbs; Curt Cunningham  
Cc: gpeterston@imagny.com  
Subject: Re: AML Townhall

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2358

Occ-Psi-00672582

Yes, you me, Curt and Gary should meet to discuss the town hall....others (Karen Grom?)? I agree we need to draft speaking points/materials.

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Irene wants to put it out there that this is what we know, what is going on and open for Q&A so that people believe we are being open and working WITH them to address the issues and fix the problems. Irene is the one driving this townhall and the sense of urgency to do by this Friday.

Kind Regards,

Corbin C Lirot  
Chief Financial Officer, HTSU | HSBC Technology & Services COS | HTS, North America  
26525 N. Riverwoods Drive, Three North East, Mettawa, IL

Phone. 224 544 6639  
Fax. 224 522 6639  
Mobile. 224 622 6075  
Email. corbin.c.lirot@us.hsbc.com

From: Anthony R Gibbs/HBUS/HSBC  
To: Corbin C Lirot/HSBC/HSBC02  
Date: 05/09/2010 09:43 AM  
Subject: Re: AML Townhall

Just wanted to let you know all logistics have been completed and invitations sent to all. The only open item is content. Please let me know how I can help with that. As background, I usually work with the management team and others to accumulate info and draft speaking points for Janet's Townhalls, so I can share what I provide in the past or help as needed. Thank you.

Anthony Gibbs  
EVP, Chief Operating Officer  
HSBC North America Legal & Compliance  
Phone (224) 544-3547

Executive Assistant  
Isabel Trayer (224) 544-4970

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Occ-Psi-00672582

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From: Corbin C Lirot/HBUS/HSBC  
To: Anthony R Gibbs/HBUS/HSBC@HSBC02  
Cc: Curt X Cunningham/HBUS/HSBC@HSBC02, Karen K Grom/HBUS/HSBC@HSBC02  
Date: 05/06/2010 09:31 AM  
Subject: Re: AML Townhall

Yes Irene and Gary Peterson should be invited.  
Many thanks and warm regards,

Corbin Lirot  
(Sent via Blackberry)

----- Original Message -----  
From: Anthony R Gibbs  
Sent: 05/06/2010 09:17 AM CDT  
To: Corbin Lirot  
Cc: Curt Cunningham; Karen Grom  
Subject: Re: AML Townhall

Absolutely Corbin. I will get right on scheduling. Outside of AML CMP personnel, senior management team, and you, was there anyone else that should attend from your meeting? i.e., Irene Dorner? consultants?

Thank you.

Anthony Gibbs  
EVP, Chief Operating Officer  
HSBC North America Legal & Compliance  
~~Phone (224) 544-3547~~

Executive Assistant  
Isabel Trayer (224) 544-4970

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From: Corbin C Lirot/HBUS/HSBC  
To: Curt X Cunningham/HBUS/HSBC@HSBC02, "Anthony Gibbs"  
<anthony.r.gibbs@us.hsbc.com>, "Karen Grom" <karen.k.grom@us.hsbc.com>  
Date: 05/06/2010 09:10 AM  
Subject: AML Townhall

Page 3

2360

Occ-Psi-00672582

Irene and Janet have requested that we conduct a townhall with the extended AML team. The venue is to be NYC 11th floor and VC connection to remote site. Anthony, Janet says you organize for a broader team quarterly and know how to contact to make this happen. Can you reach out to schedule logistics for Friday May 17th? 90 minutes with time for Q&A.

Many thanks and warm regards,

Corbin Lirot  
(Sent via Blackberry)

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2361

Occ-Psi-00676731

From: CN=Wyndham S Clark/OU=HBUS/O=HSBC  
Sent: 7/14/2010 1:00:54 PM  
To: CN=David W J BAGLEY/OU=GMO/O=HSBC@HSBC  
Subject: Re: Follow-up to our discussion

David,

Thank you for your note. I will not take any action until we have had the opportunity to discuss and determine how best to proceed.

Thanks,

Wyn

Wyn Clark  
Anti-Money Laundering Director | HSBC - North America  
452 Fifth Avenue, 7th Floor, New York, NY 10018

---

Phone. 212-525-8025  
Fax. 212-642-1543  
Email. wyndham.s.clark@us.hsbc.com

---

From: David W J BAGLEY/GMO/HSBC@HSBC  
To: wyndham S Clark/HBUS/HSBC@HSBC02  
Date: 07/14/2010 01:27 PM  
Subject: Re: Follow-up to our discussion

Wyn

My thanks and all very clear. As I said I am grateful for your honesty and candour. Although I do agree that as we move forward the reporting line needs to be looked at I do think that our challenges are more deep rooted.

Having said this I recognise that the responsibilities of the role are such ~~that you personally need to be comfortable.~~

I am grateful for you agreeing to stay on in the role while we recruit. I will commit to you that we will initiate the recruitment with all due speed.

We also need to agree how we advise the OCC and FRB. Perhaps we could discuss this next week as it is clearly essential that we tell them as soon as we can but also in a managed and consistent manner.

We should speak again when I am back.

Regards

\*\*\*\*\*

HSBC Holdings plc  
Registered Office: 8 Canada Square, London E14 5HQ, United Kingdom  
Registered in England number 617987

\*\*\*\*\*

----- Original Message -----

Page 1

2362

Occ-Psi-00676731

From: wyndham S Clark  
Sent: 14/07/2010 11:25 EDT  
To: David W J BAGLEY  
Subject: Follow-up to our discussion  
David,

As discussed yesterday, I wish to relinquish my title as Anti-Money Laundering Director of HSBC North America and appointed BSA Officer for HSBC's U.S. legal entities. I understand that HSBC is required to have a Board appointed BSA officer, so I commit to remaining in this position until a duly qualified replacement is identified.

My decision to step down from these designated roles was not taken lightly, but the bank has not provided me the proper authority or reporting structure that is necessary for the responsibility and liability that this position holds, thereby impairing my ability to direct and manage the AML Program effectively. This has resulted in most of the critical decisions in Compliance and AML being made by senior Management who have minimal expertise in compliance, AML or our regulatory environment, or for that matter, knowledge of the bank (HBUS) where most of our AML risk resides. Until we appoint senior compliance management that have the requisite knowledge and skills in these areas, reduce our current reliance on consultants to fill our knowledge gap, and provide the AML Director appropriate authority, we will continue to have limited credibility with the regulators.

Going forward, I hope to serve in a role with HSBC where I can provide value, specifically in my areas of expertise in BSA/AML and regulatory compliance.

Thank you for your understanding and I look forward to discussing this with you further.

Regards,

wyn

wyn Clark  
Anti-Money Laundering Director | HSBC - North America  
452 Fifth Avenue, 7th Floor, New York, NY 10018

Phone. 212-525-8025  
Fax. 212-642-1543  
Email. wyndham.s.clark@us.hsbc.com

2363

Occ-Psi-00698461

From: MARLON YOUNG/HBUS/HSBC  
Sent: 8/23/2007 9:25:31 AM  
To: CAROLYN M WIND/HBUS/HSBC@HSBC; LOUIS MARINO/HBUS/HSBC@HSBC; MANUEL DIAZ/HBUS/HSBC@HSBC;  
JEFF CLOUS/HBUS/HSBC@HSBC; CLARA HURTADO/HBUS/HSBC@HSBC; JANET L BURAK/HBUS/HSBC@HSBC;  
DAVID FORD/PBRS/HSBC@HSBC  
CC: ALAN P WILLIAMSON/HBUS/HSBC@HSBC; CAMILLUS P HUGHES/HBUS/HSBC@HSBC; STEFAN HARDY/HBUS/HSBC@HSBC;  
NANCY LUGO/HBUS/HSBC@HSBC; JOSEFINA CANILLAS/HBUS/HSBC@HSBC  
Subject: Re: File Note on Meeting with Federal Reserve Bank of Atlanta

The reason for setting up a branch of the Edge in CA was to allow the sole banker in SF (Cassandra) to operate and be serviced by IPB-Miami. Our apologies for not keeping you posted on this.  
Marlon

From: Carolyn M Wind  
Sent: 08/23/2007 07:45 AM EDT  
To: Louis Marino; Marlon Young; Manuel Diaz; Jeff Clous; Clara Hurtado; Janet Burak; David Ford  
Cc: Alan P Williamson; Camillus Hughes; Stefan HARDY; Nancy Lugo; Josefina Canillas  
Subject: Re: File Note on Meeting with Federal Reserve Bank of Atlanta

One further note, they were aware of the application recently filed for the Edge to open a branch in CA. Alan and I were not aware at the time of the branch application so could not offer any particular comment other than we would follow up.

From: Carolyn M Wind  
Sent: 08/23/2007 07:39 AM EDT  
To: Louis Marino; Marlon Young; Manuel Diaz; Jeff Clous; Clara Hurtado; Janet Burak; David Ford  
Cc: Alan P Williamson; Camillus Hughes; Stefan HARDY; Nancy Lugo; Josefina Canillas  
Subject: Re: File Note on Meeting with Federal Reserve Bank of Atlanta

We spoke briefly about the fact that the business was moving to a more consolidated/centralized approach and considering moving aspects of the business to Miami. The focus of the conversation was on how compliance was responding to the business changes, such as moving from regional to a more centralized functional approach and moving resources as warranted from one geographic location to another as the business finalizes its plan.

From: Louis Marino  
Sent: 08/23/2007 06:59 AM EDT  
To: Marlon Young; Carolyn Wind; Manuel Diaz; Jeff Clous; Clara Hurtado; Janet Burak; David Ford  
Cc: Alan P Williamson; Camillus Hughes; Stefan HARDY; Nancy Lugo; Josefina Canillas  
Subject: Re: File Note on Meeting with Federal Reserve Bank of Atlanta

~~Given their comment regarding things always changing at HSBC I was wondering whether the issue of transferring additional accounts from NY and California to the Edge was raised. This would obviously be a significant change.~~

Regards

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Occ-Psi-00698461

From: Marlon Young  
Sent: 08/22/2007 09:48 PM EDT  
To: Carolyn Wind; Manuel Diaz; Jeff Clous; Clara Hurtado; Janet Burak;  
David Ford  
Cc: Alan P Williamson; Camillus Hughes; Louis Marino; Stefan HARDY; Nancy Lugo; Josefina Canillas  
Subject: Re: File Note on Meeting with Federal Reserve Bank of Atlanta

Carolyn,  
Thank you for the update on your meeting w the Fed. Given the comments made by the Fed, I suggest we have a conference call w all the relevant parties to discuss the implication of their comments to the way we currently conduct our business.  
Manuel - may I ask you to organize a call to discuss this matter.  
Regards,  
Marlon

From: Carolyn M Wind  
Sent: 08/22/2007 06:18 PM EDT  
To: Marlon Young; Manuel Diaz; Jeff Clous; Clara Hurtado; Janet Burak;  
David Ford  
Cc: Alan P Williamson; Camillus Hughes  
Subject: File Note on Meeting with Federal Reserve Bank of Atlanta

On Friday, August 17, 2007, Alan Williamson and I met with several officials from the Federal Reserve Bank of Atlanta-Miami Branch: Mayte Diaz, Senior International Examiner; Jay Repine, Senior Examiner; and Steven Dandes, Directing Examiner. They have conducted the examinations of the HSBC Miami Edge Bank over several years. Also attending were Anne Golden, our resident CPC from the Federal Reserve Bank of New York and Jennifer Hicks, member of our resident FRBNY team responsible for oversight of compliance activities. This meeting had been requested by the Federal Reserve Bank of Atlanta (FRBA). Steve Dandes was the primary speaker and indicated that the FRBA is meeting with many of its larger clients to discuss the lessons of the recent action against American Express. They also wished to meet with Alan and I as the new senior Corporate AML compliance officers responsible for overseeing the HSBC Edge Bank AML program.

The meeting was friendly but several comments were pointed. They note that there is a general acceptance of "parallel market activities" in the Latin American Markets by International Private Bankers across the industry, but that the American Express case shows that even accepted "normal" business practice can attract the attention of prosecutorial authorities. One of their concerns as regulators is that they do not necessarily know what the criminal authorities may be looking at for their next case. They were pleased to hear that HSBC was well aware of the American Express case and that management was proactively reviewing points within the case against our own business activities.

Specifically with respect to our office in Miami, they praised the current management team. They went further and said that HSBC was a notable and admirable example of a bank which has consistently avoided trouble. Nevertheless, they said that "if you take the facts from the American Express case and lay them over our last report of HSBC, they are all there." They suggested that the local management and compliance teams, while competent and forward looking, should take another look at the risks in their market place, for example, bearer share companies. They believe that getting NY management more actively involved and aware of the Miami business risks would facilitate the second look initiative. This is the rationale for some of the corporate governance recommendations in the most recent report. They also expressed

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continued concern about the scope of transactional monitoring relative to the risks within the portfolio and indicated that they would be reviewing our new Norkom system during the annual visit scheduled for late this year. Additionally, they expressed concern with the level of experience in the Miami compliance group.

Alan and I explained our recent successful recruiting efforts relative to US private banking compliance and our plans for a more centralized and less regional compliance structure, which we believe will address their recommendation for more involvement by Corporate Compliance. They appreciated the concept, however they countered that in the history of examining HSBC, things are always changing - they would like the dust to settle. We assured the examiners that we were sensitive to the risks associated with change and were working to make appropriate adjustments to the compliance program in response to changes within the business and the environment. The meeting ended on a cordial note, with the examiners noting that they were going on to another NY bank to make similar points.

Carolyn Wind  
EVP, General Compliance  
& AML Director  
452 5th Avenue, T7  
New York, New York 10018  
Phone: 212-525-5503 / Fax: 212-382-5963  
E-mail: carolyn.m.wind@us.hsbc.com

2366

Occ-Psi-00704789

From: JANET L BURAK/HBUS/HSBC  
Sent: 10/25/2007 6:37:06 PM  
To: DAVID W J BAGLEY/HGHQ/HSBC@HSBC  
CC:  
Subject: Fw: Carolyn wind

David,

Further to my earlier email, I thought it would be useful to provide you with a "memo to file" which reflects a conversation which I felt compelled to have with Carolyn. I look forward to discussing this with you.

Best regards

Janet

Janet L. Burak  
SEVP/General Counsel and Secretary  
HSBC USA Inc.  
HSBC Bank USA, N.A.  
452 Fifth Avenue, 7th Floor  
New York, NY 10018  
(T) 212-525-6533  
(F) 212-525-8447  
email: janet.l.burak@us.hsbc.com  
----- Forwarded by Janet L Burak/HBUS/HSBC on 10/25/2007 07:33 PM

Janet L Burak/HBUS/HSBC  
10/25/2007 12:44 PM

To  
Janet L Burak/HBUS/HSBC  
cc  
  
Subject  
Carolyn wind

Memo to file:

I met today with Carolyn wind from 11:55am-12:15pm.

I indicated to her my strong concerns about her ability to do the job I need her to do, particularly in light of the comments made by her at yesterday's audit committee meeting, and the reaction of the audit committee as expressed by them in executive session with Mike Geoghegan and Paul Lawrence and in my conversation with Dick Jalkut this morning. I noted that her comments caused inappropriate concern with the committee around: our willingness to pay as necessary to staff critical Compliance functions (specifically embassy banking AML support), and the position of the OCC with respect to the merger of AML and general Compliance. I indicated that this was the second Audit Committee meeting at which concerns about the strength of the Compliance function, and the ability of Carolyn to manage it, were raised, and that there clearly was a loss of confidence in Carolyn by the Audit Committee.

I made it clear to Carolyn that this, in addition to the issues raised by David  
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Occ-Psi-00704789

Dew, were causing me now to have concerns as to whether she was capable of managing a combined AML/General Compliance function, to say nothing of leading the Compliance organization and driving change in a very different and difficult environment. I also conveyed my concern that it may not be possible to restore in either the Board, or in David, any confidence in her.

Because I had a scheduled call with the DC OCC at 12:15pm, I told her that we would have to continue our discussion later, and asked her to schedule some time. Other than apologizing to me twice for putting me in this position, she made no comments.

Janet L. Burak  
SEVP/General Counsel and Secretary  
HSBC USA Inc.  
HSBC Bank USA, N.A.  
452 Fifth Avenue, 7th Floor  
New York, NY 10018  
(T) 212-525-6533  
(F) 212-525-8447  
email: janet.l.burak@us.hsbc.com

2368

Occ-Psi-00725897

From: JANET L BURAK/HBUS/HSBC  
Sent: 7/2/2008 8:53:52 PM  
To: BOB MARTIN/HBUS/HSBC@HSBC02  
Subject: Re: Federal Reserve Bank of Atlanta Review of HSBC Private Bank Miami

February of this year.

----- Original Message -----

From: Bob MARTIN  
Sent: 07/02/2008 02:39 PM CDT  
To: Janet Burak  
Subject: Re: Federal Reserve Bank of Atlanta Review of HSBC Private Bank Miami

Since when Janet ?

----- Original Message -----

From: Janet L Burak  
Sent: 07/02/2008 03:29 PM EDT  
To: Bob MARTIN; David Dew  
Cc: Mark Martinelli; David W J BAGLEY/HGHQ/HSBC@HSBC; Peter GEORGEU/SM GFA GHQ/HGHQ/HSBC@HSBC  
Subject: Re: Federal Reserve Bank of Atlanta Review of HSBC Private Bank Miami

Bob,

CRU reports in to the shared services organization headed by Anthony Gibbs.

Best regards,

Janet

----- Original Message -----

From: Bob MARTIN  
Sent: 07/02/2008 10:14 AM CDT  
To: David Dew  
Cc: Mark Martinelli; Janet Burak; David W J BAGLEY/HGHQ/HSBC@HSBC; Peter GEORGEU/SM GFA GHQ/HGHQ/HSBC@HSBC  
Subject: Fw: Federal Reserve Bank of Atlanta Review of HSBC Private Bank Miami

David

Please see below AUF's earlier memo on this report. Peter G has advised me today that he intends to provide input (on the basis outlined below) to PB's reply shortly. Basically we will agree to FRB Atlanta's request on an exceptional basis to avoid prolonging discussions and in the meantime if the CRU reporting line changes to a HNAH function then this should fully address their concerns.

We will continue to use CRU resources for other audits as other regulators are comfortable with our approach, subject to the recently issued internal guidance (adequacy of sample sizes, sub-testing-etc) by AUN on this matter.

Regards

Bob

----- Forwarded by Bob MARTIN/HBUS/HSBC on 07/02/2008 07:54 AM -----

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Occ-Psi-00725897

Mark Martinelli/HBUS/HSBC  
06/25/2008 12:32 PM

To  
Bob MARTIN/HBUS/HSBC  
cc

Subject  
Fw: Federal Reserve Bank of Atlanta Review of HSBC Private Bank Miami

Bob: FYI

mark.martinelli@us.hsbc.com  
Office: 212 525 7459  
Cell: 917 647 4276

----- Original Message -----

From: Peter GEORGEU  
Sent: 06/25/2008 03:26 PM GDT  
To: Matthew J W KING  
Cc: Jean-Pierre HOLZER; Ian MCMILLAN; Prit BIRKE; Liz A TESTER; Mark Martinelli  
Subject: Federal Reserve Bank of Atlanta Review of HSBC Private Bank Miami

Matthew,

I attach a copy of the FRBA's report on the Miami Edge Act Bank in Miami.

The examiners' overall assessment is the bank is satisfactory.

The FRB appear to use a different methodology from the OCC in respect of their findings. The OCC refer to their more significant issues as Matters Requiring Attention. The FRB have two categories, Required Actions and Observations. ~~Required Actions are defined as 'matters, ranging from concerns of the highest priority to issues of lesser priority that must be addressed by senior management. Management must respond to all Required Actions and specify a timeframe for implementation'. Observations 'represent examiner suggestions for enhancements to policy or practice that are optional for the organisation to implement. Nevertheless, management should provide a response to observations outlining the decision as to the adoption of observations'.~~

The FRB have raised a total of 13 items within the Required Actions category. The FRB require a response within 30 days in respect of both Required Actions and Observations.

Of the 13 Required Actions, I consider the following to be more material and wish to bring to your attention -;

Account Activity Monitoring  
There are three issues in this area in respect of the Norkom account monitoring system. Specifically, the alert parameters should be more account specific and the approval process for thresholds specified. There should also be more detailed procedures developed for documenting the review of exceptions that are identified by Norkom.

Client Risk Assessment

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Occ-Psi-00725897

There are 4 issues in this area. Improved controls and risk mitigation are required in respect of bearer share accounts and accounts held in the name of PICs. In addition, policies and procedures should be enhanced for identification and the review of higher risk accounts.

There is also a Required Action in respect of Internal Audit. This is not considered material but I draw your attention to it as we are required to formally respond agreeing to the action. The FRB made reference to Internal Audit under Independent Testing on page 12 of their report as follows '...was subject to an audit in October 2007. This was a comprehensive audit of all business functions, including a review and assessment of (PB Miami)'s BSA / AML program. The scope of the internal audit was adequate, and internal audit staff is considered knowledgeable. However, examiners noted the need to review the utilisation of Compliance Review Unit (CRU) staff in internal audits and reassess the frequency of the BSA / AML portion of the audit'.

The examiners are of the view that as the CRU and the Miami compliance function ultimately report to the same individual in the parent bank, Head of Legal and Compliance HBUS (Janet Burak), there is the potential to compromise audit's independence. The FRB acknowledge that both ourselves and CRU believe the arrangement does not compromise our independence as CRU staff report and work for internal audit during their audit review and that we control the report comments and ratings.

It should also be noted that the same arrangement is in place with regard to both our and AUN's use of CRU for audits of HBUS units and the Head of HBUS PB AML, Alan Williamson, advised this week that OCC are happy with the arrangement.

With regard to the audit cycle, the FRB acknowledge we have a risk based approach, are aware that the timing of the next audit factors in various criteria, but they are still of the view that the potential cycle of 18 to 24 months between audits is not sufficiently frequent.

Accordingly, the FRB have raised the following Required Action in respect of Internal Audit

Audit management should adjust the frequency of the BSA / AML audit cycle to be in compliance with the guidance provided by the FFIEC BSA/AML Manual (which indicates a cycle not to exceed 12 to 18 months) and reevaluate the utilisation of CRU staff as audit resources.

I propose that we respond to PB Miami management, who are responsible for collating the responses for the report, to confirm that we shall adopt the 12 to 18 month cycle between audits and we shall not use CRU for reviews of BSA / AML for future audits but perform the work ourselves.

The FRB have also made an observation that we do not risk grade each area. 'Currently, internal audit reports only provide an overall rating, with significant deficiencies noted as a 'high risk' issue in the report' They have suggested that we consider individual ratings for areas reviewed, although we explained that if an area(s) was weaker than others we would make this clear in the summary and cover letter. Nevertheless, risk grading each key department such as front office, BSA / AML Compliance, payments, etc. is an approach we already use in New York for OCC regulated businesses and we shall agree to the same approach in Miami.

Regards

Peter

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Occ-Psi-00727922

— = Redacted by the Permanent  
Subcommittee on Investigations

From: BRENDAN MCDONAGH/HBUS/HSBC  
Sent: 7/22/2008 9:40:38 PM  
To: JANET L BURAK/HBUS/HSBC  
Subject: Fw: 2nd Half Costs

----- Original Message -----

From: Michael F GEOGHEGAN  
Sent: 07/23/2008 03:17 AM GMT  
To: Sandy Flockhart; Stuart T GULLIVER; Emilson ALONSO; Brendan McDonagh;  
Dyfrig D J JOHN; Clive C R BANNISTER; Youssef Nasr  
Cc: Stephen GREEN; Z J CAMA; Chris MEARES; Ken HARVEY; Douglas FLINT  
Subject: 2nd Half Costs

Gentlemen

As we discussed at GMB yesterday and today, the battle we have to fight for the remainder of the year is to bring our costs in flat, second half on first half in an inflationary environment.

We all know that this will not be easy but it needs to be done.

We have agreed that we will have a headcount freeze until the end of the year, focusing on the 80000 plus people who turnover each year within the Group.

Also we are beginning to recognise that collectively we have to be more resolute in streamlining our management structures across the Group in a consistent way.

Now you have the tool ( with Peoplesoft fully loaded) to really understand the make up of your labour costs and make lasting savings.

Equally with our commitment to pay market pay, we have the responsibility and the opportunity to give accurate assessment feedback and seek out under performers and less committed colleagues, in this half year appraisal season.

Apart from staff costs we need to look at other discretionary expenditure and curtail or stop it for the next five months.

One thing for me that sticks out is our annual \$500+m worth of travel expenditure and within this is the amount of departmental and businesses conferences that we believe we must have.

I suspect after the holidays there will be an urge in these areas to meet up etc for AOP purposes!!- Please resist approving this travel expenditure and focus people on using the investment we have made in global video conferencing, to achieve the same result.

As regards One HSBC, we are forging ahead in a number of areas, in regards to a global consistency of approach, but we need now to really push on to ensure a finality of a common global approach, which leads to clearly defined staff reductions.

We have accepted a challenge of \$1.0b cost cuts in 2009 from One HSBC and we need to spec this out now in the remaining months of the year so that we can announce our future cost cuts with our results in 2009.

As you are aware Zed has given you an aide, to challenge your team to look for the necessary savings, and I will certainly be quizzing you on this during our upcoming Business Reviews- so please come prepared!

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Occ-Psi-00727922

In closing I want, on a positive note, to thank you for the first half's result because collectively it was very good result in a difficult environment- and because of that energy I know a team, as good of ours, can adapt quickly to this changing market.

That determination to be ahead of the curve is what we need to display for the second half and I know I can count on you in this regard.

I have briefed the Group Chairman tonight on what the above will do, in the short term, for some growth areas and he fully supports this tactical slowdown in expenditure (even in growth areas) for the rest of the year

Best wishes

Mike

\*\*\*\*\*

HSBC Holdings plc  
Registered Office: 8 Canada Square, London E14 5HQ, United Kingdom  
Registered in England number 617987

\*\*\*\*\*

COMPLIANCE CERTIFICATE

Date: January 8, 2010

To: David Bagley, Head of Group Compliance  
Janet Burak, SEVP, RCO & General Counsel, HSBC North America Holdings Inc.  
William M Wong, Regional Compliance Officer - Americas

From: Christopher O'Donnell, Managing Director/Chief Compliance Officer

RE: Global Banking and Markets Half Yearly Compliance Certificate June 1, 2009 -  
December 31, 2009

I certify that to the best of my knowledge and belief:-

- (a) save as disclosed to you below, no company, division or branch (as listed on the attached Compliance Chart) or any of its employees is or has at any time during the period 01JUN09 to 31DEC09 been in material or significant breach of any applicable law, code, rule, regulation or standard of good market practice;
- (b) there is no other law, code, rule, regulation or standard of good market practice carrying significant compliance risk which is applicable;
- (c) save as disclosed to you and detailed on the attached schedule, no company, division branch, nor any employee of such company, division or branch has been the subject of any disciplinary measures or investigation (not including a routine inspection visit) by a regulatory body;
- (d) save as disclosed to you below there have been no customer complaints evidencing bad faith, malpractice or impropriety by a Group employee or which individually or collectively indicate a significant systemic problem;
- (e) save as disclosed to you below there have been no internal frauds which taken alone or with other similar frauds may involve monetary loss of US\$ 750,000 (or equivalent) or more and/or may involve a material or significant breach of any law, code, rule, regulation or standard of good market practice and/or may reflect adversely upon the control systems in place within the company or branch concerned;
- (f) save as disclosed to you below there has been no irreconcilable disagreement with line management over any significant compliance issue;
- (g) in respect of every breach which is not of a material or significant nature, remedial action has been taken or initiated and/or the relevant regulatory authority notified if appropriate.
- (h) there are no other matters which should be drawn to your attention.

**NB: For RCO/GCO certificates, Compliance Charts need not be attached.**

OCC-PSI-00783419

2374

Disclosure Statement (if any) for matters arising during the reporting period, including brief particulars of remedial action taken and/or notification made to relevant regulatory authority:

**Redacted by the  
Permanent Subcommittee on Investigations**

OCC-PSI-00783419



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Status reports on any items disclosed in previous Compliance Certificates and still outstanding at the beginning of the reporting period:

**Redacted by the  
Permanent Subcommittee on Investigations**

- **Office of Foreign Assets Control (OFAC) Pre-Penalty Notice (RED #6779)** On 04JUN09, HBUS responded to OFAC "Prepenalty Notice", FAC Now. [REDACTED] dated 08MAY09, from the OFAC Penalties Division.

**[REDACTED] - Redacted by the Permanent  
Subcommittee on Investigations**

OCC-PSI-00783419

— = Redacted by the Permanent  
Subcommittee on Investigations

The proposed penalty (USD125, 000) concerns the clearing of gold bullion by HBUS London for the benefit of an Iranian bank in MAY06. The HBUS London branch had acted as "clearer" for a trade in 32,000 ounces gold bullion (value USD20, 560,000) between two foreign banks, [REDACTED] in Paris (HBUS customer) and [REDACTED] in London. The transaction did not involve the physical movement of gold and was solely book entries. Although HSBC knew at the time that the ultimate beneficiary was Bank Markazi in Iran, it had believed that the transaction was permissible (as a 'U-Turn' transaction) under OFAC rules. This matter was logged as RED #2303 by Steve D. Smith (HBEU Compliance) on 05JUN06.

The proposed penalty amount is calculated in accordance with OFAC tariffs and reflect OFAC's conclusion that the alleged violation was 'non-egregious'. We were given 30 days to respond to the Notice. HBUS Compliance consulted with counsel in preparing its response and presenting its position to OFAC on the appropriateness of the penalty. The response described facts and circumstances that may help to clarify the matters and mitigate OFAC's intention to levy penalties. On 21JUL09, HBUS received verbal notification from the OFAC Penalties Division that it intends to add four other open cases to this pre-penalty settlement. The cases are RED #'s 4374 (Sudan), [REDACTED] and 5895 (Burma). There are no further updates to this matter.

Redacted by the  
Permanent Subcommittee on Investigations

OCC-PSI-00783419

2377

OCC-Psi-00787479

From: JANET L BURAK/HBUS/HSBC  
Sent: 2/6/2010 7:48:20 PM  
To: "BRENDAN MCDONAGH" <BRENDAN.MCDONAGH@US.HSBC.COM>  
Subject: Expanded "Banknotes Exam"

Brendan,

This may be more than you need/want, but it provides a complete picture of the OCC banknotes review.

The OCC commenced a regularly scheduled banknotes examination on 20JUL09. The OCC's field work was completed 28AUG09. On 3SEP09 we were informed verbally that the OCC was expanding their banknotes exam, but had not yet set the scope or line of inquiry.

On 21SEP09 we received a request for an extensive amount of additional information, from 11JAN04 to the present, on 25 Latin America-based financial institutions, for all activities occurring in banknotes, correspondent banking and fx businesses. In addition, significant information regarding HBUS' policies, procedures and programs was requested.

On 29OCT09, the OCC raised concerns that cash letter (travelers' checks) monitoring was lacking sufficient analysis of suspicious activity, based on one week samples from each of 2007, 2008, and 2009. We immediately undertook a detailed review of all cash letters from 2009 (280 items), and determined as a result to now file 2 additional SARs (although at the time of the transactions there was no negative information on the individuals at the time of the transactions).

On 9NOV09, the examiner team was increased from 2 to 9, and now includes FRB examiners as well as OCC examiners. On 10NOV09, presentations were made to the OCC/FRB regarding the banknotes, PCM and fx businesses and their compliance programs. Based on the questions asked, the regulators appeared to be focused on resources, sufficiency of due diligence and monitoring with respect to HSBC affiliates, and linking information and processes across business lines.

Between 12NOV09 and 2FEB10 we received 8 additional requests for information, including: subpoenas received for banknotes clients from 2004 to the present; all enhanced due diligence on banknotes clients in Mexico following the change in Mexico's country risk; a list of all affiliates conducting a banknotes business; the monitoring program for affiliates; results of targeted compliance reviews in PCM, including a review of HBMX; to conduct and provide 2008 and 2009 wire searches for 32 entity names (money services businesses/casa de cambios); information on all banknotes and PCM clients, including HSBC affiliates, from 2005 to the present, in Paraguay, Uruguay, Ecuador, Panama, El Salvador and the Cayman Islands; KYC and activity information for specific financial institutions in Uruguay, Paraguay, Ecuador, El Salvador (including HSBC affiliates as well as the [REDACTED]).

Throughout this process, the OCC declined to identify what their objectives or underlying concerns were, indicating a number of times that they were not authorized to do so. These comments led us to conclude that the OCC was conducting this expanded examination at the request of some enforcement agency. We were also aware that at least one other financial institution [REDACTED] and probably others, were being subjected to a similarly rigorous review in the same areas as ours.

On 7JAN10, the examiners finally provided us with some general comments/concerns, but no specifics. These issues were:

- adequacy of SAR process
- policy/procedures for foreign correspondent business
- weakness in due diligence and monitoring in banknotes program
- backlogs in PCM monitoring and enhanced due diligence, and resources

Page 1

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Subcommittee on Investigations

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OCC-Psi-00787479

We have a 2 hour meeting scheduled with the OCC on 11JAN at which time they have indicated that they will provide more specifics around their concerns.

Janet

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Occ-Psi-00808829

From: HERSEL MEHANI/HBUS/HSBC  
Sent: 11/14/2008 10:21:55 AM  
To: DENIS E O'BRIEN/HBUS/HSBC@HSBC02  
CC:  
Subject: Fw: Social Investment Bank - IIRO

Denis

I have a lot of other email from Dhaka and all related to this case I am sure some of the info event not in English will be a good document to keep in the files

Hersel Mehani  
Senior Vice President  
Global Payments and Cash Management  
1212 525 6239 Office  
1212 961 6614 Cell Phone

----- Forwarded by Hersel Mehani/HBUS/HSBC on 14/11/2008 10:16 AM -----

Muhammad SHOHUDUZZAMAN/IB DAK/HBAP/HSBC@HSBC  
29/01/2007 05:38 AM

To  
Hersel Mehani/HBUS/HSBC@HSBC  
CC  
Alan T Ketley/HBUS/HSBC@HSBC, Gillian E Bachstein/HBUS/HSBC@HSBC, Sharyn Malone/HBUS/HSBC@HSBC, Steve BANNER/CEO DAK/HBAP/HSBC@HSBC, Mahbud Ur RAHMAN/CMB DAK/HBAP/HSBC@HSBC  
Subject  
Re: Social Investment Bank - IIRO

Hersel

Thanks for your attached note. We have paid a visit to Social Investment Bank (SIBL) this morning and had a long discussion with Mr. Shamsuddoha, Head of International Division. The following were revealed during the discussion.

In its AGM of 06NOV06, SIBL passed the following resolution re IIRO issue:

Quote

Resolved that the shareholders present in the meeting approved the proposal to dispose of (by way of sale/transfer) the whole shares held by International Islamic relief Organization (IIRO) to protect the interest of the bank after observing all regulatory formalities with Securities and Exchange Commission (SEC), Bangladesh Bank and in line with the law of the land as recommended by the Board.

Unquote

In response to SIBL's letter asking for guidance the Central Bank issued a letter to SIBL directing it to suspend trading/transfer of all bonus/right shares and payment of all cash dividends to IIRO against their holding of 50,885 number of shares with immediate effect unless otherwise instructed. A copy of the Central Bank letter (in Bengali ) is attached.

In line with the resolution and Central Bank's directive SIBL asked for guidance (letter dated 07DEC06 in Bengali, attached) from SEC expressing their

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Occ-Psi-00808829

intention to dispose off (sell/transfer) the shares held by IIRO. In its response SEC advised SIBL to follow the instructions provided by the Central Bank (SEC's letter dated 14DEC06 attached).

You would see SEC did not give any additional directive/guidance on this. So the reported disagreement by SEC to oust IIRO from SIBL is not fully correct.

Mr. Shamsuddoha advised us that as there was no scope of disposing off the shares of an existing shareholder(s) in the related laws of the land and in the absence of clear guidelines from the regulators they might not be able to dispose off the shares in near future. But they will continue to keep IIRO aside from the management and day to day affairs of the bank.

In addition to the above, I would like to share a recent newspaper report (pls see below) with you.

We will keep close contact with SIBL and advise you of the developments.

Regards

Shohid

Herse1 Mehani/HBUS/HSBC  
HBUS  
01/26/2007 02:59 AM  
Mail Size: 28303

To  
Muhammad SHOHIDUZZAMAN/IB DAK/HBAP/HSBC@HSBC  
CC  
Steve BANNER/CEO DAK/HBAP/HSBC@HSBC, Alan T Ketley/HBUS/HSBC@HSBC, Sharyn Malone/HBUS/HSBC@HSBC, Gillian E Bachstein/HBUS/HSBC@HSBC  
Subject  
Re: Social Investment Bank - IIRO  
Our Ref  
Your Ref

Dear Shohid

I need an update from your end as it seems that quite recently the security exchange in Dhaka has not agreed to outset the subject shareholder as requested by the Sr. Mgts of Social Investment Bank. If this is true I have to notify our compliance dept and ask them to guide us accordingly.

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Regards

Hersel Mehani  
Senior Vice President  
Global Payments and Cash Management

Alan T Ketley/HBUS/HSBC  
29/09/06 03:49 PM

To  
Hersel Mehani/HBUS/HSBC@HSBC, Sharyn Malone/HBUS/HSBC@HSBC, Gillian E  
Bachstein/HBUS/HSBC  
CC  
"Andrew Rizkalla" <andrew.rizkalla@us.hsbc.com>, "George Tsugranes"  
<george.tsugranes@us.hsbc.com>, Princely P Muro/HBUS/HSBC@HSBC  
Subject  
Social Investment Bank - IIRO

Hersel, Sharyn, Gillian

I'm satisfied with the answers provided by Social Investment Bank to the questions posed by Hersel on his recent visit. The fact that IIRO has no involvement in the running of the bank, is not a client of the bank and will likely be outed as a shareholder give considerable grounds for comfort.

Please monitor the ownership of this bank closely - all things being equal, once IIRO ceases to be a shareholder we should be able to drop the SCC status.

Alan T. Ketley  
Senior Vice President, Anti Money Laundering  
Tel: 212 525 6147 / Fax: 212 382 7580  
----- Forwarded by Alan T Ketley/HBUS/HSBC on 09/29/2006 03:44 PM -----

Hersel Mehani/HBUS/HSBC  
09/27/2006 04:22 PM

To  
Alan T Ketley/HBUS/HSBC@HSBC  
CC  
"Andrew Rizkalla" <andrew.rizkalla@us.hsbc.com>, Angela  
Cassell-Bush/HBUS/HSBC@HSBC, Gillian E Bachstein/HBUS/HSBC@HSBC, Stephanie L  
Napier/HBUS/HSBC@HSBC  
Subject  
Re: Compliance issues from Trip Dhaka

Alan  
Note related to KYC

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We asked all the question listed in your email  
Social Investment Bank - International Islamic Relief Organization which is on the OFAC list owns 8%. They are not on the board, do not receive dividends, do not have voting rights and do not exert any control. IIRO never responded to their request to provide a full address rather than a PO box and they will use this to oust them by November which is allowed according to their Articles of Association which I have a copy given by them to me. ( will send it to stephanie for her files)

1) Please describe what actions bank has taken with respect of the US Dept of Treasury's announcement about IIRO on August 3, 2006?

I was informed that the bank does not have any contact with the IIRO only a PO Box and therefore referred this matter to their Security exchange Agency indicating that they wish to remove them as a shareholder.

2) How does the US Dept of Treasury announcement about IIRO affect the way Social Investment views this entity?  
They do not like having an association with a shareholder which is listed by OFAC and do not wish to be associated with the IIRO in any way

3) Is the bank aware of any Nominee shareholder relationship or other ownership structure which would entitle IIRO to hold more than 8% of Social Investment Bank?

No they are not

4. Is the bank aware of any actions taken by IIRO in response to the US Department of Treasury announcement?

No they are not as mentioned they do not have any contact with IIRO

5. Is IIRO a customer of the bank and does the bank conduct any cross border transactions for IIRO?

IIRO has no relationship with the subject bank and do not maintain or operate any account with the bank

6. Given that IIRO is the bank's largest shareholder, please reconfirm that IIRO is not involved in the management of the bank or represented on your Board of Directors.

No representation of any sort

7. When was the last time IIRO received a dividend in respect of its ownership in the bank?

Presently they do not pay them any dividend

8. Prior to the US department of Treasury's announcement, IIRO's name had been linked in the media to terrorist financing issues - how did Social Investment react to those news stories and what actions were taken?

They ask for guidance for the Security exchange Agency in Bangladesh and they have the power to oust them in the next board of director meeting.

Hersel Mehani  
Senior Vice President  
Global Payments and Cash Management

Alan T Ketley/HBUS/HSBC  
Tel: 212-525-6147  
09/26/2006 01:52 PM

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Occ-Psi-00808829

To  
Herse1 Mehani/HBUS/HSBC@HSBC  
cc  
Angela Cassell-Bush/HBUS/HSBC@HSBC, Gillian E Bachstein/HBUS/HSBC@HSBC,  
Stephanie L Napier/HBUS/HSBC@HSBC, "Andrew Rizkalla"  
<andrew.rizkalla@us.hsbc.com>  
Subject  
Re: Compliance issues from Trip Dhaka

Herse1

I'd like to see answers to each of the individual questions please.

Thanks

Alan T. Ketley  
Senior Vice President, Anti Money Laundering  
Tel: 212 525 6147 / Fax: 212 382 7580

Herse1 Mehani/HBUS/HSBC  
09/26/2006 08:47 AM

To  
Stephanie L Napier/HBUS/HSBC@HSBC  
cc  
Angela Cassell-Bush/HBUS/HSBC@HSBC, Alan T Ketley/HBUS/HSBC@HSBC, Gillian E  
Bachstein/HBUS/HSBC@HSBC  
Subject  
Compliance issues from Trip Dhaka

I have a few documents with me on Social Invest Bank which I will 1 send as well

Herse1 Mehani  
Senior Vice President  
Global Payments and Cash Management  
----- Forwarded by Herse1 Mehani/HBUS/HSBC on 09/26/2006 08:40 AM -----

ialam@hsbc.com.bd  
Tel:  
09/26/2006 03:19 AM

To  
herse1.mehani@us.hsbc.com, richard.c.boyle@us.hsbc.com,  
mshohiduzzaman@hsbc.com.bd  
cc

Subject  
>Call Report: Social Investment Bank - KYC

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Occ-Psi-00808829

Client: Social Investment Bank

HSBC attendees: MEHANI, Hersel; ALAM, Iftexhar; BOYLE, Richard C;  
SHOHIDUZZAMAN, Muhammad  
Client attendees: ISLAM, Md.; SOHEL, Abu Sadek; ASADUZZAMAN, K; SHAMSUDDOHA, A  
Attendees from other Clients:

Detailed description:  
Hersel discussed few issues related to IIRO, who is one of their sponsor shareholders. HBUS raised some concern in the past & also in recent past. It's worth mentioning here that, on July 2006 US Treasury put IIRO in OFAC sanction list. The meeting was initiated to have the opinion of SIBL's management in this regard. The management informed us that, IIRO doesn't have any representation in their board (not even in the past) and neither they are involved in their management. Management is also with the opinion that, if required, they will arrange to forfeit IIRO's share through AGM/EGM. Their memorandum of articles (copy provided to Hersel) also supports such action.

Click on this link to see this item in ClientVision:

<http://clientvision.systems.uk.hsbc/rs/autoLogin.do?objectId=%7BACE6056B-AC19-4944-9780-2122A78606F9%7D>

[attachment "CallReport.pdf" deleted by Hersel Mehani/HBUS/HSBC]

**Redacted by the  
Permanent Subcommittee on Investigations**

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Occ-Psi-00808896

To  
Albert Halley/HBUS/HSBC@HSBC02  
CC  
Emilio Ruiz/HBUS/HSBC@HSBC02, Judy P Stoldt/HBUS/HSBC@HSBC02  
Subject  
Fw: Hokuriku Bank

Albert

please confirm that instructions are now clear, and Ops can comply with requirements.

Thanks and best regards

Anthony Julian  
First Vice President  
HSBC Bank USA, N.A.  
Global Transaction Banking  
Office: (302) 327-2665  
Mobile (BB): [REDACTED]

[REDACTED] = Redacted by the Permanent  
Subcommittee on Investigations

----- Forwarded by Anthony Julian/HBUS/HSBC on 10/31/2008 01:28 PM -----

Jonathan Dean/HBUS/HSBC  
10/20/2008 03:46 PM

To  
Albert Halley/HBUS/HSBC@HSBC02  
CC  
Emilio Ruiz/HBUS/HSBC@HSBC02, Judy P Stoldt/HBUS/HSBC@HSBC02, Anthony  
Julian/HBUS/HSBC@HSBC02  
Subject  
Fw: Hokuriku Bank

Albert,  
Thanks for forwarding me this note, please see attached from Mary Ann. We will not be accepting T/C's from Hokuriku Bank after October 31st. If you could please refer the types of checks we are seeing after this date to me as I am fairly certain the volume is extremely low. I will notify collections to do the same.  
Many Thanks,

Jonathan Dean  
AVP - AML Compliance Officer | HSBC Bank USA  
90 Christiana Road New Castle, Delaware 19720

Phone. 302-327-2055  
Fax. 212-382-5573  
Email. jonathan.dean@us.hsbc.com

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Occ-Psi-00808896

----- Forwarded by Jonathan Dean/HBUS/HSBC on 10/20/2008 12:26 PM -----

Mary A Caskin/HBUS/HSBC  
10/20/2008 10:58 AM

To  
Jonathan Dean/HBUS/HSBC@HSBC02  
CC  
Judy P Stoldt/HBUS/HSBC@HSBC02, Anne Liddy/HBUS/HSBC@HSBC02  
Subject  
Re: Fw: Hokuriku Bank

I just checked with Anne Liddy. We will not be accepting T/Cs. Other items can be accepted, but they must be commercial, not personal.

Mary Ann Caskin  
VP Compliance  
HSBC Bank USA NA  
452 Fifth Ave Floor 7  
NY, NY 10018  
212-525-5530

Jonathan Dean/HBUS/HSBC  
10/20/2008 10:02 AM

To  
Mary A Caskin/HBUS/HSBC@HSBC02  
CC  
Judy P Stoldt/HBUS/HSBC@HSBC02  
Subject  
Fw: Hokuriku Bank

Mary Ann,  
Sorry, I didn't clarify, we are not accepting T/C's ?  
Thanks.

Jonathan Dean  
AVP - AML Compliance Officer | HSBC Bank USA  
90 Christiana Road New Castle, Delaware 19720

---

Phone. 302-327-2055  
Fax. 212-382-5573  
Email. jonathan.dean@us.hsbc.com

---

----- Forwarded by Jonathan Dean/HBUS/HSBC on 10/20/2008 09:53 AM -----  
Page 3

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OCC-Psi-00808896

Albert Halley/HBUS/HSBC  
10/20/2008 09:53 AM

To  
Anthony Julian/HBUS/HSBC@HSBC02  
cc  
Emilio Ruiz/HBUS/HSBC@HSBC02, Jonathan Dean/HBUS/HSBC@HSBC02  
Subject  
Re: Hokuriku Bank

Anthony,

Nice hearing from you...it's been awhile. Hope all is well.

About Hokuriku Bank. On October 9th, we were notified by Jonathan Dean that after October 31st, we will no longer be receiving work from Hokuriku bank and are to return any deposits received after that date. So, my question is, is Compliance (Jonathan Dean) aware of this new scenario. I would very much like for him to confirm/clarify this new request.

Thanks..

Regards,

---

Albert Halley  
HSBC Bank USA, N.A.  
DSIP -Cash Letter Dept.  
2 Hanson Plc  
Brooklyn, NY 11217

Ofc: (718)-488-4701  
Fax: (718)-488-4717  
e-mail: albert.halley@us.hsbc.com

Anthony Julian/HBUS/HSBC  
10/17/2008 08:23 AM

To  
Albert Halley/HBUS/HSBC@HSBC02  
cc  
Emilio Ruiz/HBUS/HSBC@HSBC02  
Subject  
Hokuriku Bank

Albert

As requested by Compliance, we have advised Hokuriku Bank, Japan that we will no longer accept bulk deposits of T/C's (sequentially numbered, or  
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non-sequentially numbered items payable to the same beneficiary) in excess of \$5,000.00 with effect from October 31, 2008. The RM in Tokyo has had verbal discussion regarding this matter with Hokuriku, and we sent the attached letter to formalize our decision.

Although we expect Hokuriku to comply with our request to stop sending these items to HBUS via Cash Letter, we also request that you reject any bulk TC deposits you may receive from Hokuriku after October 31, 2008. Other items in the Cash Letter (commercial checks and retail TCS) may be processed as "business as usual", but any bulk TCS should be returned to Hokuriku via DHL Courier without entry.

Please advise me if you have any questions or issues in complying with this request.

Thanks and best regards

[attachment "Hokuriku Bank CL 092908.doc.zip" deleted by Albert Halley/HBUS/HSBC]

Anthony Julian  
First Vice President  
HSBC Bank USA, N.A.  
Global Transaction Banking  
Office: (302) 327-2665  
Mobile (BB): (610) 570-1357

----- Forwarded by Anthony Julian/HBUS/HSBC on 10/17/2008 08:15 AM -----

Alan P Williamson/HBUS/HSBC  
09/04/2008 11:05 AM

To  
Anthony Julian/HBUS/HSBC@HSBC02, Fred SHYUR/PCM ASP/HBAP/HSBC@HSBC  
cc  
Thomas W Halpin/HBUS/HSBC@HSBC02, Michael B Gallagher/HBUS/HSBC@HSBC02  
Subject  
Hokuriku Bank

Anthony, Fred

As you may know, Compliance meets monthly with senior management in the Payments and Cash Management AML Management Review Committee. Recently we discussed the fact that Hokuriku has been sending a large number of sequential traveller's checks from a number of similar businesses through cash letter here in the US. This use of cash letter is inappropriate and the Committee has concluded that PCM should no longer allow Hokuriku to send traveler's checks through cash letter. Hokuriku should therefore cease the activity and make alternative arrangements, such as to make the deposits by wire, by September 30. Can I ask you to contact the appropriate RM's to convey this message to Hokuriku and confirm back that they have done so?

Thanks for your help. Please let me know if you have any questions.

Alan Williamson  
PCM Compliance  
212 525 8043

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Occ-Psi-00823520

From: DANIEL JACK/HBUS/HSBC  
Sent: 5/12/2009 3:52:39 PM  
To: DENIS E O'BRIEN/HBUS/HSBC@HSBC02  
CC: DENISE A REILLY/HBUS/HSBC@HSBC02; RICHARD ANNICHARICO/HBUS/HSBC@HSBC02  
Subject: BN with Al Rajhi Banking & Investment Corp in Saudi Arabia

Denis,

As requested, I have reviewed activity with this Banknote client, particularly over the past 12 months. Following is a summary of all trades with this HBUS London client over the past year. In Jan-09 they became a BN client of Hong Kong also.

Attached are the details of all transactions (4 noted above) over the past year, along with the tables above & below.

[REDACTED] This bank (an SCC) had a long-standing relationship (25+ years) with Banknotes-London until we closed the account in Feb-05 due to TF & reputational risk. With approval from AML (A. Ketley), London re-opened the BN account in Dec-06 with SCC classification due to PEP. This client still has relationships with HSBC in the UK, UAE, France, Hong Kong and Italy. Refer to KYC profile --->

Following is a listing of all traders' explanations provided for alerts over the past 7+ years.

Thanks and regards,

Daniel Jack  
Vice President - Compliance Officer, GTB  
HSBC Bank USA, NA  
452 Fifth Avenue, 7th floor, New York, NY 10018

Redacted by the Permanent  
Subcommittee on Investigations

Phone. 212-525-8686  
Email. daniel.jack@us.hsbc.com

Denis E O'brien/HBUS/HSBC  
05/12/2009 02:37 PM

To  
Daniel Jack/HBUS/HSBC@HSBC02  
cc  
Denise A Reilly/HBUS/HSBC@HSBC02, Richard Annicharico/HBUS/HSBC@HSBC02  
Subject  
Al-Rajhi Banking And Investment Corporation, Saudi Arabia

Dan,

kindly review the Banknotes activity for the last 12 months for Al-Rajhi Banking And Investment Corporation, Saudi Arabia and let me know if there are

Page 1

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any variances.

Thanks and regards,

Denis E O'Brien

Director, Head of Global Transaction Banking Compliance, | HSBC Bank USA,  
National Association  
452 Fifth Avenue, New York, NY 10018

---

Phone. 212 525 1147  
Fax. 917-229-5257  
Mobile. 646-250-2425  
Email. denis.e.o'brien@us.hsbc.com

---

----- Forwarded by Denis E O'Brien/HBUS/HSBC on 05/12/2009 02:33 PM -----

Andrei X Novikov/HBUS/HSBC  
05/12/2009 11:14 AM

To  
Denis E O'Brien/HBUS/HSBC@HSBC02, Nerissa P Hall/HBUS/HSBC@HSBC02  
cc  
Anastasiya Shron/HBUS/HSBC@HSBC02  
Subject  
Al-Rajhi Banking And Investment Corporation, Saudi Arabia

FYI

[REDACTED]

we have only banknotes account.

Best Regards,  
Andrei Novikov  
COBAM - KYC  
HSBC Securities (USA) Inc.  
Tel (212) 525-8379 Fax (212) 525-6856

----- = Redacted by the Permanent  
Subcommittee on Investigations

Attachment: Al Rajhi Bank in SA (May-08 to Apr-09).xls.zip

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Occ-Psi-00823818

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**INVESTIGATIVE CONTROL & REPORTING OFFICE (ICRO)  
FINANCIAL INTELLIGENCE UNIT  
REPORT OF FINDINGS**

**RESEARCH AS OF: May 5, 2009**

**INVESTIGATOR: Brian Miloscia**

**SUBJECT: Social Investment Bank Limited**

**ENTITIES: Social Investment Bank Limited; International Islamic Relief  
Organization (IIRO)**

**REQUESTOR: Daniel Jack**

**DEPARTMENT: AML Compliance**

An Update to a previous report of findings in support of enhanced due diligence was conducted for the following entities:

- Social Investment Bank Limited
- International Islamic Relief Organization (IIRO)

*According to the EDD request, Social Investment Bank is an existing PCM client based in Bangladesh, an HSBC-designated High Risk country. The bank is classified as an SCC due to the fact that its largest shareholder is the International Islamic Relief Organization (IIRO), an OFAC sanctioned entity which is allegedly connected to Al Qaeda and the financing or terrorism. Previously, it was determined that the International Islamic Relief Organization (IIRO) is a minority shareholder (8.62%) and E. Protomastro cleared ownership with OFAC for a second time in June 2007. This report is part of a regular review process.*

*Please note that previous reports for Social Investment Bank Ltd were completed in November 2003, March 2005 and August 2006. These reports have been attached below for your convenience. This report will only include items impacting adversely on money laundering, terrorist financing or other substantive criminal activity concerns made available to our sources subsequent to the previous reports.*

*Please note that there is limited information available in our resources on entities and individuals based outside of the United States. The information which we could find and confirm as involving your customer has been included in this report. However, we cannot confirm that all legal filings, etc. that involve your customer have been uncovered and reported in this ROF.*

1

As is shown below, our sources such as *Banker's Almanac*, the International Islamic Relief Organization (IIRO) is still listed as an 8.623% owner of Social Investment Bank Ltd. Our sources indicate that the IIRO maintains branches that are classified as "Specially Designated Global Terrorist Organizations" by OFAC and in May 2008, the IIRO was designated by the Israeli government as an illegal organization for the second time.

In addition, a search of World Check for the names of shareholders, senior executives and board members "Islamic Charitable Society," "Kamal Uddin Ahmed," "Shah Alam," "Mohammad Azam," "Sayedur Rahman" and "Mohammad Shamsuzzaman" returned profiles for individuals with Bangladesh address affiliations that were reportedly involved in crimes ranging from terrorism, money laundering and securities violations.

Searches of World Check for board members "Ahmed Akbar Sobhan" and "Sadat Soban" returned profiles for a father and son from Bangladesh who were reportedly charged, arrested, fined over US \$1.2 million and sentenced to prison for crimes including: tax evasion, amassing US \$14.5 million worth of illegal wealth, corruption, participation in a graft scheme worth US \$18.5 million and a US \$3 million bribery case in connection to obstruction of a murder investigation by Bangladesh authorities.

Due to the lack of identifying information available for the individuals in question, we could not conclusively confirm or rule out whether the profiles listed on World Check pertain to the individuals identified by our sources as shareholders, senior executives and/or board members of Social Investment Bank Ltd.

In addition to the above red flags uncovered by our sources, there is a large volume of publicly available press coverage published subsequent to the previous Reports of Findings for Social Investment Bank Ltd that contain allegations of connections between the IIRO to terrorism, terror financing, money laundering and other criminal activities.

We recommend that any existing relationships with Social Investment Bank Ltd, as well as any entity which is directly affiliated with or where any of the above-named individuals acts as an officer be maintained only upon reconciliation of these issues with the customer. If the information provided by the customer is insufficient to reconcile these issues, these accounts should be closed. We also recommend that you have Social Investment Bank checked by HSBC OFAC Compliance through Elizabeth Protomastro. We further recommend that due to the reputational risks posed if this account relationship is maintained, that monitoring is increased for all affiliated entities and individuals.

**1) Social Investment Bank Limited****Banker's Almanac**

The head office of Social Investment Bank Ltd was established in November 1995 and is located at 15 Dilkusha Commercial Area, Dhaka 1000, Bangladesh. It is listed as a Private Bank with a World Ranking of 2591 and a national ranking of 28. The bank has nine domestic branches in Bangladesh including its headquarters in Dhaka. As of December 31, 2008, the bank has net profits of approximately US \$2.9 million.

Social Investment Bank Ltd is regulated by the Bangladesh Bank. They are audited by Kazi Zahir Khan & Co (*Banker's Almanac, date accessed: 5/5/2009*).

**Ownership Breakdown:****International Islamic Relief Organization IIRO, Jeddah, 8.6231%**

Islamic Solidarity Fund and its Waqf OIC, Jeddah, 3.8415%

H.E Ahmed M. Salah Jamjoom, 2.92%

**Islamic Charitable Society Lajnat A-Birr Al Islam, Jeddah, 1.5364%**

The following individuals were listed as having less than 1% ownership of the bank:

H.E Dr. Hamid Al-Galib, 0.7680%; H.E Dr. Abdullah Omar Nasseef, 0.2303%; Dr.Bedri Cemel Rodopul, 0.0019%; Adbel Fattah M.Farah, 0.0003%; Dr. Adalet Djabiev, 0.0961%; Dr. Youssef Shaheed Youseef, 0.0010%; Shahir A.R. Batterjee, 0.4607% (*Banker's Almanac, date accessed: 5/5/2009*).

*We note that the ownership interest of the IIRO does not appear to have changed since the previous report of findings completed in August 2006.*

*We also note that our sources were unable to determine the beneficial ownership of over 75% of the bank's shares. Based upon the fact that the entity in question is based in a high risk nation, and that the IIRO is widely reported to be affiliated with Al Qaeda and terrorist financing, you may wish to obtain information and documentation to ascertain the identities of the remaining shareholders of Social Investment Bank Ltd. In the absence of such information, you may wish to consider the increased risk involved in maintaining this relationship.*

**Top Senior Executives:**

- Abdul Awal Patwary, Chairman
- Md Sayedur Rahman, Vice Chairman
- K M Ashaduzzaman, Managing Director
- Abu Sadek Md Sohel, Deputy Managing Director
- Walid Mahmud Sobhani, CFO
- Md Akhtar Hussain, Compliance and Control

(*Banker's Almanac, date accessed: 5/5/2009*)

**Data Monitor Report**

*Data Monitor* has a listing for Social Investment Bank Ltd that was last updated in August 2008.

**Top Senior Executives:**

- M Rezaul Haqu, Chairman
- Alhaj M Alzal Hossain, Vice Chairman
- Humayun Kabir Khan, Vice Chairman
- Alhaj Nasiruddin, Vice Chairman
- K. M. Ashaduzzaman, Managing Director
- Abu Sadek Sohel, Deputy Managing Director

**Board Members:**

- |                          |                         |
|--------------------------|-------------------------|
| • M. Rezaul Haque        | • A.K.M. Imran Khan     |
| • Kamal Uddin Ahmed      | • Humayun Kabir Khan    |
| • Taslima Akhtar         | • Umme Kulsum           |
| • Munshi Akhtaruzzaman   | • Nargis Mannan         |
| • M. Shah Alam           | • Alhaj Nasiruddin      |
| • Zohra Alam             | • Abdul Awal Patwary    |
| • Alhaj Ali              | • Sayedur Rahman        |
| • Mohammad Azam          | • A. R. Rashidi         |
| • Fatema Begum           | • Mohammed Shamsuzzaman |
| • Mahmood Chowdhury      | • Ahmed Akbar Sobhan    |
| • Noor A-Alam Chowdhury  | • Sadat Sobhan          |
| • Anisul Haque           | • Abu Sadek Sohel       |
| • Alhaj M. Alzal Hossain |                         |

**Social Investment Bank Website**

According to the Social Investment Bank website, [www.siblbld.com](http://www.siblbld.com), the following additional parties are listed as Top Executives and/or Board Members:

- Mr. A Jabbar Mollah, Director & Board Member
- Hamdard Laboratories, Director (represented by Anisul Hoque)

([www.siblbld.com](http://www.siblbld.com), date accessed: 5/5/2009)

**Legal**

A search of our sources returned no evidence of civil, criminal, judgment, lien, bankruptcy filings, government sanctions or regulatory actions for Social Investment Bank Ltd subsequent to the previous report of findings. *Please note that our sources do not include access to lawsuits and other public records filed in Bangladesh.*

**Notable Information Regarding the Financial Institution, its Ownership or its Top Executives:****World Check**

*We note that due to name commonality and the limited identifying information available, our searches were limited to include only those individuals who were as board members*

*and top senior management. You may however, wish to obtain information and documentation from your customer to ascertain the levels of control over bank operations held by positions other than board members and managing directors.*

A World Check search returned no results for Social Investment Bank

World Check maintains a profile for an "Islamic Charitable Society Al Bireh" based in the West Bank region of Palestine. **The entity is classified as a terrorist organization with reported ties to Hamas.** In September 2008, the Israeli government reportedly declared it an illegal entity.

World Check maintains multiple profiles for the name string "Kamal Uddin Ahmen":

- A "Kamal Uddin Ahmed" of Bangladesh is listed as an officer for the Officer with the National Credit and Commerce Bank Limited as of July 2004. In February 2003, a case was filed for alleged illegal banking transactions and in July 2004, formal charges were submitted, and he was released on bail. He **reportedly sanctioned loans illegally to individuals involved in money laundering.**
- A "Md Kamal Uddin Ahmed" of Bangladesh is classified as a PEP. He is listed as the Executive Chairman of the Board of Investment (Nov 2007 - ) and Secretary of the Bangladesh Civil Service Administration Association and Deputy Commissioner of Dhaka as of October 2007.

World Check maintains multiple profiles for the name string "M Shah Alam":

- A "Mohammad Shah Alam," of Bangladesh is classified as a PEP. He is listed as a member of the Awami League Socialist party and a member of Parliament for the District of Pirojpur.
- A "Shah Alam" of Dhaka, Bangladesh is classified as a **suspected terrorist** who allegedly in the Awami League Rally attacks in August 2004. He was reportedly detained by authorities in November 2005.
- A "Shah Alam," 40 years old as of 4/16/2007 of Dhaka, Bangladesh is classified as a **terrorist** member of Alleged Jammah-ul Mujahideen Bangladesh. He was reportedly detained by authorities in April 2007.
- A "Shah Alam" of Rajshai, Bangladesh is classified as a **terrorist**. He was reportedly detained and subsequently released in May 2007.

World Check maintains multiple profiles for the name string "Mohammad Azam":

- A "Mohammad Azam" of India is classified as a **terrorist** and member of the Students Islamic Movement of India.
- A "Mohammad Shafiqul Azam" of Dhaka, Bangladesh is classified as a PEP. He is listed as Managing Director of Sadharan Bima Corporation, Member of the Dhaka Electricity Supply Authority and Former Member of the Bangladesh Power Development Board (PDB).

World Check maintains a profile for a "Fatema Begum" of Dhaka, Bangladesh, who is classified as a PEP. This individual is listed as the Deputy Inspector General of Special

Branch, Dhaka as of December 2007 and is listed as the Former Deputy Inspector General of the police headquarters in Dhaka.

World Check maintains multiple profiles for the name string "Sayedur Rahman":

- A "Sayedur Rahman" of Dinjapur, Bangladesh arrested and sent to jail for alleged involvement in a **money laundering scheme** along with individuals Malek Ansari and Abdul Kalem Azad of Bangladesh. At the time of arrest cash worth US \$65,000 was seized from the individuals.
- A "Saidur Rahman", also known as "Sayedur Rahman," 24, of Bangladesh, is classified as a **terrorist** and an alleged member Jammat-ul Mujahideen Bangladesh He was reportedly detained in October 2007.

World Check maintains a profile for a "Mohammed Shamsuzzaman" of Dhaka, Bangladesh. He is listed as the Director of Sajib Knitwear and Garments Limited as of January 2009. In June 2008 he was reportedly issued a "show cause notice" by Securities and Exchange Commission (SEC) in Bangladesh **for violation of securities regulations**. In January 2009, he was reportedly **finned by the SEC Tk 100,000 (approximately US \$1,500)**.

World Check maintains profiles for an "Ahmed Akbar Sobhan", and "Sadat Sobhan", who are listed as father and son. Ahmed Akbar Sobhan of Bangladesh is classified as a PEP. He is listed as the Chairman of Chairman of Bashundhara Group as of 2007 and the Honorary Counsel of Ukraine to Bangladesh.

- In January 2007, they pair was investigated **for reportedly committing bribery**.
- In February 2007, Ahmed Akbar Sohan was reportedly **listed as a corruption suspect** and ordered to submit a wealth statement to the federal authorities, which he failed to submit.
- In April 2007, **the pair reportedly fled to the United Kingdom as fugitives from justice, when their premises were raided by the authorities**.
- In July 2007, **an arrest warrant issued and in August 2007 they were ordered to surrender within 3 days for tax evasion**.
- In September 2007, **they were charged along with others by Anti-Corruption Commission (ACC) in a graft case worth Tk 1.27 billion (approximately \$18.5 million)**. They were sentenced to 8 years imprisonment and fined Tk 83 million (approximately US \$1.2 million) for tax evasion.
- In October of 2007, they were accused in a case filed by ACC for paying Tk 210m (approximately US \$3 million) bribe to Luffozzaman Babar to cover up a murder investigation.
- In February 2008, Ahmed Akbar Sobhan was formally charged for causing a substantial loss to the national exchequer (treasury) by **seizing 80 acres of public property**.
- In May 2008, **he was formally charged for the bribery case detailed above and was sued by the Criminal Investigation Department for bribery**.
- In July 2008, **the pair was sentenced to 2 years rigorous imprisonment for illegal possession of foreign currency worth Tk 2.3 million (approximately US \$33,000)**. In August 2008, **they were formally charged for accumulation of**

**Tk 1 billion in illegal wealth (and aiding and abetting the accumulation of illegal wealth) and concealing information of wealth in the amount of Tk 140 million, (approximately US \$14.5 million and \$2million, respectively).**

**Do to name commonality and the lack of identifying information available for the board members and top senior executives of Social Investment Bank Ltd, you may wish to obtain information and documentation from your customer to determine whether the individuals listed in World Check are the same as the individuals identified as board members and top senior executives of Social Investment Bank Ltd. You may accordingly wish to consider the increased level of risks including reputational risks in maintaining this account relationship and may consider recommending Social Investment Bank Ltd for SCC status.**

**Press**

A search of press archives for Social Investment Bank and the term "Al Qaeda" returned an October 10, 2008 news article from [www.Bangladeshnews.com.bd](http://www.Bangladeshnews.com.bd) reporting: "Bangladesh Bank (BB) has sought directions from the foreign ministry in regard to the suspended bank accounts of the International Islamic Relief Organization (IIRO), which has an alleged link with the al-Qaeda."

The article states that the "BB apprised the foreign ministry last month of the requests made by two private commercial banks to resume the bank accounts of IIRO."

The article further states that, "US Embassy in 2006 requested Bangladesh to provide information about some alleged terrorist organizations and the IIRO. Following the allegation of the IIRO's link with the al-Qaeda, the Bangladesh Bank suspended its bank accounts in Bangladesh."

Earlier, Bangladesh Bank following the reports of alleged link of the IIRO with the al-Qaeda halted two bank accounts of the IIRO at Islami Bank and **Social Investment Bank Ltd (SIBL) with whom IIRO had 50,445 shares worth Tk 1,000 each,** approximately US \$733,000.

According to the article, "**The BB suspended distribution of dividend against the shares of the IIRO with the SIBL** while the Islami Bank voluntarily froze bank accounts of IIRO. A high official of the Bangladesh Bank said the US Embassy had sought account information of IIRO under an UN resolution. But as the government currently is undertaking a project funded by the IIRO, the BB is seeking information from the foreign ministry regarding the status of the IIRO bank accounts."

**Based upon the above news article, it appears that the IIRO has a large amount of money invested in accounts with Social Investment Bank. You may therefore wish to obtain information from your customer to ascertain the status of the accounts held by the IIRO in the Social Investment Bank Ltd. You may also wish to consider the risks, including reputational risk involved in maintaining this account**

**relationship. In addition, you may wish to review this relationship with OFAC Compliance to determine what, if any, additional steps need to be taken.**

A search of press archives uncovered a news brief from a BBC News Monitor Report of Southeast Asian News dated February 4, 2007 which stated “**Information has been received about the private Social Investment Bank taking investments from an Al-Qa'idah organization** (BBC Monitoring of South East Asia Report, date 2/4/2007). No further information was listed, nor was the original source of the information provided.

A search of press archives and other third party sources were unable to obtain more information concerning the above report. **However, you may wish to obtain information from your customer concerning any on-going investigations or litigation involving potential ties to terrorist financing and/or Al Qaeda.**

*We note that although there does not appear to be a high volume of adverse press pertaining to Social Investment Bank, Ltd subsequent to the previous reports, there is some press coverage pertaining to Social Investment Bank's ties to the IIRO, and a possible connection to Al-Qaeda. Therefore you may wish to consider the risks, including reputational risks involved in maintaining this account relationship.*

## **2) International Islamic Relief Organization**

### **Word Check**

The International Islamic Relief Organization (IIRO) appears to be a non-profit humanitarian relief organization based in Jeddah, Saudi Arabia. It is listed as a member of the World Muslim League.

World Check reports that the IIRO has purported links to “**Osama bin Laden, al-Qaeda, Hamas and the Palestine Islamic Jihad**”.

The organization was “**connected to plots to assassinate Bill Clinton, the Pope and attacks on the Lincoln Tunnel and the Brooklyn Bridge.**”

World Check states that the organization is considered a major **sponsor of Afghan terrorist training camps.** The organization is “**reportedly involved in providing financial support to al-Qaeda, Hamas, PIJ and Islamic fundamentalist groups in Mindanao, Philippines.**”

World Check states that the organization is purportedly involved in **money laundering activities** for al-Qaeda and other terrorist organizations and in December 2002, it was one of ten non-governmental organization indicted in a class action civil lawsuit filed by the families of the 9/11 World Trade Center terrorist attacks.

In May 2008, **the IIRO was declared to be an illegal organization** by the government of Israel for second time (*World Check, date accessed: 5/5/2009*).



**Banker's Almanac**

The International Islamic Relief Organization, with an address of PO Box 33567, Jeddah 21458, Saudi Arabia is listed as **8.6231% Owner of Social Investment Bank Ltd.** No further information pertaining to the IIRO, such as management or ownership information was provided (*Banker's Almanac, date accessed: 5/5/2009*).

**US Office of Foreign Assets Control (OFAC)**

The Philippines branches of the International Islamic Relief Organization located in Zamboanga City, Tawi Tawi, Marawi City, Basilan, Cotabato City and Manila are classified by OFAC as a "**Specially Designated Global Terrorist Organization**".

The Indonesian branches of the International Islamic Relief Organization located in Jakarta and East Jakarta are classified by OFAC as a "**Specially Designated Global Terrorist Organization**" (*Lexis-Nexis OFAC database search, accessed: 5/5/2009*).

**Press**

*We note that searches of press archives and other third party sources were limited to include only those items made available through our sources subsequent to the previous reports.*

There is a large volume of press coverage pertaining to the International Islamic Relief Organization.

Searches of press archives and other third party sources for International Islamic Relief Organization along with adverse terms pertaining to terrorism, terror financing and other criminal activities returned more than 100 news articles and web listings published subsequent to the previous reports.

An Associated Press article dated December 22, 2007 reports that "defendants in lawsuits resulting from the Sept. 11 terrorist attacks must turn over materials from as far back as 1992, when it appears that Osama bin Laden called for a holy war against the United States"

The article reports that the ruling by U.S. District Judge George B. Daniels affects defendants in lawsuits "**seeking billions of dollars in damages from numerous banks, charities and individuals worldwide who are alleged to have supported al-Qaida before the 2001 terrorist attacks.**"

The article states that Judge Daniels said it was "**reasonable to require organizations such as the Muslim World League, the International Islamic Relief Organization and Wa'el Jelaidan to turn over evidence necessary** to decide the merits of lawsuits brought by representatives, survivors and insurance carriers of the victims of the 2001 attacks in New York, Washington and Pennsylvania.

The article states that "lawyers for defendants in the lawsuits have said it was unfair to require them to turn over the earlier documents because the defendants were not

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adequately put on notice about al-Qaida's terrorist activities toward the United States until the 1996, and that the materials were overly burdensome and outweighed any potential value to plaintiffs."

The article states that in the judge's ruling, "Daniels noted that 1992 was the year when bin Laden is alleged to have joined other senior al-Qaida leaders to issue a formal fatwah calling for violence against the United States and other Western allies." The article states that "a message left with a lawyer for defendants was not immediately returned" (*Associated Press, load date: December 22, 2007*).

**Due to the large volume of publicly available press coverage published subsequent to the previous reports containing allegations of possible links between the International Islamic Relief Organization and terrorism, Al-Qaeda, terror financing, money laundering and other criminal activities, you may wish to consider the increased risk, including reputational risks involved in maintaining this account relationship.**

Should you have further questions regarding this report, please contact me.

Brian Miloscia  
Financial Investigator (Financial Intelligence Unit)  
452 Fifth Avenue, Tower 7  
New York, NY 10018  
Tel: (212) 525-4214

*This report is confidential and is intended solely for the use of the HSBC business to which it is addressed and those who need to know the information pursuant to that business' internal procedures. This report is not to be disseminated to any other person or entity. Our investigative findings are, in part, based upon information available to us through a variety of third-party providers at the time our search is performed. While every attempt is made to find all substantive information, we make no representation that the information provided to, or gathered by, us is complete. This is not a credit or lien report and should not be used as such. The information contained herein is intended as a supplement to the Know Your Customer information gathered by the HSBC business unit and may not be considered when determining the creditworthiness of a customer (see Regulation B, 12 CFR 202.7) or to determine the lien status of property.*

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*This Space Reserved for Compliance Officer and/or Business Unit:*

**Comments of the Compliance Officer and/or Business Unit Approver:**

*Comments are required if the Report of Findings contains information to suggest that any subject may be a PEP or other type of SCC, or may present reputational risk to HSBC. Comments must detail whether or not the CO or business-level approver is comfortable with the relationship, as well as the reasons supporting that determination. If comments are entered below, return a copy to ICRO (via email to "FIG HBUS") for its records.*

I have reviewed this Report of Findings and none of the information in the Report requires comment. Signed \_\_\_\_\_ on \_\_\_\_\_.  
(Name of Reviewer) (date)

I have reviewed this Report of Findings and comments were required and have been summarized above. Signed \_\_\_\_\_ on \_\_\_\_\_.  
(Name of Reviewer) (date)

**PREVIOUS REPORT OF FINDINGS: AUGUST 2006**

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Please find below an updated Report of Findings for Social Investment Bank Limited of Bangladesh, prepared by one of our FIG Investigators, Kathleen Dischner. As you will read in this updated Report of Findings and the two prior ones attached below, there are several concerns pertaining to terrorist financing in regards to Social Investment Bank Limited's largest single shareholder, the International Islamic Relief Organization (IIRO). We especially recommend that you consider the following information in evaluating the reputational risk posed by a continued account relationship with Social Investment Bank Limited:

On August 3, 2006, the U.S. Treasury Department designated the Philippine and Indonesian branch offices of the Saudi-based IIRO as Specially Designated Global Terrorists (SDGT). The Treasury Department also designated Abd Al Hamid Sulaiman Al-Mujil, the Executive Director of IIRO's Eastern Province Branch in Saudi Arabia, as a SDGT.

According to Bankers' Almanac and Social Investment Bank's KYC profile, the Saudi-based IIRO owns an 8.62% stake in the bank, and is its largest single shareholder. As documented in the Reports of Findings below, prior to the SDGT designation of IIRO's Philippine and Indonesian branches, there have been numerous allegations of the organization's involvement in terrorist financing over the years. In fact, it appears that the IIRO is rarely mentioned in the press without it also being alleged that the group is a source of terrorist financing.

INVESTIGATIVE CONTROL AND REPORTING OFFICE (ICRO)  
FINANCIAL INTELLIGENCE UNIT  
REPORT OF FINDINGS (UPDATE)

(Research as of 08/04/06)

INVESTIGATOR: Kathleen Dischner

FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS

SUBJECT: Social Investment Bank Limited

ENTITIES: Social Investment Bank Limited

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REQUESTOR: Rhonda Lee, Nanayo Ryan, George Tsugranes, Alan Ketley, Daniel Jack

DEPARTMENT: PCM/Banknotes

A Report of Findings in support of Enhanced Due Diligence was conducted for the Social Investment Bank Limited located in the HSBC-designated high-risk country of Bangladesh. This is an update to a previous report prepared for this bank on 3/2005, which is provided below for your reference. Only items impacting adversely on money laundering, terrorist financing or other substantive criminal activity concerns will be detailed in this updated report.

UPDATE:

Social Investment Bank Limited

Most Current Ownership Breakdown Found (5% or higher):

Banker's Almanac indicates that the International Islamic Relief Organization owns 8.62% of the Social Investment Bank Limited.

Most Current List of Top Executives Found:

Dr Md Afzal Haque, Chairman  
Alhaj Mohd Afzal Hossain, Vice-Chairman  
K M Ashaduzzaman, Managing Director  
Abu Shadek Sohel, Deputy Managing Director  
Shafiqul Islam, Senior Vice-President

Notable Information Regarding the Financial Institution, its Ownership or its Top Executives:

An article in "The Los Angeles Times" on January 15, 2006 reports that US officials have cited such organizations as the International Islamic Relief Organization, the majority shareholder of the Social Investment Bank, as "engaging in highly suspect activities overseas." A National Review article from December 14, 2005 reports that the Egyptian magazine Rose al-Youssef describes the IIRO as firmly entrenched with Osama bin Laden's Al-Qaeda organization.

World-Check identifies the International Islamic Relief Organization (Indonesia) under Category 2: Terrorism. It is listed on the USA OFAC list as SDGT (Specially Designated Global Terrorist). It was identified as providing assistance to Jemaah Islamiyah in terms of recruitment, transportation, logistics, and safe-havens. (Jemaah Islamiyah is a militant Islamic terrorist organization dedicated to the establishment of a fundamentalist Islamic theocracy in Southeast Asia. Financial links between Jemaah Islamiyah and other terrorist groups, such as Abu Sayyaf and al-Qaeda, have reportedly been found to exist. <http://en.wikipedia.org>). The IIRO also allegedly financed training facilities for Al-Qaida

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associates. (World-Check entry dated 8/3/06, citing U.S. Treasury Department press release at <http://www.treas.gov/press/releases/hp45.htm>).

World-Check identifies the International Islamic Relief Organization (Philippines) under Category 2: Terrorism. It is listed on USA OFAC under SDGT (Specially Designated Global Terrorist). It was reportedly founded in the late 1980's or early 1990's, by a senior Al-Qaida member and brother in law of Osama Bin Laden. The Director, Abd al-Hadi Daguit, is allegedly a close associate of the founder. (World-Check entry dated 8/3/06). The organization is allegedly used as a source of funding for Abu Sayyaf Group. (The ASG is reportedly primarily a small, violent Muslim terrorist group operating in the southern Philippines. Some ASG leaders allegedly fought in Afghanistan during the Soviet war and are students and proponents of radical Islamic teachings. Terrorist Group Profiles - <http://library.nps.navy.mil/home/tgp/asc.htm>).

A separate World-Check entry also identifies the International Islamic Relief Organization, with locations listed as Virginia, Saudi Arabia, and the Philippines, under Category 2: Terrorism. The description indicates the following:

- Headed by Mohammed Khalifa, Osama bin Laden's brother-in-law. Member of the Board and the Executive Committee - Sheikh Hani Ahmad Zaki Yamani. Suspected of giving financial support to Islamic fundamentalist groups in Mindanao, Philippines (on behalf of) and could be linked to Osama bin Laden. Reportedly funded organizations that aid and abet terrorism including Al-Qaida, Hamas and Islamic Jihad. Allegedly linked to the 1993 World Trade Centre Bombings, involved in plots to assassinate Bill Clinton and the Pope and the planned destruction of the Lincoln Tunnel and Brooklyn Bridge. Sister organization Sana-Bell, Inc allegedly gives financial support to Islamic groups - suspected of laundering money for Al-Qaida and other terrorist organizations - linked to SAAR Network, The Golden Chain, the Saudi evangelical charity the Muslim World League - offices world-wide. Dec 2002 - reported to be 1 of 10 charities being sued by the families of the 11 Sep 2001 World Trade Centre victims. Allegedly active in Afghanistan during the Taliban regime and considered a major sponsor of terrorist training camps there.->

World-Check identifies a Shafiqul Islam under the Category 2 of Terrorism. He is reportedly a suspected Jama'atul Mujahidden Bangladesh (JMB) suicide squad member. However, we could not confirm that he is the same individual who is also a Senior Vice-President at the Social Investment Bank Limited. It appears that he may not be the individual listed on World-Check, as he was reportedly arrested in February 2006. (World-Check entry dated: 2/13/06, citing "The Independent" of Bangladesh).

Information Found Regarding this Financial Institution, its Ownership or its Top Executives that Warrants SCC Consideration:

The International Islamic Relief Organization is the majority shareholder of the Social Investment Bank Limited. The IIRO allegedly has connections to terrorist organizations

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such as Al Qaeda, and its Indonesian and Philippine branches have been designated by OFAC as SDGTs.

\*\*\* Should you find any discrepancies between the ownership and/or executives named in this report and those named in your current, up-to-date KYC information, please let us know so that we may check any differing names for items impacting adversely on money laundering, terrorist financing or other substantive criminal activity concerns.

This report is confidential and is intended solely for the use of the HSBC business to which it is addressed and those who need to know the information pursuant to that business' internal procedures. This report is not to be disseminated to any other person or entity. Our investigative findings are, in part, based upon information available to us through a variety of third-party providers at the time our search is performed. While every attempt is made to find all substantive information, we make no representation that the information provided to, or gathered by, us is complete. This is not a credit report and should not be used as a credit report. The information contained herein is intended as a supplement to the Know Your Customer information gathered by the HSBC business unit and may not be considered when determining the creditworthiness of the customer (see Regulation B, 12 CFR 202.7).

## **PREVIOUS REPORT OF FINDINGS: MARCH 2005**

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FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS (UPDATE)

SUBJECT: Social Investment Bank Ltd

ENTITIES: Social Investment Bank Ltd

REQUESTOR: Rhonda Lee-Thomas, Nanayo Ryan

DEPARTMENT: Banknotes

ACCOUNTS: Social Investment Bank Ltd Acct# [REDACTED]

A report of findings in support of enhanced due diligence for Social Investment Bank Ltd was conducted in November of 2003. The text of that report has been pasted below. As of today, March 10, 2005, we have conducted an update review for this bank to determine if there have been any reports of criminal activity surrounding this corporation, or any notable news or changes, since November of 2003. Our findings are as follows:

Recommendation

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In consideration of the below-mentioned allegations of terrorist financing against Social Investment Bank's largest shareholder, the International Islamic Relief Organization, we strongly recommend that a relationship with Social Investment Bank not be approved until the matter is discussed with Senior Compliance Management.

#### International Islamic Relief Organization (IIRO)

Of primary concern in the November, 2003 report was the issue of Social Investment Bank's majority shareholder, the International Islamic Relief Organization (IIRO), and the IIRO's alleged connections to terrorist organizations such as Al Qaeda.

According to the Bankers Almanac profile published on Lexis-Nexis on February 14, 2005, the IIRO remains the largest shareholder of the Social Investment Bank, with an 8.62% stake in the bank. The Bankers Almanac profile provides a very specific breakdown of the shareholders, naming dozens of individual shareholders who hold a smaller than 1% stake in the bank. Of all the shareholders named, the IIRO is the only shareholder that claims a 5%-or-larger stake in Social Investment Bank Ltd.

As the November, 2003 report made clear, the International Islamic Relief Organization is alleged to have provided funding to terrorist groups such as Al Qaeda in the past. The group endorses Wahhabism, a strict interpretation of Sunni Islam that values martyrdom. Wahhabism is the school of Islam that Osama Bin Laden is reported to have practiced. While the group has avoided any official sanctions from a governing body, they are still widely reported as being suspected of terrorist financing. Based on the frequency with which the group is connected to terrorist financing in the press, it is likely that their activities will always be under scrutiny, and future government sanctions against the group are highly probable.

As recently as February, 2005, the Associated Press reported that the US expressed concern when the IIRO took part in Tsunami relief efforts in Indonesia. The assistant secretary for terrorist financing at the US Treasury Department was quoted in the article as saying that the IIRO's presence could lead to extremist ideologies gaining a foothold in the region and establishing a foundation for terrorist activity.

Reporting on the IIRO's Tsunami relief efforts on February 25, 2005, the "Associated Press" stated that the IIRO is alleged to have acted as a cover for Al-Qaeda operations in the Philippines. "The Manila Standard" reported on January 22, 2005 that Filipino law enforcement has adopted measures to cut off funding to an alleged new Islamic fundamentalist group that trains its members in terrorism and has already plotted a bombing in Manila, which was foiled by police. Filipino officials believe funding for the group, and other fundamentalist groups in the region, comes from Al-Qaeda linked organizations. The only such organization named specifically in the article was the International Islamic Relief Organization, which is alleged to provide funding for Islamic Fundamentalist groups in the Philippines by channeling the funds to local Islamic non-governmental organizations.



The World-Check profile on the IIRO classifies the group as a terrorist entity, based on reports that the IIRO has funded groups that are acknowledged by the federal government and the United Nations as having aided and abetted terrorism.

On January 10, 2005, it was reported that the IIRO had merged with the Muslim World League. World-Check's profile on the Muslim World League classifies the group as a terrorist entity. World-Check claims that the group was initially funded by Osama Bin Laden and, like the IIRO, is alleged to have funded groups that aid and abet terrorism. Additionally, partial funding to the groups responsible for the 1993 World Trade Center bombing has reportedly been traced back to both the IIRO and the Muslim World League.

In conclusion, the IIRO is rarely mentioned in the press without it also being alleged that the group is a source of terrorist financing. Even the frequent reports on the group's charity activities and relief efforts make mention of the group's link to terrorism. These allegations have yet to lead to government sanctions against the group, and none of the reports found have made mention of Social Investment Bank Ltd in any manner.

#### Social Investment Bank Ltd

Social Investment Bank Ltd maintains headquarters at 15 Dilkusha Commercial Area, Dhaka 1000, Bangladesh. According to the Bankers Almanac profile published on February 14, 2005, the bank is ranked 12th in its country and 2,257 in the world. In 2003, the bank reported \$359.9 million in total assets.

Kamaluddin Ahmed is the current Chairman of the bank, with Kazi Anwarul Mahub listed as the bank's Managing Director. The bank's correspondent banking relationships do not extend far beyond its relationships with the global branches of Standard Chartered Bank and American Express Bank Ltd. Its relationships with these two corporations does extend the bank's presence into most of the global banking regions, but it should be noted that Social Investment Bank Ltd does not appear to have correspondent relationships with many of the other major global banking corporations.

Our review found no evidence of criminal activity directly related to Social Investment Bank Ltd or its management. Social Investment Bank Ltd does not appear on World-Check.

The Bankers Almanac profile of Social Investment Bank Ltd published on February 14, 2005 on Lexis-Nexis reports that the International Islamic Relief Organization (IIRO) is the bank's largest shareholder with an 8.62% stake in the bank. As detailed above, the IIRO is alleged to have provided funding for numerous terrorist organizations, including Al Qaeda.

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**Prior Report of Findings: November 2003:**

FINANCIAL INTELLIGENCE GROUP (FIG)  
REPORT OF FINDINGS

SUBJECT: Social Investment Bank Ltd.

REMARKS / RECOMMENDATIONS

Although the allegations presented in this report, primarily against the International Islamic Relief Organization (IIRO) and the Lajnat al-Birr Al Islamiah, are highly adverse, no U.S. or foreign government law enforcement or regulatory body has stated, unconditionally, that these organization are under sanction. The reputational risk is significant, however, and the possibility that further investigations by U.S. authorities may ultimately uncover substantiating proof of a connection to terrorism. The risk of future sanctions and the reputational risk based on the allegations noted in this report should be measured against the current risks involved in our relationship when ultimately deciding a course of action.

SUMMARY OF FINDINGS

INVESTIGATOR: Laura Spadanuta

ENTITIES: International Islamic Relief Organization, Islamic Charitable Society Lajnat al-Birr Al Islam, Dr. M.A. Mannan, Mohammad Azam, Late Abdul Majid, Abdul Matin Khan, Rukhsana Habibullah, Late Munshi Fazlur Rahman, Mohammad Ismail

REQUESTOR: Rhonda Lee-Thomas

An ALE search was requested for the shareholders of Social Investment Bank Ltd. Enhanced due diligence was performed on the shareholders whose names appeared on the FIG databases and on the World-Check database.

International Islamic Relief Organization (IIRO)

IIRO is a Saudi-Arabian charity. The Muslim World League, which is an organization dedicated to spreading Wahhabism that is funded by the Saudi government, is the parent organization of the IIRO. It has been reported that the IIRO claims on its website to have a relationship with the United Nations High Commissioner for Refugees.

The IIRO was named in the 2002 lawsuit brought forward on behalf of family members of victims of the September 11, 2001 terrorist attacks. The IIRO was accused of having → played key roles in laundering of funds to terrorist for the 1998 African embassy bombings→ and having been involved in the → financing and aiding and abetting of terrorists in the 1993 World Trade Center bombing.→ The IIRO has also reportedly funded al-Qaeda directly, as well as several of its satellite groups. Osama bin Laden→ s

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brother-in-law, Mohammed Jamal Khalifa, headed the Philippine branch of the IIRO in the 1990's. The Philippine government has charged that the group contributed to terrorist causes there. IIRO opened its U.S. branch (under the name International Relief Organization) in 1991 at the 555 Grove St. complex in Herndon, Virginia that was raided in March 2002 by the F.B.I. in a counter-terrorism investigation. Several other Islamic charities were also raided in the same complex. Money received by the International Relief Organization by the Saudi government was used to set up Sana Bell Inc., which was responsible for investing the money. Sana Bell Inc. was accused of giving \$3.7 million to BMI Inc. from 1992-1998. BMI Inc. was a New Jersey investment company that adhered to Islamic principles. One of BMI's chief investors, Yasin Qadi, was designated by the U.S. and the U.N. as a "specially designated terrorist" for his support of al-Qaeda and Hamas. Another of BMI's major investors was Hamas leader Mousa Abu Marzook. BMI's founder, Soliman S. Biheiri, was indicted in 2003 by the U.S. government for immigration violations.

Furthermore, Israeli forces reportedly found a large collection of documents in the West Bank with the IIRO logo and a list of aid recipients including the highlighted names of families of suicide bombers. Additionally, it has been reported that the IIRO has sent at least \$280,000 to the Tulkarm Zakat Committee, a Hamas-affiliated organization in the West Bank. IIRO has also been linked to several other organizations that have been accused of terrorist financing, including Al-Shamal Islamic Bank (which was supported by Osama bin Laden), and the SAAR Foundation, which is related to the al-Rajhi family (who have also been named in the September 11 families lawsuit).

It has been further reported that the Success Foundation is the successor to the U.S. office of the IIRO. The Success Foundation was directed by Abdur Rahman Alamoudi, a Muslim-American activist who was indicted on October 23, 2003 on money laundering, tax, immigration and customs-fraud charges. Mr. Alamoudi is also being investigated for his connections to the bin Mahfouz family and Yaqub Mirza, which have been accused of supporting terrorists.

#### Islamic Charitable Society Lajnat A-Birr Al Islam

Lajnat al-Birr Al Islamiyah was established in 1987. It has been stated that Lajnat al-Birr Al Islamiyah was the original name of the Benevolence International foundation, and that it originally had offices in Saudi Arabia and Pakistan. According the U.S. government, among the purposes of Lajnat was to "raise funds in Saudi Arabia to provide support to the Mujahadeen then fighting in Afghanistan," as well as to provide "cover for fighters to travel in and out of Pakistan and obtain immigration status." Benevolence International has been tied to terrorism and its director, Enaam Arnaout, was indicted in 2002 with conspiring to defraud his group's donors by secretly providing financial and logistical help to al-Qaeda for a decade. The indictment alleged that the group was originally Lajnat al-Birr Al Islam, although the defense lawyers claimed that the groups are separate. Additionally it has been alleged that Lajnat al-Birr took over a "health project" for Makhtab al-Khidemat, the precursor to al-Qaeda, which was active in the 1980's.

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M/S Rabbani Trading Co.

Rabbani Trading Co. appears to be a trading company headquartered in Dubai, UAE. No adverse information was found regarding the company. There is a Mohammad Rabbani of Afghanistan who has been designated as a terrorist by the U.N. and the U.K., but there is no evidence that he is linked to the company.

Dr. M.A. Mannan, Ph. D.

Dr. M.A. Mannan was the chairman and founder of Social Investment Bank Ltd. He was fired in 2000 after fault was found with his banking procedure. It was alleged that he created an obstacle to the team of Bangladesh Bank during their visit to Social Investment Bank Ltd. Additionally, he was accused of interfering with bank administrative work and with harassing a bank employee. Additionally, an individual named M.A. Mannan was also the Bangladeshi minister of Labor and Employment. He was charged in a 2002 government white paper with illegal spending of government money. Because M.A. Mannan appears to be a common name in Bangladesh, it is unclear whether the two individuals are one and the same. The Social Investment Bank Ltd. has not been mentioned in any articles about the Mannan who was Labor Minister, which might imply that they are separate individuals.

Mohammad Azam

There is a Mohammad Azam of Kashmir who is reportedly a leader of the terrorist organization Lashkar-e-Toiba. It is important to note that Mohammad Azam is a fairly common name and there is no evidence linking the terrorist to Social Investment Bank Ltd.

Late Abdul Majid

There has been an Abdul Majid from Singapore that is reported to have been arrested by the Singapore government for terrorism-related activities. No adverse information was found regarding a → Late Abdul Majid.→

Rukhsana Habibullah

Nothing adverse was found regarding any individual named Rukhsana Habibullah. An individual by the name → Habibullah→ from Singapore is believed to have been arrested by the Singapore government on terrorism-related charges. There is no evidence that this individual is related to Rukhsana Habibullah.

Late Munshi Fazlur Rahman

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An individual named Fazlur Rahman from Pakistan was reportedly a pro-Taliban cleric. He was placed under house arrest from 2001 through 2002. There is no evidence that his name was actually → Late Munshi Fazlur Rahman.→

Mohammed Ismail

A Mohammed Ismail of Connecticut was indicted by the U.S. Attorney→ s Office for dealing in firearms. This individual does not appear connected to the Social Investment Bank Ltd.

In conclusion, it is of significant concern that the leading shareholder of Social Investment Bank Ltd. (at 8.62%), International Islamic Relief Organization, has been accused in both the Philippines and in America of funding terrorist groups. The group is currently under investigation by the F.B.I. Another of the bank→ s shareholders, Lajnat al-Birr Al Islam (at 1.54%) has also been connected to terrorist groups. Additionally, the bank→ s founder and chairman was let go on allegations of interference and harassment. Other adverse connections to individuals with the names of the bank shareholders could not be confirmed and were quite possibly merely cases of two individuals having the same name. Finally, it is important to note that Social Investment Bank Ltd. is located in Bangladesh, which was ranked as the world→ s most corrupt nation by Transparency International.

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HBUS London Banknotes

**MINUTES OF KYC REVIEW MEETING  
26 JANUARY 2006  
(Covering 4<sup>TH</sup> Quarter 2005)**

Attendees:

Stephen J Allen	Head of Banknotes, London (Chair)
Gordon Brown*	Banknotes KYC Manager London (GB)
Lynda Cassell	Director - General compliance
Kevin Dicken	Senior Banknotes Trader (KD)
David Illing	Manager Banknotes Trading (DI)
Dan Jack * (via phone link)	Compliance Officer New York (DJ)
Chris Jenkins*	Compliance Manager
Jonathan MacMull*	Compliance Manager HBEU (JM)
Chris Mosley	Shipping Manager London (CM)
Ciara O'Connell	PA to Stephen Allen
Andrew Rizkalla	AML Risk Analyst for BN & PCM
Susan Salas	PA to Stephen Allen
Ronald Schmick (via phone link)	Compliance Officer New York (RS)
Tina Tipping	Compliance Manager

\* copy of minutes

Issues Covered:

1. Compliance
2. KYC
3. High Risk Country Reviews
4. SSCs
5. Shipping Issues
6. Other Business

1. Compliance

DJ briefly discussed the recent enforcement action against ABN AMRO Bank, requiring them to pay an \$80 million civil penalty for AML violations.

DJ advised the recent internal audit was very detailed, there were a few main issues with the approval of profiles and re-approvals, for example when a country became high risk, the identification of a PEP and SCC status. DJ requested for the LCO to send outcome of reviews, consequently CJ advised she completed her reviews and would send her outcome in the near future.

There will be a quick summary of the internal audit findings which will help prepare for the OCC. Steve Gruskin will report on his global reviews, Dan will send a questionnaire to try to clarify and document with HK and London to ensure compliance with the ECI Agreement and specifically the manual procedures related to OFAC. SA advised we did an attestation with KPMG already.

LC advised waivers need to be documented, when LC sends a email granting a waiver the email should be in the file. Furthermore US-Compliance advised attention to Banknotes Profiles review dates should be noted, although revision history shows files are being maintained, traders must also change the date of the most recent review. US-Compliance requested Banknotes-London checks volume estimates for sales and purchases per currency, the OCC might be looking at that information in terms of our monitoring our work,

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volumes estimates must be accurate. DI advised there was a similar exercise about March 2005 (before the last audit), and he was fairly confident all figures were up to date, but he will carry another check and will go through each customer individually to make sure review dates and volume figures are up to date. Lastly DI advised last year there was a problem changing the banknotes page because the master document had not been approved.

LC advised the KYC profile might have changes soon due to regulatory new requirements (back in 2002), specially the Patriot Act section 3.12 which deals with client correspondent banks and the impact on client correspondent banks will most definite be impacted. Extra information such as who is your customer base will most probably be needed to obtain from the customer. LC will update us on this issue in due course.

The OFAC compliance Officers – Elizabeth and Grace plan to make a visit to London in March 2006, to do some training. US-Compliance advised Elizabeth in particular could help with the requirement for the ECI agreement, perhaps she could contact the appropriate people over here, this could help audit.

AML Training – CJ to inform to DJ outcome of Banknotes-London AML training.

Patriot Certification Process – process still not clear, Banknotes-London still holding position of patriots until there is a formal handover date. DJ will speak to DSU (Matt) regarding confirmation of process and will advise Banknotes- London in due course. SA advised he was happy to handover to DSU and wanted confirmation that they would be doing it all. LC – agreed with SA for the DSU to take over the patriots process but she wanted to make sure before this transition happens the patriots process must work efficiently, specially in preparation for the OCC.

US-Compliance advised there would be an announcement in the near future to add some countries such as [REDACTED] to the High Risk category. Equally some countries such as [REDACTED] would be taken off the high risk category now, but should still be noted as "cautionary".

Vendor list: US-Compliance advised Hong Kong will now be in charge of maintaining the global vendor list for all banknotes offices, so future lists should be sent to Dan and Hong Kong. Hong Kong will do OFAC checks.

JM: introduced Tina Tipping who will be assisting JM, he advised we could now contact her too for assistance. JM also mentioned HBUS compliance introduced a monthly certificate over the last few months, we in London have to complete this document and return via contact Steve Smith, CJ and JM to contribute towards this task.

CJ advised for our information only, at the end of January 2006 in the UK we are having reissued our Joint Money Laundering Steering Group Guidance Notes, these cover all the financial sector which sets full details on AML. Furthermore there will be a risk assessment project in due course, the risk assessment will be very broadly and down to firms to implement their policies.

[REDACTED] = Redacted by the Permanent  
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## 2. KYC

GB advised following the audit back in August 2005, there were various findings which we responded accordingly, one of their main findings were client visitations, where there was no evidence for visits to Kazakhstan and Kyrgyzstan in 2004/2005, however we did find that someone other than banknotes did actually visit Kazakhstan and evidential documentation is now in the file, for Kyrgyzstan we did not make a visit since 2003, but schedule 2 visits in 2005, however we were told yet again that it was not advisable to visit, another visit has been scheduled for 2006, LC advised for situation like this we should document telephone conversations, and email communications with the client at least every 6 months and put these in the KYC file. GB advised that in the KYC profile "general comments" that type of information is now noted. Another finding from the auditors were the EIDDs, these were being overwritten according to them, but we pointed out that in the "purpose section" a full history of EIDDs are noted.

Some profiles which were approved with conditions:

██████████ Russia: we were asked to verify the ownership and attach this to the Patriot, this has now been done.

Profiles CO denied: ██████████ denied due to visitation issue – this is a prospect client, Banknotes-London plans to visit in the spring of 2006.

██████████ Cairo Branch – we chased the compliance officer in Cairo for confirmation of management/ownership, currently waiting for them to come back to us. LC advised we should obtain confirmation from client in situations where we find conflicting information, the information must be documented and kept in file accordingly.

KYCs in process: we worked on 16 customers in the last quarter. Reviews: 22 in total.  
*A more descriptive list will be provided by GB and will be distributed with this Minutes.*

Patriot Certificates – we write to the clients for certifications and re-certifications that are due, and we copy the DSU in this process.

GB mentioned we had Banknotes due diligence facility and this was very helpful almost 60% of the Patriots were found in there. The service costs £500 per licence (which lasts a year). Lastly CJ advised HSBC was also putting their due diligence in the Bankers Almanac.

DJ mentioned if they could assist with any other further reports which could be helpful for KYC-London, GB mentioned a report for waivers could be helpful. LC might be able to assist with this.

Banknotes-London would like to resume business with Al Rajhi, although we have ceased trading (due to rumours in terrorist financing, the US Government has now dropped those charges...) the rest of the HSBC group still deal with them. LC advised a conference call with Terry is needed but before this takes place LC would like to see a memo from SA about the history of this matter, subsequently Lynda will take this memo to Terry to arrange the conference call.

## 3. High Risk Country Reviews

### Bahrain:

██████████ Long relationship with HSBC, fourth quarterly figures compared to 2004 slightly down 4% we loss some business on the selling side to them, one of the our competitors have been selling them USD direct from New York which we have not been able to compete on the price. We have a credit line now.

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**Channel Islands:**

██████████ they have small offices all over the Island, figures down as they are recycling more currencies themselves within the Island.

**Ivory Coast:**

We picked up some new business, we have two main customers there ██████████ ██████████ started dealing with us during the second half of the year that is the reason we have seen an increase in business in comparison to last year. There has been some recent unrest in the country due to some elections, and due to this we have seen a demand for cash.

**Egypt:**

██████████ volume figures are down year on year 2004 fourth quarter we did 382 million and just 140 million this quarter this year. Having said that was an increase on the first quarter which was only 60 million. The reason we amended our pricing because we felt the profit was not substantial enough so we lost business to ██████████

**India:**

██████████ There is an increase year on year, the tourism season is very strong in the fourth quarter in India so we see more business. Although they tent to share the business between ourselves and ██████████ now see ██████████ as a competitor in the Indian market, and we have been picking more business as a result of that.

**Jordan:**

Year on Year figures are down drastically from the fourth quarter of last year that's mainly due to we exiting the relationship with ██████████ 2005, one of our biggest customers. Our only customer there is ██████████ our volumes figures with them were slightly down towards the end of the year, because they started sending shipments direct to Dubai to ██████████ our fellow counterparty.

**Kenya:**

We picked up a new customer in September last year, AW went to see ██████████ ██████████ and managed to persuade them to trade again, in the fourth quarter of last year we did 19 million USD with them. Furthermore we gained one other new customer ██████████ All these really accounts for the major increase in the volume figures towards the end of the year.

**Kuwait:**

██████████ The volume figures for the fourth quarter are negligible, we only did one trade with them 352,000 USD with them. They are not a big player in the Banknote market. The relative stability there is less demand for USD. ██████████ is our biggest customer, main source of importing USD on behalf of the Government.

**Uzbekistan:**

██████████ down and ██████████ is down. More competitive pressure from ██████████ we probably share 50% of their business with ██████████

**Georgia:**

██████████ has been with us 3/4 years, pretty level business, although we are getting some competition from the Viennese. ██████████ is our new client. We have had to improve our prices to maintain our business in Georgia. The advantages we have in our favour our flights we offer via Moscow go every day, where as from Vienna once or twice a week. We have to pay up front, when is over a million USD and we have the funds they speak to me.

**Latvia:**

We get most of the market in the Baltics, all these banks have quite large branch networks which are active in banknotes due to tourism. The top four banks all seem to have the main core of the banknote business in Latvia, this is a relatively small country and the number of banks has decreased considerably since the split from the Soviet Union. KD is due to visit next week.

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██████████ we have seen no particular movement but overall we have seen a slight increase in business.

██████████ We shipped some Euros to them although they do not want to trade anymore. KD is due to visit this client next week to try to get business back, although he does not feel too positive about the success of this visit aim.

██████████ Lost competition to RBS and ██████████ they have increased their market share by about 20%, again KD will visit this client next week in order to get business back.

**Azerbaijan:**

We have gained a customer back, we lost them last year but managed to get their business back this year. ██████████, responsible for most of the commercial business in Azerbaijan foreign banks have correspondent bank accounts. There were government election in September this year, this created cash demand. The local currency was replaced from the 1st of January this created demand for hard cash.

**Kazakhstan:**

Big increases this quarter compared to last quarter, banks tend to treat cash as a commodity, often cash is used for salary payments. The infrastructure is still quite primitive making cash more attractive. Although the country is becoming wealthier due to the oil production, RB noted some figures which he obtained from the speech of the Ministry of Foreign Affairs back in August "the economy has expanded 50% in the last 5 years" and is due to double by 2008 and triple in size by 2015". RB advised he expected to have at least 2 more customers this year, we should certainly be able to see an increase of turnover as a reflection of the economy in Kazakhstan.

**Kyrgyzstan:**

The volume has not increased much, although the increase looks good in the report. We have dealt with ██████████ subsidiary, we started working with them in the fourth quarter of 2004. 2005 is a full year's figures there, as supposed to the small amount in 2004. Also 2004 figures seem to be incorrect.

**Lebanon:**

██████████ an increase of 31%, RB visited Lebanon last February 2005, gained a couple of customers.

**Libya:**

██████████ is our only customer there, we achieve one trade with them in the fourth quarter in November. We have increasing pressure from ██████████ in terms of pricing, although we initially took the business from them about 18 months ago. When the client wants to trade they call us, ██████████ and ██████████ at the same time and who ever quotes the lowest price gets the trade, we quoted for 4/5 trades but only got one.

**Nigeria:**

We have not traded with them in the last quarter. We have a problem getting money into the country as we need an imports license, to sort this problem we are trying to work with a security company. However since we lost our presence in the country it is increasingly difficult to do business there. We have a customer already approved and ready to start business: ██████████

**Russia:**

Slight increase of 8% on the volume figures, the difference this year there was an increase of sales against the purchase we did last year. The weakness of the Rubble towards the end of the year caused a bigger demand for USD. We always see an increase in the fourth quarter of the year there is always a demand for cash. We have 3 SCCs: ██████████ neither have done particular large transaction in the last quarter. We saw a slight increase with ██████████ due to us getting a credit line.

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**Saudi Arabia:**

[REDACTED] the other client we deal with [REDACTED]  
Volume figures are down year on year, because we lost Al Rajhi, as a consequence we concentrated our efforts with [REDACTED], we offered them a better price to still maintain our share in the country. We only lost 4% so we are quite pleased we maintain a large market share in the country.

**Tanzania:**

No trades in the last quarter.

**UAE:**

[REDACTED] A very well established money service in country for over 25 years, slight increase in the fourth quarter of 2004/2005 up 7%.

**Uganda:**

Another country AW visited in September 2005, we picked up some business with the help of this visit. Although there was a problem recently with some money missing (£80,000) from one of our shipments in London, the money was actually taken from one of the employees of the Security company.

**Ukraine:**

In 2004 business was mainly attributed to the [REDACTED] buying large amounts of USD. We also picked up some business from [REDACTED] Bank. DI advised there is a plan visit to the country.

**4. SCCs**

[REDACTED]  
Major wholesale competitor of ours, volume figures are not that large, they are self sufficient. Total figures were down 46%.

[REDACTED]  
Each [REDACTED] branch gets accounted individually, we have implants in all HSBC branches, however we have seen a decrease in business due to some of the HSBC branches were being closed down, and some others were making [REDACTED] less visible within the branch. Unfortunately HSBC Plc is in charge of this change and we cannot do much about this.

[REDACTED]  
15% increase year on year. We picked up a bit of business USD. [REDACTED] our competitor so we do not see much business from them.

[REDACTED]  
Our biggest UK customer in terms of volume, previously they dealt with [REDACTED]  
[REDACTED] We meet regularly 4/5 times a year to discuss business strategy together, we have been able to organise deliveries to their branches at [REDACTED] and [REDACTED] on a daily basis, which their competitors are not doing.

[REDACTED]  
Figures almost exactly the same, steady business, they buy 1 million USD a month from us.

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

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**5. Shipping Issues**

Money missing in Uganda – we managed to get a refund from Security company.

**6. Other Business**

GBS: live date now 12 March 2006.

Visits to clients: Last quarter we visited Azerbaijan, Germany and Poland. This quarter we have the following proposed visits: Lithuania, Latvia, Estonia, Nigeria, India, Turkey, The Netherlands and the Middle East.

Client Vision: Only 3 clients need to be added to CV:

[REDACTED] (Gibraltar), Gibraltar  
[REDACTED] Gibraltar  
[REDACTED] Georgia

JM and GB to arranged to send letters to the listed clients.

Although we have a backlog of call reports, approximately 16, which will be added to CV in due course, we have these call reports noted in the KYC profiles also we have kept these in the KYC files accordingly. The overall process of the call reports is as follows: all call reports are noted in the KYC profiles, CV, and filed in the KYC files and traders files, lastly copies of call reports are sent to various individuals such as Chris Lok, Mark Heaton, David Illing, Chris Mosley the relevant GRM, and sometimes a copy is sent to PCM.

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**HBUS London Banknotes**

**MINUTES OF KYC REVIEW MEETING  
12 JULY 2005  
(Covering 2<sup>ND</sup> Quarter 2005)**

**Attendees:**

Stephen J Allen	Head of Banknotes, London (Chair)
Richard Burdett	Senior Banknotes Trader (RB)
Kevin Dicken	Senior Banknotes Trader (KD)
Lee Foster	Vault Manager
David Illing	Manager Banknotes Trading (DI)
Dan Jack *	Compliance Officer New York (DJ)
Christine Jenkins	Compliance Officer HBEU (CJ)
Ronald Schmick (via phone link)	Compliance Officer New York (RS)
Sally Lomas*	Banknotes KYC Manager London (SL)
Jonathan MacMull*	Compliance Manager HBEU (JM)
Chris Mosley	Shipping Manager London (CM)
David Perkins	Senior Banknotes Trader (DP)
Dave Robinson	Compliance Manager HBEU (DR)
Susan Salas	PA to Stephen Allen
Andrew Winterburn	Senior Banknotes trader (AW)

\* copy of minutes

**Issues Covered:**

1. Compliance/ KYC
2. High Risk Country Reviews
3. Shipping Issues
4. Other Business Issues

**1. Compliance / KYC**

SL: To prepare letters to be sent to clients for Client Vision HSBC Group share of information.

JM: European Directives, outcome will be in 2 months but unlikely to affect banknotes.

CJ: The KYC Guidance Notes, which will set the KYC standards for the UK will not affect Banknotes that much but there might be some minimal changes. The consultation to revise them was due at the end of June. CJ to advise in due course.

DJ: We gave the OCC 108 client files. The primary focus of their finding boiled down to 18 files concentrating on the money service business and high risk clients. We obtained a satisfactory rating from the OCC although their examiners identified 5 issues considered "Matters Requiring Attention" with urgency. These included supervision of the KYC and EDD process, complete KYC profile information, customer file analysis, monitoring of accounts with conditional approval, and identification and handling of customers with politically exposed persons (PEPs) with ownership interests or management roles. Compliance will do everything they can to ensure that KYC process is followed, we are monitoring the activity appropriately. David Bagley added an important statement: to restate ultimately that the business is responsible for managing their customers and they are not Compliance' customers. Teresa Pesce worked with David to draft a response letter.

DJ: Advised Christine and Sally of some of the findings from the OCC on our clients. One issue was the periodic review and update of KYC and EDD information to ensure the accuracy and completeness of customer profiles, including changes in ownership and/or

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management. Going forward, the CO approver (in AML Compliance NY) must be provided with and review the complete customer file for all Money Service Businesses (who are also classified as SCCs) prior to KYC approval for new MSBs or re-approval of existing MSBs."

Another issue was the identification of PEPs, people are potentially political exposed because of their position and government level jobs. There needs a test of reasonableness, DJ advised an individual should be in his role within the last 2 years to qualify him as a possible PEP.

DJ and Alan did a search exercise in the KYC database for words such as Minister, Ministry, President, King, Prince, Ambassador to identify PEPs. As a result there has been some clients changed to SCC status. Very few Central Banks make any sense to be SCCs, many of these are PCM and we depend on Delaware to make thorough due diligence to closely review and evaluate the finding from EDD reports.

Also we need to look at the 30 days approval with conditions and follow this up accordingly, we told the OCC we do this already, but they will probably want some proof. DJ is working on some reports to provide to the OCC. We need to set up procedures to ensure very timely follow up and any comments approval or denial should be dealt within the 30 days period. The OCC want to make sure that we are effectively assessing the risk, that we are assessing proper documentation and following this up on the approval or denial comments. SL advised we should aim to solve all problems before it is placed in the approval process.

Another problem mentioned by the OCC was the systems of collaboration between PCM and banknotes. We need an individual who can help from here, a risk analyst to work alongside Dan, Banknotes and George Tsugranes, the AML LCO for PCM. But overall the findings were on minor issues, and we followed up every single issue.

DJ: Advised overall banknotes clients generally did a better job than PCM, although there were many exceptions on the PCM side, many of their clients had to be reclassified.

DJ: New joiner Andrew Rizkalla comes from the OCC where he has been involved in some recent interesting cases such as [REDACTED] he has good experience. Andrew will be working closely with Dan and George where he will be in charge of looking at KYC profiles and supporting documents such as making sure we have copies the clients AML policies. He will be reviewing the documents before the profile goes on for approval to Lynda or Terry, for high risk clients only.

The OCC is not going to consider lifting our written agreement with the Fed until they do the Correspondent Banking exam in Delaware.

CJ – to review files on a monthly basis. Will review low risk files which do not get the same level of sign off.

UK Compliance advised the UK Regulators for GIB KYC are different to the OCC. They rely on the Compliance Departments. Compliance must advise them of their reviews, fines still apply.

DJ: advised the OCC requires us to have our local compliance officer involved with our KYC review processes.

DJ: has been training Richard Schriber for the more general compliance issues and he will take these over (he will not be too involved in the AML issues). He plans to attend the quarterly BN risk management meetings in NY."

#### KYC

This quarter we signed off 5 new clients including [REDACTED]

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Two prospects:

[REDACTED], Ron to ask Lynda for her level of comfort with this customer.

[REDACTED] profiles are CO pending because we cannot visit for awhile as the bank does not permit visits to this country. SL has requested waiver.

In Process – [REDACTED] some problem with Lynda and [REDACTED] (still trying to complete), [REDACTED] moving onto the Yemen soon.

CO Approval – [REDACTED] – Lynda to come back to us on the status.

Deactivated 3 clients:

[REDACTED] – we don't deal with them in London.  
[REDACTED] – Lynda said we could not trade with them  
[REDACTED] – We no longer deal with them.

Other KYC issues:

Write the letters for CV  
Patriots certs to go to a Central Library

Banknotes should duplicate a file for PCM clients. CJ advised under the general group requirement PCM files should be copied. SL – suggested scanning documentation is a good answer to this file duplication and makes things easier for the long term. In the meantime UK-Compliance agreed to replicate only the High Risk files.

## 2. [REDACTED] / SCCs

### Georgia:

Second quarter 47% increase on the previous year. In the last quarter we have a new customer there who started trading with us, [REDACTED]. We picked up further business with the [REDACTED]. During the 2<sup>nd</sup> part of last year they didn't buy anything from us because we had a problem with some documentation "Certificate of Origin". We have solved this problem now. We have another customer potentially: [REDACTED] (PCM name), currently CO denied. Call report should be in CV.

### Azerbaijan:

Seasonal - Nothing on the purchase side for either bank - flat figure. On the sales side for this year we have done reasonably well - demand has gone up slightly because they've allowed the local currency to float.

### Kazakhstan:

Weak Euro in the last few months leading to demand for harder currencies which explains the rise in sales, flat in terms of volume. There are two banks where the volume figures stick out one is [REDACTED] on the sales side for 2005 quite considerable rise from 17 to \$26m. The other one would be [REDACTED]. They both have had these changes for different reasons: [REDACTED] has gained corporate customers, and [REDACTED] retained business for supplying corporates with dollar cash at low margin. [REDACTED] also works with the smaller banks, they are picking up a lot of business. Throughout the quarter we've been monitoring the purchase side for [REDACTED] in one transaction sold 16million Euro.

### Kyrgystan:

New customer – Volumes are modest.

### Lebanon:

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For the quarter comparison, the 2 quarters are quite separate because of the assassination of a political figure. That's why there was a big drop of 10 million. On the sales side a drop in the second quarter because of summer tourism from the Middle East, often they bring their currency with them and there is a currency surplus. Substantial competition from [REDACTED] and the local market. There is a large well known exchange house that controls 70 % of the cash market whilst we only have 10% service on the local level. Difficult to compete for example we cannot deliver on the same day or collect small amounts from banks on a door to door basis is not cost-effective for us.

**Turkmenistan:**

We stopped trading pending a visit. RB was due to go but couldn't get a visa.

**SCC - UK**

[REDACTED] - There has been an increase in both purchase and sales figures due to seasonal factors, good relationship and best prices.

**Latvia:**

Increase in business in this quarter of 57% which is an improvement on the first quarter where we actually saw a drop in volumes. We made a visit, because we realised that we were losing to an Austrian and a Swiss Bank. But we've managed to pick up some business in particular from [REDACTED]. On the sale side there is a big increase. Majority is Euro sale as Latvia has joined the European Union and will be adopting the Euro. Their currency is fixed against the Euro so no foreign exchange risk.

**Libya:**

The quarterly trade is the same as the previous quarter at 200million. When we quote for this business we usually quote with two other banks so it is hit and miss as to whether we get the business - although we have got 50% of the trades this year. The margins are coming down because the other banks are keen to attract other business so therefore the next time they quote they lower their rates, but so far we've managed to hold on to the business. The only bank allowed to trade internationally. There is no history of credit cards and Libya is purely a cash society.

**Russia:**

Our biggest market in terms of volume 05/04 comparison for the quarter. Small change - 6% decrease. Purchase up 90% sales were down 23%, reflected in early part of this quarter the fact that Russians were more attracted to the Rouble than the USD because of the exchange rate. They were actually selling USD. That situation started to change in June when the sales figures went up to 687million from 396million in the previous month and this has actually continued in July as well.

**Saudi:**

We lost Al Rajhi this year - we discussed this in various compliance meeting already. SA - a resumption decision was put off because of the OCC audit. CL to speak to SA after the OCC. SA to speak to Terry before his holidays. Al Rajhi threatened to pull any new business with HSBC, unless we give them a satisfactory reason why we won't trade banknotes with them.

**Tunisia:**

One customer: the [REDACTED] is a similar situation to Libya. [REDACTED] does all of the banknote transactions on behalf of all the commercial banks, all commercial banks are obliged to buy or sell from the [REDACTED]. They call 2 or 3 counterparts and whoever gets the best prices gets the business. We have to quote against USD for all of the currencies. It often depends on who is willing to take a gamble on the foreign exchange rates at the particular time they are quoting. Volume figures are fairly modest we just did 17million worth of trades in a quarter with nothing in June, which probably means we missed a couple of deals there. Always purchases although we did a couple of deals this time last year towards the end of November and December, we sold them Saudi Banknotes but other than that we just buy surplus banknotes.

**Serbia & Montenegro:**

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This is a combination of deals from the [REDACTED]. Both [REDACTED] operate in a similar basis to Tunisia and Libya in that they call 2 or 3 counterparts at the same time to do their business. [REDACTED] we traded in the last quarter 109million USD worth of business. We didn't do anything in comparative quarter last year. This customer is extremely price sensitive and we are distancing ourselves because the prices they want us to pay we don't consider to be profitable. So we tend to let probably 8 out of 10 deals go by, they often get better quotes from [REDACTED]. [REDACTED] we have a very good relationship with them we supply them with Euro in small denomination and we buy Euro back from them. In Montenegro the national currency is the Euro and they have a lot of demand for small denom banknotes and equally they sell this back...We also buy/sell coins with them...

**Belarus:**

Increase due to the fact we got [REDACTED] back from [REDACTED] which has been the biggest gain for us, also we have improved our pricing and understanding there with a couple of visits over the past year. We've managed to get business back from [REDACTED] for [REDACTED] and [REDACTED] as well. DP was there in March and we can see the benefit of that visit for the first quarter figures compared to the second quarter where we actually saw a drop in the first quarter and now we've seen a 60% increase in the second quarter. [REDACTED] is the most important client at the moment and the most active one and we deal on a regular basis.

**Ukraine:**

Generally there has been a small increase in this market. [REDACTED] is a new client who we've been dealing with for almost a year now, so we can get some comparison. We've visited on a regular basis and this has enabled us to achieve a good gain in business. Some of the other banks such as [REDACTED] and [REDACTED] - we are seeing a bigger share of their business. The one we still want is [REDACTED]. The [REDACTED] were selling USD to the local banks. One of the reasons the sales figures were high is because there were a lot of European holidays in May. [REDACTED] traditionally deals every day with the Austrian and German Banks and on the days that those countries were closed, particularly in May, we tended to pick up extra business from them. Due to the security in Vienna we are unable to use the Viennese flights and we prefer not overnight in Vienna.

**SCC - [REDACTED]**

Not much change in terms of volumes compared to the previous year, just 15% increase. We've seen less demand on the sales side this year - down 23% due to lower demand in the region particularly in Kuwait. [REDACTED] has its own subsidiary in Kuwait, [REDACTED] and they ship USD into Kuwait on their behalf and we've seen a low demand for USD. An increase in the purchase side purely because our relationship has improved, as the relationship with our main competitor [REDACTED] has decreased (they fell out with [REDACTED] over a payment being stopped). There is a large amount of USD due to surplus amounts over the last year.

**Egypt:**

Seasonal - comparing January to June is always going to throw out different figures. For example tourist don't tend to go there on holiday as much as they would in January to March. We have not done any business with [REDACTED] for over 2 months now purely as a result of us reviewing our rates we give to them, they're seen to have disappeared from the market and [REDACTED] is picking everything up.

**India:**

Seasonal - because of flows of currencies in the first 3 months as opposed to the second 3 months. There are not so many people travelling out of India as there are in January to March. Difference from last year because of the Boxing Day tragic event. [REDACTED] has been taken over by [REDACTED] has 8 offices there, so there is a fair amount of competition. [REDACTED] have been offering to pay silly prices to everybody even down to the little exchange houses.

**Jordan:**

[REDACTED] was dropped for kyc reasons - a client known to us for many years. SA discussed this issue with Alan Kerr the GRM, and he advised that perhaps Compliance were

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relying on very old information and there was no direct link. Besides, we worked hard to build this relationship. We got a lot of other information through [REDACTED] about the market. Allan Kerr has other products to offer to this client, but the Bank won't trust us again. The [REDACTED] has cash demand for USD, they recently wanted Sterling rather than USD. [REDACTED] is steady as long as we keep the prices steady, they also deal with [REDACTED], a matter of keeping everyone happy - approximately one deal a week.

**Kenya:**

[REDACTED] took over the [REDACTED] branch in Kenya. [REDACTED] still exists in parts of Africa under the name. Very small - purely for UN funds and account held by the UN at this address. Very infrequent no more than \$3 - 400k at a time. [REDACTED] - we don't deal anymore. [REDACTED] - usually one way business we tend to sell USD rather than buy, occasionally there are shipments coming out where they can't use the notes - usually a million USD at a time, again it is for UN/ charity sources. Business coming out is used notes that they cannot re-cycle and is very infrequent. As and when they build enough volume they give us a call and ask us to clear it out. [REDACTED] their volumes have gone up this year because they bought [REDACTED] who had USD volume and now we are seeing that through [REDACTED] They've increased their bought limits from 1/2 USD to 3 USD. They've been more active with an increase of 56% in the second quarter compared to the first. Again they sell as and when they have surplus currencies. [REDACTED] is now approved. [REDACTED] shows a drop because they chopped all the small moneychangers that operate in Nairobi. [REDACTED] has taken a view that they don't want that reputation risk. Again our sales are mainly for the UN/ charity base as and when they require it.

**Uganda:**

Seasonal business based on the coffee crop. As and when the coffee price is high all the coffee growers rush into the market to sell the goods and rush into the banks to bank their takings. The money surpluses coming out of Uganda tend to be infrequent because it depends on the coffee price. If the coffee price goes up you know you are going to get a deal from one of the Uganda's banks in the next few weeks. We deal with [REDACTED] at the moment and they tend to clear from the local indigenous banks. Any small surplus less than a million USD is not worth sending internationally for insurance purposes so they clear up locally and then stock pile it into one shipment and send it out to us. Example [REDACTED] we have not done anything because their volumes tend to be 200 thousand a month and that's not worth sending internationally so [REDACTED] clear it out locally and send it back to us as and when is big enough. [REDACTED] does exactly the same - if it gets a million USD from these coffee growers it will ship out if not it will sell it locally. That's why we got a deal last month - in April to June there was a huge increase of 83% whereas in the first 3 months we did nothing.

**SCCs - [REDACTED]**

Good customer, volumes not too big, \$2.5 million business in the last quarter. They have a network of post offices in the island. They are looking to develop their business a lot more this year and we are their favourite provider. There is a slightly decrease in the business down to low tourist volumes in the early parts of the year.

**SCC - [REDACTED]**

Not a huge deal of change in the volumes, 4% down comparative period for last year, purely because they tell us there is less people trading currency around at the moment, and the [REDACTED] have gone into the market, they are buying foreign exchange houses and are quoting favourable rates, this is affecting companies like [REDACTED]

**SCC - [REDACTED]**

Large exchange operation in the UK, small increase in business on the quarter (13%). They opened 6 or 7 branches at [REDACTED] Airport last year and we are supplying them directly there as well as [REDACTED] Airport where they have 7 or 8 operations down there as well. Well known to HSBC they do a lot of foreign exchange business they banked with HBEU for over 25 years which was the reason we are able to take them on as an SCC in the first place. We

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meet with them 2 and 3 times a year we visit each other, they are looking to expand business, looking to open up further operations at more airports over the coming years. They also offer foreign exchange services for foreign property purchases e.g. in Florida, Spain. This client is getting more well known.

SCC - [REDACTED]

Their business is mainly operating huge cargo planes. They use our services as and when they need us, mainly cash for fuel. SL and CM made a recent visit.

### 3. Shipping Issues

CM - we are looking at the possibility to work with Volga as a charter agent as the KYC has been done. They can act as an agent for using the smaller aircraft which could potentially save us money rather than going through Brinks. We can work on a contract together, they might get us reasonable prices.

CM - We did a shipment to Nigeria using Securicor on the door to door basis, our own insurance was too expensive so was cheaper to use Securicor and we have done that.

CM - Insurance: we took our underwriter to Heathrow and showed him how we monitor aircraft movement and that went well, he was impressed with our security arrangements.

CM - The "known consignor declaration" that has to be sent to the Department for Trade is currently being done by Brinks but, very soon we will have DFT approval and we will be able to send our own.

### 4. Other Business Issues

Lee - New counting machine now arrived. Faster than old machine. Training and maintenance required.

SA - [REDACTED] they have asked us to give them some quotes on their chartered costs that we would have charged them historically, to become their transportation agent for the distribution of Euro.

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## AML Oversight Committee Meeting

Minutes from May 6, 2010

Committee: Wyn Clark (Chair)  
 Anne Liddy  
 Deb Bonosconi  
 Jim Holderman  
 John Hong  
 Paul O'Sullivan  
 Cam Hughes (Regrets)  
 Valerie Pease (Secretary)

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Invited Guests: Gregory Regan/Fraud Management

## New and Existing Initiatives

## Gregory Regan ~ Introduction

Wyn introduced Greg Regan to everyone. Greg stated that he came over to HSBC about 10 weeks ago to "head up Fraud for North America". Prior to HSBC he spent a short time at a small consulting firm. Greg worked for GE Money for seven years as the Global Head of Fraud. He has worked 25 years in federal law enforcement. For the last couple of years, Greg has been in charge of financial crimes in the Secret Service. Deb Bonosconi and Greg worked together at GE Money.

Greg said that the Fraud Dept. files about [REDACTED] SAR's per year. He further stated that he believes that a large part of the AML SAR's are related to fraud within the businesses. Greg noted that they are going live with Scion version 6 in North America. They will soon be starting to file the fraud SAR's electronically and live to FINCEN. Scion is the group case management system for both Fraud and Compliance. The acronym stands for Security Compliance Investigations on Network. They have decided to go with both Norkom and Scion Version 6 which is the most updated version.

Greg noted that they use EWS (Early Warning System) on a couple of the portfolios for application fraud reviews. They have developed a consortium data sharing on bad accounts to help identify credit line bust outs and first party fraud. The fraud numbers are right on target which is the way they should be but unfortunately the first party fraud appears to be on the rise.

## New and Emerging Risks

## • Backlogs

Wyn noted that the backlog numbers are very elusive. It is very difficult to come up with numbers because you can do several inquiries on the system as to when an alert is decisioned and when the SAR gets filed. It is a little difficult to put some definitive reporting and parameters to come up with some meaningful numbers. We are struggling with metrics. Anne noted that Ray and Maria are working 80% on metrics/reporting. Wyn noted that the backlog issue is being monitored by consultants, project managers and central services. The backlog issue has gone to the highest levels in the organization and has everyone's attention.

## Regional and Business Updates

## • Private Banking

Paul O'Sullivan advised that the Private Banking business was providing information on closed bearer share accounts as a result of an information request received as part of the investigation of ex-client Mauricio Cohen. The number of bearer share accounts closed in the past year was higher than a normal year as the British Virgin Islands jurisdiction no longer permitted bearer share companies on its register ex 12/31/09. Two SARS have been filed to date as a result of the bearer share closure process.

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- *Canada*

John Hong advised that they have been trying to exit a correspondent banking relationship that involves an Angola institution. John mentioned that they are getting overloaded with backlogs but have close to 900 outstanding second tier CAMP alerts. There is a backlog of over 200 active ongoing investigations. The backlog should be cleared up within the next 5 months. This is something we are trying to actively reduce for the 3<sup>rd</sup> quarter.

John noted that there was an internal audit on the AML team. The audit was deemed satisfactory.

- *GBM*

Jim noted that there was regulatory guidance that came out in March regarding beneficial ownership. There is some belief that this comes as a result of a variety of different factors including information that was gathered from the broker dealer community. The broker dealer community has been actively discussing the guidance and raising concerns with the regulatory bodies. The regulatory of bodies were surprised by this level of reaction. But did state they encouraged and expect feedback.

Jim also noted that Senator Levin was trying to insert some language that would impact the beneficial ownership issues in the financial services reform bill that is in front of the Senate.

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**From:** Boss, Joseph  
**To:** De La Garza, Elsa  
**Subject:** RE: SK Trading Co update  
**Date:** Wednesday, September 03, 2008 1:22:28 PM

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Just for your information, it is MaryAnn Caskin.

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**From:** De La Garza, Elsa  
**Sent:** Tuesday, September 02, 2008 2:47 PM  
**To:** Boss, Joseph  
**Subject:** SK Trading Co update

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Tony -

Joe and I met with Anne Liddy and Mary Ann Caskill regarding SK Trading this afternoon. Below is a recap of what was discussed:

1. They went back and looked at all transaction over the past 2 months and identified a total of 20 entities (including SK Trading) which were using Cash Letter services to clear Travelers Cheques. All 20 entities are used car dealerships.
2. Four additional companies with significant dollar amounts have been identified. (Maric Trading - \$3.5 Million; Jamsou Traders - \$1Million; I K Auto - \$929 Thousand and Dean Corp - \$587 Thousand - totals for two months)
3. The Business Unit has gone back to the Relationship Manager and Hokuriku Bank to obtain additional information on Maric Trading and Jamsou Traders. They will also be inquiring on the other companies identified.
4. The bank will be exiting the Hokuriku relationship within the next 30 days.
5. We will be looking at images when we go down to Delaware to determine if the same individuals involved in SK Trading are involved in the other accounts.
6. They have done a 314B inquiry of [REDACTED] with no response to-date.

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*Elsa Y. de la Garza, CA,MS*

Large Bank East - HSBC

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Attorney Client Privilege Work Product

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**From:** Boss, Joseph  
**Sent:** Monday, May 10, 2010 7:27 PM  
**To:** Straus, Lee; Vivenzio, James; Freas, Monica; Belshaw, Sally  
**Cc:** Tabor, Teresa; Boss, Joseph; Pruszkowski, Raymond; Watts, Rita; Hebb, Kimberly  
**Subject:** Bearer Share Accounts

In the bank's response letter for BAI and BNA it is noted that the bank had some bearer share accounts. Teresa looked into the data base that holds the details to the bank's response letter. The data base shows that there are 79 bearer share accounts on the books of the bank. They include accounts held in Panama, Uruguay, Bahamas, Cayman, Belize, and Netherlands Antilles. Fifty-six are in Panama and 12 are in Uruguay, with the rest disbursed in the other countries. A lot of these accounts date back to as early as 1984. This is contrary to what I was told when Teresa Pesce was BSA/AML officer. At the time that the bearer share issue came up, Ms. Pesce had informed me that all but one bearer share account at HSBC had been closed.

Joe



2431

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**From:** Boss, Joseph  
**Sent:** Friday, September 03, 2010 2:29 PM  
**To:** Belshaw, Sally  
**Cc:** Morse, Kerry; Tabor, Teresa; Boss, Joseph  
**Subject:** RE: RDC Conclusions

Sally-

Sorry, I may have used the wrong terminology when I said close out meeting. During the course of our review in Buffalo, we continually kept Denis and RDC operations apprised of the matters that we had issues/concerns with. Literally, a half hour before we were leaving Buffalo, Denis requested if we could meet (Denis and two low level operations managers of RDC) real quick so that he (Denis) could reiterate what we had told him during the course of the review was potential issues/concerns. Denis ran down the issues and we just confirmed that they were the matters we had concerns for. We had told people in the meeting that they were our initial observations and that we had to still review information to confirm. However, I checked my written notes and the items we had concerns with during the review period and had discussed briefly with them during the review were:

1. Lack of adequate policies and procedures for both the Buffalo and India RDC operations.
2. The lack of information relative to a customer's reasonable and expected activity for services RDC was providing, on behalf of customers from other business units within the Bank.
3. Lack of documentation to show/support what constituted a QC review. QC review documentation appeared to be nothing more than an operational "checklist."
4. Lack of any analysis as to why a customer was on the RDC exempt list.
5. Concerns related to the monitoring process as it relates to resources. Process is manual and time consuming. We informed them that we were obtaining additional information to put this concern into better context.
6. Concern related to pouch activity being conducted by HSBC for Hokuriku.
7. Concern related to the RDC activities for [REDACTED]

Thanks for the information on who might attend.

Hope this helps.

Joe

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

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**From:** Belshaw, Sally  
**Sent:** Friday, September 03, 2010 8:55 AM  
**To:** Boss, Joseph  
**Cc:** Morse, Kerry; Tabor, Teresa; Belshaw, Sally  
**Subject:** RE: RDC Conclusions

Do you have a summary of what you shared with Denis in Buffalo? That would be helpful to know.

Not sure who all will be attending from the bank, but it will include Gary Peterson, the acting BSA/AML officer. Might also expect David Bagley and Curt Cunningham..... Teresa, you are also welcome to attend the meeting on the 13th.

Thanks. Sally

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**From:** Boss, Joseph  
**Sent:** Friday, September 03, 2010 8:32 AM  
**To:** Belshaw, Sally  
**Cc:** Morse, Kerry; Boss, Joseph; Tabor, Teresa  
**Subject:** RE: RDC Conclusions

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Hi Sally-

The 13th is fine. I'll come by your office around 11:30 if that is okay with you and then we can go to the update meeting. Who would be attending the update meeting from the Bank side? I can have a document to you next week, perhaps as early as Wednesday or Thursday. Please keep in mind that it will be a draft and might need some additional fill in, but will most likely have the majority of the information. Just so you know, when we were in Buffalo, we did have a verbal close out with Denis O'Brien and some of the senior operational staff of RDC in which some of the issues, we were sure of at that time, were discussed. However, again, that was with lower level management.

See you on the 13th.

Joe

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**From:** Belshaw, Sally  
**Sent:** Friday, September 03, 2010 8:00 AM  
**To:** Boss, Joseph  
**Cc:** Belshaw, Sally; Morse, Kerry  
**Subject:** RDC Conclusions

Joe: In light of the desire to include RDC in the C&D, would you please provide a conclusion memo (even if there are a few loose ends to tie up) by next Friday, September 10th. We should also try to set discussions with management for the following week since it is my hope to provide the C&D to Irene Dornier and this will be something they've not heard from us on up to this point. We have an AML update with the bank at 12pm on Monday (9/13); perhaps we can go over the RDC exam conclusions (preliminary) with them also at that time. Can you be available?

Thanks. Sally

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Attorney Client Privilege Work Product

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**From:** Vivenzio, James  
**Sent:** Wednesday, September 08, 2010 8:25 PM  
**To:** Tabor, Teresa  
**Cc:** Boss, Joseph  
**Subject:** RE: Bearer Share Accounts

Thanks. I recall that Joe was told that there were no bearer share accounts. /JimV.

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**From:** Tabor, Teresa  
**Sent:** Wednesday, September 08, 2010 9:10 AM  
**To:** Vivenzio, James  
**Cc:** Boss, Joseph  
**Subject:** Bearer Share Accounts

During a previous discussion, you and Joe discussed whether or not the bank has any bearer share accounts. I was reviewing a copy of the TRAC report, dated May 17, 2010, for IPB New York and it states on page 4 (6.8):

**Bearer Share Accounts** - There are 21 cases, from a total of 610 bearer share accounts, where the beneficial ownership declarations are overdue by more than one year. There are 31 overdue in all as at September 2008. Further, we note that no beneficial ownership declarations have been obtained from clients with bearer share companies based in the BVI and the location of these bearer shares is not known in all instances. We understand that under BVI regulations all shares will be registered during 2009.  
**Status: Closed 7/15/09** - There is a total of 14 outstanding BOL's. All BOL's are outstanding less than 6 months.

This does not include LAIC which is IPB Miami. We will be looking at IPB Miami in Nov/Dec and we will let you know what we find out.

Teresa

<< File: TRAC Final Report - IPB NY.doc >>

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**From:** Vivenzio, James  
**Sent:** Wednesday, October 06, 2010 2:57 PM  
**To:** Straus, Lee; Roeder, Doug; Dalley, Grace; Belshaw, Sally; Morse, Kerry; Mukri, Kevin  
**Cc:** Stipano, Dan; Stearns, Richard; Freas, Monica; Onsager, Erica; Wagner, John; Jaedicke, Ann  
**Subject:** HSBC FAQs

Attached are the FAQs pertaining to the HSBC Order. Regards/JimV.



HSBC FAQs  
FINAL.doc

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OCC-PSI-00898845

**FAQs - HSBC Money Laundering Enforcement Action****I. Enforcement Action:****What were the problems that were identified at HSBC?**

A number of issues were identified, but the most significant issues that resulted in the failure to file SARs and violations of the Bank Secrecy Act were the following:

- o The Bank has been unable to disposition its suspicious activity alerts appropriately or to comply fully with its obligation to report suspicious activity in a timely manner;
- o During mid-2006 through mid-2009, the Bank did not perform BSA/AML monitoring for bulk cash transactions with its Group Entities (foreign affiliates);
- o The Bank excluded from its automated monitoring processes wire transfers initiated by customers domiciled in countries rated as "standard" or "medium" risk, representing two-thirds of total dollar volume for its Payments and Cash Management Division;
- o The Bank has not collected or maintained customer due diligence (know your customer) information for Group entities and has transacted extensive wire transfers and purchases of U.S. bulk cash with Group Entities (foreign affiliates);
- o The Bank has not appropriately designated customers as "high risk" for purposes of BSA/AML monitoring, even where a customer's association with politically-exposed persons could harm the Bank's reputation.

**What are the requirements of the OCC Consent Order?**

The Consent Order requires the Bank to submit a comprehensive BSA/AML action plan to achieve full compliance and ensure that the Bank has sufficient processes, personnel and control systems to implement and adhere to the Order. It requires the Bank to hire a qualified permanent Regional Compliance Officer and a qualified, permanent BSA Officer. It requires the Bank to improve its BSA/AML monitoring systems, including its funds transfer monitoring, and to develop and maintain an MIS program that compiles CDD and EDD (know your customer) information. The Order also contains restrictions on growth, new products and high-risk lines of business and it requires OCC approval to reenter the bulk cash repatriation business.

**Why did the OCC not impose a penalty against the Bank?**

The Cease and Desist Order is a remedial document that is designed to obtain correction of violations of law and unsafe or unsound practices at the Bank. The issuance of the Order does not preclude the OCC from assessing a civil money penalty at a later time.

**How does the OCC Order differ from the Federal Reserve Order?**

The OCC Order applies to the Bank. The Federal Reserve Order applies to the holding company, HSBC North America Holdings, Inc., New York, N.Y. (HNAH). HNAH owns and controls the following institutions: (1) the Bank, (2) HSBC Trust Company, N.A., Wilmington, DE, (3) HSBC Bank Nevada, N.A., Las Vegas, NV, (4) HSBC Private Bank International, Miami, FL (an Edge Act corporation). HNAH is required to adopt a firmwide compliance risk management program designed to identify and manage compliance risks across the consolidated organization, including HNAH and all its subsidiaries, related to compliance with all applicable laws, rules and regulation. The OCC and the Federal Reserve coordinated closely in drafting the respective orders.

**A February 2010 report by the Permanent Subcommittee on Investigations (PSI) concerning foreign corruption identified problems with HSBC in this area, how does the OCC's action relate to the PSI Report?**

The OCC has worked cooperatively with PSI staff and the Order addresses issues and concerns that were raised by the Subcommittee.

**Recent press reports suggest that this is like the Wachovia case and HSBC's violations involve correspondent relationships in Mexico and other high-risk countries. Did the OCC identify money laundering or terrorist financing during its examination?**

The OCC's role is to assess the adequacy of the bank's BSA compliance program, as opposed to identifying instances of money laundering or terrorist financing, which is the role of law enforcement. However, the Mexican banknote or bulk cash repatriation business has been identified by the U.S. government as having an increased risk of money laundering.

**II. OCC Supervision:****The Bank was previously under a written agreement to address BSA/AML weaknesses with the Federal Reserve Bank of New York (FRBNY) and the New York State Banking Department (NYSBD) that was terminated by the OCC in 2006. Did the OCC make a mistake in terminating the written agreement in 2006?**

On April 30, 2003, the then HSBC Bank USA entered into a written agreement with the FRBNY and NYSD to enhance its compliance with AML requirements. HSBC Bank USA implemented certain improvements to its compliance, reporting, and review systems and procedures to comply with this agreement. When HSBC Bank USA merged with HSBC Bank & Trust (Delaware) N.A. on July 1, 2004, the OCC made the merger conditional on HSBC Bank USA's continuing compliance with the requirements of the written agreement. On June 6, 2006, the OCC determined that HSBC Bank USA had satisfied the requirements of the written agreement and it terminated the agreement. Since that time the Bank has had problems with staffing and BSA officer turnover that

contributed significantly to the deterioration of its BSA compliance program and to the actions now being taken by the OCC.

**Why didn't the OCC detect the BSA violations at HSBC sooner? Wasn't HSBC examined by the OCC multiple times during this time period?**

While we cannot comment on the supervisory history of HSBC in the BSA/AML area, we note that the OCC imposed a number of requirements for the Bank to take corrective action in the BSA/AML area, which it did. The current enforcement action is a result of OCC findings from the 2009-2010 examination of the Bank's foreign correspondent area that revealed a number of significant deficiencies serious enough to warrant a cease and desist order. The Bank's prior supervisory history in the BSA/AML area was a factor, among many, in making the determination to take formal enforcement action against the Bank.

**Why did it take so long for the OCC to take any action against HSBC when the problems identified have been going on for years?**

The OCC takes both public enforcement actions and non-public supervisory/enforcement actions, and we cannot comment on whether or not any non-public actions might have preceded this public enforcement action.

**The problems identified in the orders were significant and took place over a number of years. Was this a failure in bank supervision similar to what happened at Riggs Bank in 2004?**

Unlike Riggs, this is not a situation where significant BSA deficiencies were repeatedly cited but the agency failed to act, or a situation where problems identified by the OCC were not corrected in a timely manner. Here, when problems were identified by the OCC, the problems were promptly corrected by the Bank.

**Over the years there have been significant BSA/AML problems with Union Bank, Wachovia and now HSBC - three Large Banks. What gives?**

The OCC has significantly improved its supervision in the BSA/AML area, there is still progress to be made and new challenges that must be addressed. Some of the key changes in our BSA/AML supervision include the development and implementation of enhanced risk identification and analysis tools, such as the BSA/AML Risk Assessment information collection, to identify potentially high-risk banks and activities that warrant increased scrutiny; with the other FFIEC agencies and FinCEN, the development and issuance of a BSA/AML Examination Manual that establishes comprehensive and uniform examination procedures for BSA/AML; with the other Federal banking agencies, the development and issuance of a uniform policy on citing BSA compliance program violations and taking enforcement actions; and the creation and filling of a new Director for BSA and AML Compliance, along with an augmented staff reporting to the Director.

The banking industry as a whole has also significantly upgraded its BSA compliance programs in order to keep up with the new technologies and the rapid development of new payment systems (*i.e.* remote deposit capture, prepaid cards, ACH, etc.). Many banks that we supervise have programs that are considered state-of-the-art. Without question, both the agency and the industry are in a much better place with respect to BSA compliance than they were before.

Notwithstanding this, it is always possible for money laundering to occur and new money laundering techniques and technologies pose new challenges that require constant vigilance and updating of agency policies and procedures. Because of the sophistication of money launderers and the diffuse responsibilities for money laundering enforcement within the U.S. Government, it takes the combined effort of law enforcement and regulators to detect and prevent money laundering from occurring. While we believe that our overall supervisory approach to BSA/AML compliance has been rigorous and is working well, we are committed to ongoing evaluation of our approach to BSA/AML compliance and to appropriate revisions to our approach in light of technological developments and the increasing sophistication of money launderers and terrorist financiers.

**What process does the OCC use to examine a large bank like HSBC for BSA compliance?**

The OCC monitors compliance with the BSA and money laundering laws through the procedures set forth in FFIEC Interagency BSA/AML Examination Manual. These interagency procedures were developed by the OCC, in conjunction with the other Federal banking agencies, based on our extensive experience in supervising and examining national banks in the area of BSA/AML compliance. The procedures are risk-based, focusing our examination resources on high-risk banks and high-risk areas within banks. During an examination, examiners use the procedures to review the bank's policies, systems, and controls. Examiners test the bank's systems and compliance by reviewing certain individual transactions and conducting transaction testing.

**Was this case related to the Wachovia Bank and Union Bank enforcement action and did the casa de cambio activity at Wachovia Bank and Union Bank migrate to HSBC?**

The OCC cannot comment on specific accounts or customers.

**Were the findings of the Permanent Subcommittee on Investigations Report relating to HSBC and Angola used during the examination?**

The OCC carefully reviewed the March 31<sup>st</sup> Report of the PSI, has worked cooperatively with PSI staff. The Order addresses concerns that were raised by the PSI staff.



**How does the OCC's and the Federal Reserve's roles relate in practice?**

The OCC's mission is to charter, regulate and supervise all national banks. To accomplish our supervisory responsibilities, the OCC conducts regular examinations to ensure that institutions under our supervision operate safely and soundly and in compliance with laws and regulations, including the BSA.

The Federal Reserve has supervisory responsibility over state-chartered member banks and holding companies. In its supervisory capacity, the Federal Reserve is responsible for ensuring the safety and soundness of the firms it regulates, as well as compliance with law and regulations, including the BSA. For commercial banks, the Federal Reserve is the supervisor of their holding company. As a result, the Federal Reserve shares supervisory and regulatory responsibilities with the OCC and with state banking supervisors. Because the largest commercial banks owned by bank holding companies are national banks, the Federal Reserve and the OCC must work closely together to supervise these organizations.

The OCC, the Federal Reserve and the other Federal banking agencies, have issued a regulation designed to ensure compliance with the BSA (e.g., 12 C.F.R. 21.21). This regulation requires every depository institution to have a written BSA compliance program that is reasonably designed to assure and monitor compliance with the BSA. The Federal banking agencies administer this regulation and monitors compliance through the examination process.

Here, the OCC and the Federal Reserve worked closely and cooperatively due to the overlap and reliance that exists with the holding company's and the Bank's BSA compliance programs.

**How do the OCC's and FinCEN's roles relate in practice?**

The OCC's mission is to charter, regulate and supervise all national banks. To accomplish our supervisory responsibilities, the OCC conducts regular examinations to ensure that institutions under our supervision operate safely and soundly and in compliance with laws and regulations, including the BSA. The OCC, along with the other Federal banking agencies, has issued a regulation designed to ensure compliance with the BSA (12 C.F.R. 21.21). This regulation requires every national bank to have a written BSA compliance program that is reasonably designed to assure and monitor compliance with the BSA. The OCC administers this regulation and monitors compliance through our examination process.

FinCEN's role is to serve as the administrator of the BSA. Our agencies work closely on legal and policy issues affecting national banks, as well as on civil money penalty actions based on BSA violations. In addition, the Memorandum of Understanding signed by the Federal banking agencies and FinCEN in 2004 has strengthened BSA compliance and enhanced information sharing between the agencies.

**Do you expect to see an increase in BSA-related enforcement actions?**

It is impossible to predict whether BSA-related enforcement actions will increase as it depends on the results of examinations. However, due to the economic conditions we have been seeing some banks cutting back on their BSA compliance programs resulting in an increase in the number of matters requiring attention concerning BSA issues. Banks need to ensure that their systems are updated, maintained and vigilant especially with regard to high risk areas and new products and payment systems.

**What assurance can the OCC give the public that there are no similar issues in other large banks?**

It would be incorrect to infer from the Wachovia and HSBC situations that BSA problems are widespread in the banking industry. However, the OCC will continue to examine for such problems and to the extent that the same or similar problems exist in other national banks, the OCC will take appropriate action. Overall, banks have an outstanding record of compliance, have made tremendous strides in upgrading their programs in recent years, and are clearly the leaders in this area within the financial services industry. Many of the requirements that the USA PATRIOT Act imposed on nonbanking institutions, e.g., the compliance program and SAR requirements, are requirements that banks have been under for years. Banks are also among the most heavily regulated of all financial institutions.

Money laundering, like fraud and many other crimes, will continue to occur and the OCC will continue to examine, to educate the industry and the public about this type of crime, and ensure the banks that we supervise have systems that are commensurate with the risks being undertaken.

**Will the OCC be taking action against individuals at the Bank?**

The OCC cannot comment on any additional actions we might take.

**Why shouldn't the responsibility for BSA compliance be shifted to another agency, e.g. OFAC or FinCEN?**

The OCC has a longstanding commitment to combating money laundering. We strongly believe that the current system of BSA/AML oversight for banks not only works well, but is the best in the financial services industry. The current system of regulatory oversight would not be improved by shifting responsibility to another agency.

The OCC has approximately 1700 highly trained examiners to assess compliance in national banks. Neither OFAC nor FinCEN have the resources or expertise to take this on.

Banks are heavily regulated. Adding yet another regulator will increase their burden, without any demonstrable improvement in compliance.

**III. Industry-wide BSA Issues:**

**Many of the recent cases being taken by the OCC involve problems in the area of international correspondent banking and for failing to effectively monitor foreign correspondent customers. By taking this action, was there an intent to enunciate a new standard for banks in this area?**

No, the enforcement action taken against HSBC does not signal a change in our policy or the BSA/AML requirements placed upon national banks. In taking this enforcement action, the OCC determined that the Bank failed to implement an adequate money-laundering program as required by the BSA and AML regulations. Under applicable law all institutions must have a BSA compliance program that sufficiently addresses the risk within their institution associated with their products, services, customers and geographic locations. Institutions that offer higher risk products or services, or are involved in higher risk areas are expected to have controls commensurate with the nature of their higher risk activities. Here, HSBC was providing high risk services to high risk foreign correspondent customers, and failed to have commensurate controls in place or adequate systems to provide meaningful review or monitoring for many of its high risk foreign correspondent transactions as required by the BSA and OCC regulations.

**Does this case and the accompanying orders represent a raising of the bar in terms of BSA/AML compliance expectations?**

No. This is not a raising of the bar, it is simply ensuring that new products, services and payment systems are planned and integrated into the bank's existing BSA/AML program and risk assessment; and, that high risk areas have BSA/AML controls and, if necessary, automated systems, commensurate with the volumes generated and the risk presented.

OCC orders are bank specific to address concerns that were identified at the institution in order to bring about corrective actions. The orders should not be interpreted beyond the institution being addressed by the order and are not intended to be used as a means for developing BSA/AML policy.

The problems involving HSBC in the areas of bulk cash and remote deposit capture (RDC) should have been identified in the bank's risk assessment and should have been adequately covered by the bank's program. They were not.

In addition, RDC is a relatively recent product development and banks need to ensure that new products and some of the rapid technological developments in payment systems are being identified and monitored by the Bank's program.

**What guidance is being provided to banks concerning some of the problems identified at HSBC. Has this guidance been sufficient?**

The Federal Banking Agencies and FinCEN have responded to the industry's request for clear and consistent messages and expectations. The OCC is sensitive to the issues of

regulatory burden, but is also strongly committed to ensuring effective BSA/AML supervision.

On June 21, 2010, FinCEN issued guidance on the newly released Mexican regulations imposing restrictions on Mexican banks for transactions in U.S. currency.

On February 18, 2010 FinCEN issued guidance on trade based money laundering that includes a discussion of bulk cash repatriation (FIN-2010-A001).

The April 2010 revision to the FFIEC BSA/AML Examination Manual contains a new section on bulk cash repatriation that provides additional guidance and examination procedures relating to this high risk product. The OCC took the lead in drafting this section of the Manual and the examination procedures. The section of the Manual covering remote deposit capture was also revised and updated.

In January 2009, The FFIEC issued Interagency Guidance on remote deposit capture that covers BSA/AML risks and issues (OCC 2009-4).

In 2006, FinCEN issued guidance that describes the currency smuggling relating to bulk cash repatriation that also references the problems identified with negotiating sequentially numbered travelers checks (FIN-2006-A003).

#### **Are banks too big to regulate in BSA/AML area?**

The size of the bank has little to do with BSA compliance. Any size bank can have its compliance program compromised and be victimized by sophisticated money laundering rings. However, larger banks tend to process more international transactions and larger volumes making it even more critical for them to maintain effective processes and be vigilant in this area.

The OCC consistently takes steps to ensure our BSA/AML supervision is consistent, timely and thorough. The OCC continues to examine all of the banks that we supervise for BSA compliance and the OCC, along with the other Federal banking agencies and FinCEN continue to provide guidance to the industry in this complex and challenging area. We believe that in the vast majority of cases, the OCC quickly and appropriately responds to BSA deficiencies identified in national banks.

To help ensure follow-up of deficiencies between examinations, OCC examiners perform periodic monitoring in all national banks, with some activity ongoing every quarter. Also, examiners monitor, until resolution, corrective action taken by bank management to address significant issues identified during the examination.

According to the interagency BSA/AML enforcement policy, if bank management has failed to address previously identified weaknesses, the agency will issue a cease and desist order against the bank.

**What is being done to ensure that banks have adequate due process when enforcement actions are taken or contemplated?**

Under existing processes, banks have various opportunities to present their views, and no BSA compliance program violation can be cited or enforcement actions taken without review at the highest levels of Bank Supervision at the agency. In addition, the OCC improved its process for taking BSA enforcement actions in 2005 through the issuance of a formal process document (OCC-2005-45) which provides ample opportunities for the bank to respond to BSA/AML criticisms. In 2007, the OCC and the other Federal banking agencies issued an interagency BSA enforcement policy that provides greater transparency and sets forth the agencies' policy on the circumstances in which an agency will issue a C&D to address noncompliance with the BSA compliance program rule.

**How do you coordinate with other agencies with regard to BSA and SAR related issues?**

- We coordinate with the other banking agencies, law enforcement and FinCEN on a regular basis through our monthly Bank Fraud Working Group and FFIEC BSA/AML Working Group meetings.
- We also participate on a semi-annual basis with these agencies and representatives from the industry in meetings of the BSA Advisory Group and on an ongoing basis through its many subgroups.
- We issue periodic guidance through seminars and on-going guidance as to interpretations of BSA rules and regulations.
- We provide input into FinCEN's semi-annual SAR Activity Reviews which provide the industry with information on current and emerging money laundering schemes.
- As reflected by the recent action against Wachovia, we also closely coordinate administrative actions that are appropriate to take in the area of BSA.
- We provide law enforcement agencies with requested information and assistance in this and many other areas.

**A recent press report indicated that this case was like the Wachovia matter and involved correspondent relationships in Mexico and other high-risk countries in Latin America. Does this case involve Mexican casa de cambios and, if so, will this case involving foreign MSBs exacerbate domestic MSB discontinuance by banks and what is the OCC doing about this problem?**

The OCC's cannot comment on specific accounts or customers.

The OCC remains concerned about the difficulties MSBs are having obtaining bank accounts. MSBs provide valuable financial services to segments of our society that, for various reasons, choose not to do business with banks, and the MSBs' loss of banking services can cause significant harm to those individuals and to the MSBs themselves. That said, it should be pointed out that there still are significant numbers of banks that

provide accounts to MSBs. In fact, our records indicate that roughly half of the banks we supervise currently are providing banking services to MSBs.

The OCC views the threat of money laundering or terrorist financing through the national banking system as a serious matter. Consequently, our examiners conduct rigorous examinations in this area, and we expect banks to assess their risks and have systems and controls in place that are commensurate with those risks. However, the OCC has not targeted MSBs as a focus of our BSA/AML examinations and, in fact, relatively few of our supervisory and enforcement actions over the past few years have been based on problems banks are having managing their MSB accounts.

MSB discontinuance is a complex problem and there are no easy solutions. We believe that a lasting solution must be premised on 1) reducing the reputation and other forms of risk that banks currently associate with MSBs; and 2) finding economic incentives to providing banking services to MSBs. One key to reducing the risk associated with MSBs, whether perceived or actual, is to ensure that they are effectively regulated, and the BSA/AML Examination Manual for MSBs that was issued in December 2008 is an important tool that provides consistency and progress towards this goal. Banks must then price their services in accordance with the actual risks presented and the due diligence needed to manage those risks. The OCC stands ready to work with Congress, FinCEN and the other financial institutions regulatory agencies, and the banking industry to help achieve a solution to this difficult problem.

#### **V. Correspondent Banking Issues:**

**This is the third enforcement action brought by the OCC against a Large Bank for correspondent banking deficiencies. Do you anticipate that this action will result in discontinuance of foreign correspondent activities by U.S. banks?**

The OCC is very concerned about the difficulties any type of customers may experience in obtaining bank accounts. There are a number of large and mid-sized national banks that provide foreign correspondent accounts and services.

The OCC views the threat of money laundering or terrorist financing through the national banking system as a serious matter. Consequently, our examiners conduct rigorous examinations in this area. For any high risk customer, including certain foreign correspondent relationships, we expect Banks to assess the risk posed by each customer relationship and to put in place controls commensurate with such risks. We expect that each of our Banks will make a careful assessment as to whether its current policies, procedures, systems, and controls are robust enough to manage the risks identified among its foreign correspondent relationships. This is consistent with the statutory requirements under the Bank Secrecy Act, 31 U.S.C. 5311 *et. seq.*, as amended by Section 312 of the USA PATRIOT Act.

**Should my bank continue to provide banknote or bulk cash services to foreign correspondent customers?**

The OCC does not direct banks or encourage banks to open or close accounts for specific types of customers or lines of business. Instead, the OCC, the other Federal banking agencies, and FinCEN issue guidance to banks to help them recognize the varying degree of risks in certain customers and product lines and design BSA compliance programs that will effectively manage that risk.

Banking organizations that provide bulk cash services to foreign correspondent customers should apply the risk-focused requirements of the Bank Secrecy Act, as they do for all customers. This activity is a foreign correspondent service that is subject to the requirements of the Bank Secrecy Act as amended by section 312 of the USA PATRIOT Act. Banks should take into account all the individual circumstances, including the type of customer, additional products and services being provided and the geographic locations involved.

The decision to continue to offer a particular product is ultimately the decision of bank management and the board of directors and should be based on the institution's assessment of the risks associated with the particular service, the particular account customer and the bank's ability to control the risks.

**What are the expectations concerning the BSA/AML responsibilities concerning foreign correspondent relationships?**

The Bank Secrecy Act, as amended by Section 312 of the USA PATRIOT Act, requires that Banks conduct due diligence and enhanced due diligence on all foreign correspondent relationships. The USA PATRIOT Act also requires banks to maintain records identifying the owners of foreign bank customers whose shares are not publicly traded and take steps to ensure that all foreign correspondent bank customers are not providing banking services to foreign shell banks.

As discussed in detail in the FFIEC BSA/AML Examination Manual, to effectively control the money laundering risks associated with foreign correspondent banking relationships, banks should have policies, procedures and processes to manage BSA/AML risks inherent with these relationships and closely monitor transactions related to these accounts to detect and report suspicious activities. The bank must take reasonable steps to ensure that the account is not being used to indirectly provide banking services to foreign shell banks and the bank must identify the owners of foreign banks whose shares are not publicly traded. The bank should understand the intended use of the accounts, expected account activity, and the foreign correspondent's financial institutions' other correspondent relationships. Also, each relationship that a U.S. bank has with a foreign correspondent financial institution should be governed by an agreement or a contract describing each party's responsibilities and other relationship details and should consider the foreign correspondent's AML responsibilities.

In addition, U.S. banks that establish accounts with foreign MSBs should establish a risk-based customer identification program and customer due diligence policies, procedures, and controls, reasonably designed to detect and report money laundering through these accounts for these entities. The FFIEC BSA/AML Examination Manual provides guidance on CIP, BSA recordkeeping and due diligence and enhanced due diligence requirements of these foreign financial institutions based on the level of risk posed by these accounts.



UNITED STATES OF AMERICA  
DEPARTMENT OF THE TREASURY  
COMPTROLLER OF THE CURRENCY

In the Matter of:	)	
	)	
HSBC Bank USA, N.A.	)	AA-EC-10-98
McLean, Virginia	)	
	)	
	)	

**CONSENT ORDER**

The Comptroller of the Currency of the United States of America ("Comptroller"), through his national bank examiners and other staff of the Office of the Comptroller of the Currency ("OCC"), has conducted an examination and investigation of the Payments and Cash Management ("PCM"), Global Banknotes, and foreign correspondent operations of HSBC Bank USA, N.A., McLean, Virginia ("Bank"). The OCC has identified deficiencies in the Bank's internal controls for these areas as well as in its overall program for Bank Secrecy Act/anti-money laundering ("BSA/AML") compliance and has informed the Bank of the findings resulting from the examination and investigation.

The Bank, by and through its duly elected and acting Board of Directors ("Board"), has executed a "Stipulation and Consent to the Issuance of a Consent Order," dated October 6, 2010, that is accepted by the Comptroller. By this Stipulation and Consent, which is incorporated by reference, the Bank has consented to the issuance of this Consent Cease and Desist Order ("Order") by the Comptroller. The Bank has committed to taking all necessary and appropriate steps to remedy the deficiencies identified by the OCC, and to enhance the Bank's BSA/AML compliance program.

Confidential & Non-public OCC Information

OCC-PSI-00904698

ARTICLE I

COMPTROLLER'S FINDINGS

The Comptroller finds, and the Bank neither admits nor denies, the following:

(1) The OCC's examination findings establish that the Bank has deficiencies in its BSA/AML compliance program. These deficiencies have resulted in a BSA/AML compliance program violation under 12 U.S.C. § 1818(s) and its implementing regulation, 12 C.F.R. § 21.21 (BSA Compliance Program). In addition, the Bank has violated 12 C.F.R. § 21.11 (Suspicious Activity Report Filings); and 31 U.S.C. § 5318(i) and its implementing regulation, 31 C.F.R. § 103.176 (Correspondent Banking).

The Bank has failed to adopt and implement a compliance program that adequately covers the required BSA/AML program elements, including, in particular, internal controls for customer due diligence, procedures for monitoring suspicious activity, and independent testing. The Bank's compliance program and its implementation are ineffective, and accompanied by aggravating factors, such as highly suspicious activity creating a significant potential for unreported money laundering or terrorist financing.

Some of the critical deficiencies in the elements of the Bank's BSA/AML compliance program include the following:

(A) The Bank has excluded from automated BSA/AML monitoring wire transfers initiated by customers domiciled in countries risk rated as "standard" or "medium," representing two-thirds of total dollar volume for PCM. While the Bank has employed other methods for monitoring wire transactions for customers located in countries risk rated standard or medium, these alternatives have provided limited

coverage, have not been effective, and have not mitigated the BSA/AML risks posed;

(B) During mid-2006 through mid-2009, the Bank did not perform BSA/AML monitoring for banknote (or "bulk cash") transactions with Group Entities (defined as the Bank's foreign affiliates in which the Bank's parent, HSBC Holdings plc, London, England ("HSBC Group"), holds a majority interest);

(C) The Bank has not collected or maintained customer due diligence ("CDD") or enhanced due diligence ("EDD") information for Group Entities. The Bank has transacted extensive wire transfers and purchases of United States bulk cash with Group Entities. The lack of due diligence information has inhibited the Bank's assessment of customer risk and the identification of suspicious activity in Group Entity accounts;

(D) The Bank has been unable to disposition its alerts appropriately or to comply fully with its obligation to report suspicious activity on time. As part of the 2009-10 examination, the OCC cited the Bank for its backlog of unprocessed alerts. The Bank's subsequent review of the backlogged alerts led it to file a substantial number of late Suspicious Activity Reports ("SARs") with law enforcement authorities; and

(E) The Bank has not appropriately designated customers as "high-risk" for purposes of BSA/AML monitoring, even where a customer's association with politically-exposed persons ("PEPs") could harm the Bank's reputation.

(2) The above violations and failures were the result of a number of factors, including, among others, (i) inadequate staffing and procedures in the alert investigations unit that resulted in a significant backlog of alerts; (ii) the closure of alerts based on ineffective review; (iii) inadequate monitoring of Group Entities' correspondent accounts for purpose and anticipated activity, anti-money laundering record, or consistency between actual and anticipated account activity; (iv) unwarranted reliance on Group Entities' following HSBC Group BSA/AML policies; (v) inadequate monitoring of funds transfers; (vi) inadequate procedures to ensure the timely reporting of suspicious activity; (vii) failure to adequately monitor Group Entities' banknote activity, (viii) inadequate monitoring of correspondent funds transfer activity; and (ix) inadequate collection and analysis of CDD information, including inadequate monitoring of PEPs.

Pursuant to the authority vested in him by the Federal Deposit Insurance Act, as amended, 12 U.S.C. § 1818(b), the Comptroller hereby ORDERS that:

ARTICLE II

COMPLIANCE COMMITTEE

(1) The Board shall maintain a Compliance Committee of at least three (3) directors, of which at least two (2) may not be employees or officers of the Bank or any of its subsidiaries or affiliates. In the event of a change of the membership, the name of any new member shall be submitted in writing to the Examiner-in-Charge of Large Bank Supervision at the Bank ("Examiner-in-Charge"). The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Order. The Compliance Committee shall meet at least monthly and maintain minutes of its meetings.

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(2) Within ninety (90) days of this Order, and quarterly thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail the actions taken to comply with each Article of this Order, and the results and status of those actions.

(3) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Deputy Comptroller for Large Bank Supervision ("Deputy Comptroller") and the Examiner-in-Charge within ten (10) days of receiving such report.

ARTICLE III

COMPREHENSIVE BSA/AML ACTION PLAN

(1) Within sixty (60) days of this Order, the Bank shall submit to the Deputy Comptroller and the Examiner-in-Charge a plan containing a complete description of the actions that are necessary and appropriate to achieve full compliance with Articles IV through XV of this Order ("Action Plan"). The Bank shall implement the Action Plan upon the Deputy Comptroller's issuance of a written determination of no supervisory objection. In the event the Deputy Comptroller asks the Bank to revise the plan, the Bank shall immediately make the requested revisions and resubmit the plan to the Deputy Comptroller and Examiner-in-Charge. Following implementation, the Bank shall not take any action that will cause a significant deviation from, or material change to the Action Plan unless and until the Bank has received a prior written determination of no supervisory objection from the Deputy Comptroller.

(2) The Board shall ensure that the Bank achieves and thereafter maintains compliance with this Order, including, without limitation, successful implementation of the Action Plan. The Board shall further ensure that, upon implementation of the Action Plan, the Bank achieves and maintains an effective BSA/AML compliance program, in accordance with

the BSA and its implementing regulations. In order to comply with these requirements, the Board shall:

- (A) require the timely reporting by Bank management of such actions directed by the Board to be taken under this Order;
  - (B) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
  - (C) require corrective action be taken in a timely manner for any non-compliance with such actions.
- (3) The Action Plan must specify timelines for completion of each of the requirements of Articles IV through XV of this Order. The timelines in the Action Plan shall be consistent with any deadlines set forth in Articles IV through XV.
- (4) Upon request by the Deputy Comptroller, the Bank shall modify the Action Plan to comply with any Matters Requiring Attention concerning BSA/AML matters, or citations of violations of law concerning these matters, which the OCC may issue to the Bank following the effective date of this Order.
- (5) The Bank shall ensure that it has sufficient processes, personnel, and control systems to implement and adhere to this Order. The Action Plan must specify in detail budget outlays and staffing, including staff compensation, that are necessary to achieve and maintain full compliance with Articles IV through XV of this Order.
- (6) Any independent consultant or auditor engaged by the Bank or the Board to assist in the assessment of the Action Plan or other compliance with this Order must have demonstrated and specialized experience with the BSA/AML matters that are the subject of the

engagement, and must not be subject to any conflict of interest affecting the consultant's or auditor's independence.

(7) Within ten (10) days of this Order, the Bank shall designate an officer to be responsible for coordinating and submitting to the OCC the written plans, reports, and other documents required to be submitted under the terms and conditions of this Order.

ARTICLE IV

MANAGEMENT

(1) Within fifteen (15) days of this Order, the Board shall submit to the Deputy Comptroller and the Examiner-in-Charge a plan to recruit, hire, appoint, and retain a qualified, permanent Regional Compliance Officer ("RCO") and a qualified, permanent BSA Officer. The plan shall include job descriptions, proposed salary ranges, and the qualifications sought by the Board.

(2) Prior to the appointment of any individual as the RCO and the BSA Officer, the Board shall submit the name and qualifications of the candidate, to the Deputy Comptroller and Examiner-in-Charge.

(3) The Deputy Comptroller shall have the power to disapprove the appointment of the proposed RCO candidate and the proposed BSA Officer candidate. However, the lack of disapproval of any such candidate shall not constitute an approval or endorsement of the proposed officer.

(4) The requirement to submit information and the prior disapproval provisions of this Article are based on the authority of 12 U.S.C. § 1818(b) and do not require the Comptroller or the Deputy Comptroller to complete his or her review and act on any such information or authority within ninety (90) days.

## ARTICLE V

REVIEW OF BSA COMPLIANCE PROGRAM

(1) Within ten (10) days of this Order, the Bank shall retain an independent consultant, or continue an existing or newly revised relationship with an existing independent consultant, to conduct an independent review of the Bank's BSA/AML compliance program (the "BSA/AML Review") and prepare a written report of findings and recommendations (the "BSA/AML Report") within forty-five (45) days of this Order. The purpose of the BSA/AML Review shall be to conduct a comprehensive review of the following (including, as appropriate, systems and controls to ensure the effectiveness of policies and procedures):

- (A) the BSA Officer's level of authority and independence;
- (B) the numbers and the qualifications of staff that support the BSA Officer in performing his or her assigned responsibilities in maintaining effective compliance with the BSA and its implementing regulations;
- (C) the adequacy of the budget for maintaining effective compliance with the BSA and its implementing regulations;
- (D) the governance structure of the BSA program;
- (E) channels for informing the Board, or a committee thereof, and senior management, of compliance initiatives, identified compliance deficiencies, and corrective action taken;
- (F) succession plans for ensuring the program's continuity despite changes in management, staffing, or structure;
- (G) policies and procedures in all lines of business for identifying individuals who are PEPs and for monitoring the accounts associated with these individuals (As used in this Order, the term PEP shall include current or former senior foreign political figures, their



families, and their close associates, consistent with regulatory guidance including the Interagency Guidance issued in January 2001. The term PEP is not limited to the population of PEPs referenced in 31 C.F.R. § 103.175(r);

(H) policies and procedures in all lines of business for identifying customers who are high risk and for monitoring the accounts associated with these customers;

(I) policies and procedures for gathering CDD and EDD information when opening new accounts or when renewing or modifying existing accounts;

(J) policies and procedures for investigating and dispositioning transactions that are identified as unusual or suspicious;

(K) policies and procedures for completing and filing SARs on a timely basis; and

(L) the level of knowledge of the Bank's operational and supervisory personnel of the Bank's policies and procedures for identifying transactions that pose greater than normal risk for compliance with the BSA in order to determine the types of additional or enhanced training that should be conducted.

(2) The Bank shall submit to the Deputy Comptroller and Examiner-in-Charge a copy of the engagement letter or agreement establishing the terms of the engagement for the independent consultant. If the Deputy Comptroller recommends changes to the engagement letter or agreement, the Bank shall modify the engagement letter or agreement to incorporate those changes, or suggest alternative changes that are acceptable to the Deputy Comptroller.

(3) The supporting materials associated with the BSA/AML Review shall be made available to the OCC upon request.

(4) The Board shall address the findings from the BSA/AML Review in the Action Plan described in Article III of this Order.

ARTICLE VI

BSA COMPLIANCE PROGRAM

(1) Within ninety (90) days of this Order, the Board and executive management shall ensure that a BSA/AML program is in place which meets the following criteria:

(A) has a BSA Officer with sufficient funding, authority, independence, and supporting staff to perform his or her assigned responsibilities and maintain effective compliance with the BSA and its implementing regulations;

(B) has an effective governance structure to allow the BSA Officer to administer the program, with clear lines of responsibility beginning with senior management and including each line of business ("LOB") that is required to comply with the BSA;

(C) has clearly defined channels for informing the Board, or a committee thereof, and senior management, of compliance initiatives, identified compliance deficiencies, and corrective action taken;

(D) has well-defined succession plans for ensuring the program's continuity despite changes in management, staffing, or structure; and

(E) identifies higher-risk banking operations (products, services, customers, entities, and geographic locations) and provides for periodic updates to the Bank's risk profile.

ARTICLE VII

MANAGEMENT INFORMATION

(1) Within ninety (90) days of this Order, the Board shall ensure that Bank management conducts a management information system ("MIS") assessment, and develops a plan that will enable management to more effectively identify, monitor, and manage the Bank's BSA risks on a timely basis. This plan should address any system limitations, provide for appropriate reporting, and consider the following:

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(A) any trends in unusual or suspicious activity that have been identified and reported by the Bank, as well as the product lines, departments and branches in which suspicious activity has occurred;

(B) high risk accounts by line of business and type of business, countries of origin, location of the customers' businesses and residences, average dollar, and transaction volume of activity;

(C) information regarding any type of subpoena received by the Bank, any other law enforcement inquiry directed to the Bank, and any action taken by the Bank on the affected account;

(D) information regarding PEPs and foreign correspondent accounts;

(E) information regarding compliance with this Order; and

(F) any additional information deemed necessary or appropriate by the BSA Officer or the Bank.

(2) Upon completion, a copy of the MIS plan shall be submitted to the Deputy Comptroller and Examiner-in-Charge. If the Deputy Comptroller recommends changes to the plan, the Board shall incorporate those changes into the plan or suggest alternative changes that are acceptable to the Deputy Comptroller.

(3) Within one hundred twenty (120) days of this Order, the Board shall ensure that Bank management implements the MIS plan.

## ARTICLE VIII

CDD AND EDD INFORMATION

(1) The Bank shall develop and implement appropriate policies and procedures for gathering customer due diligence ("CDD") and enhanced due diligence ("EDD") information when opening new accounts or when renewing or modifying existing accounts for customers, regardless of whether they are affiliates of the Bank. At a minimum, these policies and procedures must include:

(A) a methodology for assigning risk levels to the Bank's customer base that assesses appropriate factors such as type of customer, type of product or service, and geographic location, and specification of the CDD and EDD information the Bank must obtain, commensurate with these risk levels;

(B) identification of "offshore" correspondent accounts, as defined in 31 U.S.C. § 5318 and its implementing regulations, and appropriate EDD for these accounts;

(C) identification of PEPs, and appropriate EDD for PEPs; and

(D) periodic assessments by the BSA Officer or his/her designee of the effectiveness of the Bank's CDD, EDD, and monitoring activities, and timely corrective action of weaknesses identified in the assessments. These assessments and corrective actions shall, as appropriate, be incorporated into the Bank's BSA/AML risk assessment.

(2) The BSA Officer or his/her designee(s) shall periodically review account documentation for high-risk customers and their related accounts to determine whether the account activity is consistent with the customer's business and the stated purpose of the account.

(3) The Bank shall develop and maintain an MIS program that compiles CDD and EDD information. The program shall be commensurate with the Bank's BSA/AML risk, and shall provide appropriate business, compliance, and investigations staff throughout the Bank with automated ready access to CDD and EDD information.

(4) The Bank shall develop a risk-based plan to apply the requirements in its CDD and EDD policies and procedures to its existing customers, including Group Entities.

#### ARTICLE IX

##### MONITORING

(1) The Bank shall not limit suspicious activity alerts for wire transfers or other transactions based on lack of staff capacity or funding.

(2) The parameters implemented in the Bank's wire monitoring systems shall be determined by the BSA Officer or his or her designee. The parameters shall be based upon the risks presented by the originators, beneficiaries, and any counterparties to the transactions, rather than being limited to just the originators or just certain geographies. The Bank shall conduct and document validation (gap) testing to verify that the parameters it establishes for its wire monitoring systems are effective, comprehensive, and commensurate with the Bank's BSA/AML risk.

(3) Within sixty (60) days of this Order, the Bank shall submit revised policies and procedures for wire monitoring using its current wire monitoring system to the Deputy Comptroller and the Examiner-in-Charge. The policies and procedures shall include, without limitation, validation testing of parameters for automated wire monitoring. If the Deputy Comptroller recommends changes to the policies and procedures, the Bank shall incorporate those changes or suggest alternatives that are acceptable to the Deputy Comptroller.

(4) Within one hundred eighty (180) days of this Order, the Bank shall fully install, test, and activate a new wire transaction monitoring system. In implementing the new system, the Bank shall use a satisfactory approach to validating that the system is commensurate with the Bank's BSA/AML risk. No fewer than fourteen (14) days prior to the implementation of the new wire monitoring system, the Bank shall submit revised policies and procedures for wire monitoring using the new system to the Deputy Comptroller and the Examiner-in-Charge. The policies and procedures shall include, without limitation, validation testing of parameters for wire monitoring using the new system. If the Deputy Comptroller recommends changes to the policies and procedures, the Bank shall incorporate those changes or suggest alternatives that are acceptable to the Deputy Comptroller.

(5) For funds transfer systems other than wire transfers, the Bank shall ensure that these transfer systems are appropriately monitored and subject to AML controls commensurate with the Bank's BSA/AML risk. These funds transfers systems include, without limitation, ACH, international ACH, proprietary systems including transfers between the Bank and its affiliates, card systems, and mobile telephone applications.

#### ARTICLE X

##### SUSPICIOUS ACTIVITY REPORTING

(1) The Bank shall develop and maintain a written program of policies and procedures to ensure, pursuant to 12 C.F.R. § 21.11, the timely and appropriate review and disposition of suspicious activity alerts, and the timely filing of SARs.

(2) In reviewing alerts for purposes of determining whether to file a SAR, the Bank shall:

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(A) assess and document relevant CDD and EDD information;

(B) not close an alert based on "positive internet information" unless this information establishes a bona fide business reason for the transaction(s) subject to the alert, and the Bank documents this information;

(C) assess and document that the Bank considered related transactions by the customer who is subject to the alert (including both related accounts and related products and services); and

(D) assess and document whether the Bank has previously filed or considered filing a SAR for the customer who is subject to the alert.

(3) The Bank shall complete its final disposition of each alert within a reasonable period after the generation of the alert. For each final disposition not completed within ninety (90) days after the generation of an alert, the Bank shall document its reason(s) for not completing the final disposition within this period and shall have a policy of increasing escalation and reporting of these aged alerts to ensure that they are being reviewed and dispositioned on a timely basis based upon the facts associated with the alert;

(4) The Bank shall retain an independent auditor to report on the Bank's compliance with this Article, including, without limitation, the timely and appropriate review and dispositioning of suspicious activity alerts, and the timely filing of SARs. Within ninety (90) days of this Order, and quarterly thereafter, the Bank shall submit to the Compliance Committee a written progress report from the independent auditor, and forward copies to the Deputy Comptroller and to the Examiner-in-Charge. The progress report shall set forth in detail the extent of the Bank's compliance with this Article.

ARTICLE XI

ACCOUNT/TRANSACTION ACTIVITY REVIEW ("LOOK-BACK")

(1) The Bank shall retain one or more independent consultants to conduct an independent review of account and transaction activity ("look-back") covering areas to be specified in writing by the Examiner-in-Charge.

(2) The purpose of the look-backs is to determine whether suspicious activity was timely identified by the Bank, and, if appropriate to do so, was then timely reported by the Bank in accordance with 12 C.F.R. § 21.11.

(3) The look-backs must be conducted by independent consultant(s) with expertise in the review of foreign correspondent account activity. The look-backs shall be risk-based, including the risks identified in the Bank's current risk assessment, and shall identify the sampling, software screening or analytical techniques the consultant(s) will use to identify transactions that are subject to review for suspicious activity.

(4) Upon completion of the look-back, the written findings shall be reported to the Board, with a copy to the Examiner-in-Charge. The Bank shall file SARs, in accordance with 12 C.F.R. § 21.11, for any previously unreported suspicious activity identified during this review.

(5) Based upon the results of the look-back, the OCC, at its sole discretion, may expand the scope of the independent review or require a longer look-back period. If an additional look-back is deemed appropriate by the OCC, the Bank shall complete the look-back in accordance with this Article.



ARTICLE XII

RESTRICTIONS ON GROWTH, NEW PRODUCTS

AND HIGH-RISK LINES OF BUSINESS

(1) The Bank has represented to the OCC that it is exiting the Global Banknotes line of business for non-domestic customers ("international bulk cash"). If, in the future, the Bank intends to re-enter the international bulk cash line of business, the Bank shall notify the Examiner-in-Charge of its plan in writing and obtain written supervisory non-objection prior to commencing re-entry.

(2) The written notification required pursuant to paragraph (1) of this Article must include the Bank's plan to ensure ongoing compliance with the BSA for the international bulk cash line of business, and the controls to be implemented for monitoring activity, which shall include:

(A) policies and procedures for identifying, investigating, and resolving transactions that are identified as unusual;

(B) policies and procedures for reporting suspicious activity;

(C) periodic evaluations of line of business and compliance personnel knowledge of and adherence to Bank policies and procedures for identifying transactions that pose greater than normal risk for compliance with the BSA in order to determine whether additional or enhanced training should be conducted;

(D) periodic evaluations of the sufficiency of staffing resources that support the line of business for the purpose of identifying and investigating unusual and/or suspicious activity;

(E) consideration and application of any regulatory guidance on bulk cash remediation, including any guidance provided in the current *FFIEC Bank Secrecy Act/Anti-Money Laundering Examination Manual*; and

(F) monitoring of bulk cash transactions with Group Entities to the extent the Bank monitors these transactions with customers who are not Group Entities.

(3) The Bank shall develop and maintain a procedure for introducing new products and services that ensures that these new activities are consistent with the Bank's BSA/AML compliance program. This procedure shall include an assessment of the BSA/AML risk posed by the new activities, and whether the compliance program has sufficient staffing and funding to effectively monitor the new activities.

ARTICLE XIII

REMOTE DEPOSIT CAPTURE

(1) The Bank shall establish controls, commensurate with its BSA/AML risk, over the usage of RDC by foreign correspondent customers, and the Bank's monitoring of RDC transactions. These controls shall include:

(A) policies and procedures consistent with the January 14, 2009 Interagency Guidance on "Risk Management of Remote Deposit Capture" published by the FFIEC (OCC 2009-4);

(B) policies and procedures for identifying, investigating, and resolving transactions that are identified as unusual;

(C) policies and procedures for reporting suspicious activity;

(D) periodic evaluations of line of business and compliance personnel knowledge of and adherence to Bank policies and procedures for identifying transactions that pose greater

than normal risk for compliance with the BSA and its implementing regulations, in order to determine whether additional or enhanced training should be conducted; and  
 (E) periodic evaluations of the sufficiency of staffing resources that support the line of business for the purpose of identifying and investigating unusual and/or suspicious activities.

(2) The Bank shall conduct automated monitoring of RDC transactions for suspicious activity, to the extent practicable.

(3) The Bank shall submit its policies and procedures for management of the BSA/AML risk of RDC to the Deputy Comptroller and Examiner-in-Charge. If the Deputy Comptroller recommends changes to the policies or procedures, the Bank shall incorporate those changes or suggest alternatives that are acceptable to the Deputy Comptroller.

#### ARTICLE XIV

##### BSA TRAINING

(1) Within ninety (90) days of this Order, the Bank shall develop, implement, and thereafter adhere to a comprehensive training program for all appropriate operational and supervisory personnel to ensure their awareness of their responsibility for compliance with the requirements of the Office of Foreign Assets Control ("OFAC") and the BSA, including the reporting requirements associated with SARs, pursuant to 12 C.F.R. Part 21, subpart B, regardless of the size of the relationship or type of customer involved.

(2) This comprehensive training program should include strategies for mandatory attendance, the frequency of training, procedures and timing for updating training programs and materials, and the method for delivering training.

(3) The Bank shall submit the training program to the Deputy Comptroller and Examiner-in-Charge. If the Deputy Comptroller recommends changes to the training program,

the Bank shall incorporate those changes or suggest alternatives that are acceptable to the Deputy Comptroller.

ARTICLE XV

BSA INDEPENDENT TESTING AND AUDIT

(1) The Bank shall develop and maintain an effective program to audit the Bank's BSA/AML compliance program ("Audit Program"). The Audit Program shall include, at a minimum:

(A) a formal process to track and report upon Bank management's remediation efforts to strengthen the Bank's BSA/AML compliance program;

(B) testing of the adequacy of internal controls designed to ensure compliance with the BSA and its implementing regulations;

(C) a risk-based approach that focuses transactional testing on higher-risk accounts or geographic areas of concern; and

(D) a requirement for prompt management response and follow-up to audit exceptions or other recommendations of the Bank's auditor.

(2) The Bank shall submit the Audit Program to the Deputy Comptroller and Examiner-in-Charge. If the Deputy Comptroller recommends changes to the Audit Program, the Bank shall incorporate those changes or suggest alternatives that are acceptable to the Deputy Comptroller.

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ARTICLE XVI

CLOSING

(1) Although this Order requires the Bank to submit certain proposed actions and programs for the review or prior written determination of no supervisory objection by the Deputy Comptroller or the Examiner-in-Charge, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) If, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United States to undertake any action affecting the Bank, nothing in this Order shall in any way inhibit, estop, bar or otherwise prevent the Comptroller from so doing.

(3) This Order constitutes a settlement of the cease and desist proceeding against the Bank contemplated by the Comptroller, based on the violations described in the Comptroller's Findings set forth in Article I of this Order. Provided, however, that nothing in this Order shall prevent the Comptroller from instituting other enforcement actions against the Bank or any of its institution-affiliated parties, including, without limitation, assessments of civil money penalties, based on the findings set forth in this Order, or any other findings.

(4) This Order is and shall become effective upon its execution by the Comptroller, through his authorized representative whose hand appears below. The Order shall remain effective and enforceable, except to the extent that, and until such time as, any provisions of this Order shall have been amended, suspended, waived, or terminated in writing by the Comptroller.

(5) Any time limitations imposed by this Order shall begin to run from the effective date of this Order, as shown below, unless the Order specifies otherwise. The time limitations may be extended in writing by the Deputy Comptroller for good cause upon written application

by the Board. Any request to extend any time limitation shall include a statement setting forth in detail the special circumstances that prevent the Bank from complying with the time limitation, and shall be accompanied by relevant supporting documentation. The Deputy Comptroller's decision regarding the request is final and not subject to further review.

(6) This Order is intended to be, and shall be construed to be, a final order issued pursuant to 12 U.S.C. § 1818(b), and expressly does not form, and may not be construed to form, a contract binding the Comptroller or the United States. Without limiting the foregoing, nothing in this Order shall prevent any action against the Bank or its institution-affiliated parties by a bank regulatory agency, the United States Department of Justice, or any other law enforcement agency.

(7) The terms of this Order, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements, or prior arrangements between the parties, whether oral or written.

IT IS SO ORDERED, this 6th day of October, 2010.

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/s/

Grace E. Dailey  
Deputy Comptroller for Large Bank Supervision  
Office of the Comptroller of the Currency

UNITED STATES OF AMERICA  
DEPARTMENT OF THE TREASURY  
COMPTROLLER OF THE CURRENCY

In the Matter of:

HSBC Bank USA, N.A.  
McLean, Virginia

AA-EC-10-98

STIPULATION AND CONSENT TO THE ISSUANCE  
OF A CONSENT ORDER

The Comptroller of the Currency of the United States of America ("Comptroller") intends to impose a cease and desist order on HSBC Bank USA, N.A., McLean, Virginia ("Bank") pursuant to 12 U.S.C. § 1818(b), for violations of 12 U.S.C. § 1818(s); the Bank Secrecy Act, 31 U.S.C. §§ 5311 *et seq.*, including 31 U.S.C. § 5318(i); and Bank Secrecy Act regulations 12 C.F.R. §§ 21.11 and 21.21, and 31 C.F.R. § 103.176.

The Bank, in the interest of compliance and cooperation, enters into this Stipulation and Consent to the Issuance of a Consent Order ("Stipulation") and consents to the issuance of a Consent Order, dated October 6, 2010 ("Consent Order");

In consideration of the above premises, the Comptroller, through his authorized representative, and the Bank, through its duly elected and acting Board of Directors, stipulate and agree to the following:

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ARTICLE I

JURISDICTION

- (1) The Bank is a national banking association chartered and examined by the Comptroller pursuant to the National Bank Act of 1864, as amended, 12 U.S.C. § 1 *et seq.*
- (2) The Comptroller is "the appropriate Federal banking agency" regarding the Bank pursuant to 12 U.S.C. §§ 1813(q) and 1818(b).
- (3) The Bank is an "insured depository institution" within the meaning of 12 U.S.C. § 1818(b)(1).
- (4) As a result of this Consent Order:
  - (a) the Bank is an "eligible bank" pursuant to 12 C.F.R. § 5.3(g)(4) for the purposes of 12 C.F.R. Part 5 regarding rules, policies and procedures for corporate activities, unless otherwise informed in writing by the OCC.
  - (b) the Bank is not subject to the limitation of 12 C.F.R. § 5.51(c)(6)(ii) for the purposes of 12 C.F.R. § 5.51 requiring OCC approval of a change in directors and senior executive officers, unless otherwise informed in writing by the OCC.
  - (c) the Bank is not subject to the limitation on golden parachute and indemnification payments provided by 12 C.F.R. § 359.1(f)(1)(ii)(C) and 12 C.F.R. § 5.51(c)(6)(ii), unless otherwise informed in writing by the OCC.
  - (d) the Bank's status as an "eligible bank" remains unchanged pursuant to 12 C.F.R. § 24.2(e)(4) for the purposes of 12 C.F.R. Part 24

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Confidential & Non-public OCC Information

OCC-PSI-00904721



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regarding community and economic development, unless otherwise informed in writing by the OCC.

(5) The Consent Order shall not be construed to be a "written agreement, order, or capital directive" within the meaning of 12 C.F.R. § 6.4, unless the OCC informs the Bank otherwise in writing.

ARTICLE II

AGREEMENT

(1) The Bank, without admitting or denying any wrongdoing, consents and agrees to issuance of the Consent Order by the Comptroller.

(2) The Bank consents and agrees that the Consent Order shall (a) be deemed an "order issued with the consent of the depository institution" pursuant to 12 U.S.C. § 1818(h)(2), (b) become effective upon its execution by the Comptroller through his authorized representative, and (c) be fully enforceable by the Comptroller pursuant to 12 U.S.C. § 1818(i).

(3) Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his supervisory powers, including 12 U.S.C. § 1818(i), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract.

(4) The Bank declares that no separate promise or inducement of any kind has been made by the Comptroller, or by his agents or employees, to cause or induce the Bank to consent to the issuance of the Consent Order and/or execute the Consent Order.

(5) The Bank expressly acknowledges that no officer or employee of the Comptroller has statutory or other authority to bind the United States, the United States Treasury Department,

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the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller's exercise of his supervisory responsibilities.

(6) The OCC releases and discharges the Bank from all potential liability for a cease and desist order that has been or might have been asserted by the OCC based on the violations described in the Comptroller's Findings set forth in Article I of the Consent Order, to the extent known to the OCC as of the effective date of the Consent Order. However, the violations alleged in Article I of the Consent Order may be utilized by the OCC in other future enforcement actions against the Bank or its institution-affiliated parties, including, without limitation, to assess civil money penalties or establish a pattern or practice of violations or the continuation of a pattern or practice of violations. This release shall not preclude or affect any right of the OCC to determine and ensure compliance with the terms and provisions of this Stipulation or the Consent Order.

(7) The terms and provisions of the Stipulation and the Consent Order shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Stipulation or the Consent Order, express or implied, shall give to any person or entity, other than the parties hereto, and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Stipulation or the Consent Order.

#### ARTICLE III

##### WAIVERS

- (1) The Bank, by consenting to this Stipulation, waives:
- (a) the issuance of a Notice of Charges pursuant to 12 U.S.C. § 1818(b);

- (b) any and all procedural rights available in connection with the issuance of the Consent Order;
- (c) all rights to a hearing and a final agency decision pursuant to 12 U.S.C. §§ 1818(b) and (h), 12 C.F.R. Part 19;
- (d) all rights to seek any type of administrative or judicial review of the Consent Order;
- (e) any and all claims for fees, costs or expenses against the Comptroller, or any of his agents or employees, related in any way to this enforcement matter or this Consent Order, whether arising under common law or under the terms of any statute, including, but not limited to, the Equal Access to Justice Act, 5 U.S.C. § 504 and 28 U.S.C. § 2412; and
- (f) any and all rights to challenge or contest the validity of the Consent Order.

ARTICLE IV

CLOSING

- (1) The provisions of this Stipulation shall not inhibit, estop, bar, or otherwise prevent the Comptroller from taking any other action affecting the Bank if, at any time, it deems it appropriate to do so to fulfill the responsibilities placed upon it by the several laws of the United States of America.
- (2) Nothing in this Stipulation shall preclude any proceedings brought by the Comptroller to enforce the terms of this Consent Order, and nothing in this Stipulation constitutes, nor shall the Bank contend that it constitutes, a waiver of any right, power, or

authority of any other representative of the United States or an agency thereof, including, without limitation, the United States Department of Justice, to bring other actions deemed appropriate.

(3) The terms of the Stipulation and the Consent Order are not subject to amendment or modification by any extraneous expression, prior agreements or prior arrangements between the parties, whether oral or written.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller as his representative, has hereunto set her hand on behalf of the Comptroller.

/s/  
Grace E. Dailey  
Deputy Comptroller for Large Bank Supervision  
Office of the Comptroller of the Currency

October 6, 2010  
Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

/s/ \_\_\_\_\_ 9/24/10  
Niall S. K. Booker Date

/s/ \_\_\_\_\_ 9/24/10  
William R. P. Dalton Date

/s/ \_\_\_\_\_ 9/24/10  
Anthea Disney Date

/s/ \_\_\_\_\_ 9/24/10  
Irene M. Dorner Date

/s/ \_\_\_\_\_ 9/24/10  
Robert K. Herdman Date

/s/ \_\_\_\_\_ 9/24/10  
Louis Hernandez, Jr. Date

/s/ \_\_\_\_\_ 9/24/10  
Richard A. Jalkut Date

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

Written Agreement by and among	:	
HSBC BANK USA	:	Docket No. 03-012-WA/RB-SM
Buffalo, New York	:	
FEDERAL RESERVE BANK OF NEW YORK	:	
New York, New York	:	
and	:	
NEW YORK STATE BANKING DEPARTMENT	:	
New York, New York	:	

WHEREAS, HSBC Bank USA, Buffalo, New York (the "Bank"), a state chartered bank that is a member of the Federal Reserve System, is taking steps to enhance its compliance with all applicable federal and state laws, rules, and regulations relating to anti-money laundering policies and procedures, including (1) the Currency and Foreign Transactions Reporting Act, 31 U.S.C. 5311 *et seq.* (the Bank Secrecy Act (the "BSA")) and the rules and regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. Part 103); (2) the suspicious activity reporting and BSA compliance requirements of Regulation H of the Board of Governors of the Federal Reserve System (the "Board of Governors") (12 C.F.R. 208.62 and 208.63); and (3) Part 300 of the Official Compilation of Codes, Rules and Regulations of the State of New York, 3 N.Y.C.R.R. Part 300;

WHEREAS, it is the common goal of the Bank, the Federal Reserve Bank of New York (the "Reserve Bank"), and the New York State Banking Department (the "Department") to

ensure that the Bank fully addresses all deficiencies in the Bank's anti-money laundering policies and procedures, customer due diligence practices, and internal control environment; and

WHEREAS, on April 24, 2003, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Youssef Nasr, President and Chief Executive Officer, to enter into this Written Agreement (the "Agreement") on behalf of the Bank and consenting to compliance by the Bank and its institution-affiliated parties, as defined in section 3(u) of the Federal Deposit Insurance Act, as amended, (12 U.S.C. 1813(u)) with each and every provision of this Written Agreement.

NOW, THEREFORE, the Bank, the Reserve Bank, and the Department hereby agree as follows:

**Anti-Money Laundering Compliance**

1. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written program designed to upgrade and improve the Bank's system of internal controls to ensure compliance with all applicable provisions of the BSA and the rules and regulations issued thereunder, as required by section 208.63 of Regulation H of the Board of Governors (12 C.F.R. 208.63) and 3 N.Y.C.R.R. Part 300. The program shall include provisions for updates on an ongoing basis as necessary to incorporate amendments to the BSA and the rules and regulations thereunder.

(a) The program shall, at a minimum, upgrade and improve the Bank's system of internal controls to ensure compliance with the BSA and the rules and regulations thereunder, including but not limited to:

- (i) effective monitoring of incoming and outgoing funds transfers by both account holders and non-account holders for suspicious or unusual activities;
- (ii) effective monitoring of purchases of monetary instruments by both account holders and non-account holders for suspicious or unusual activities;
- (iii) an effective system that is designed to ensure compliance with the recordkeeping and reporting requirements for currency transactions over \$10,000 (31 C.F.R. 103.22) and that is capable of aggregating multiple cash transactions for any one business day, or other appropriate business period, from all branches by account number, by name(s) of the account holder(s), and by transactor(s), and identifying any cash transactions that may have been structured to avoid currency transaction reporting requirements; and
- (iv) identification and verification of identity of account holders and transactors as required for recordkeeping and reporting of currency transactions over \$10,000 (31 C.F.R. 103.28).

(b) The program shall provide for an independent review of compliance with the BSA and the rules and regulations thereunder, the anti-money laundering provisions of Regulation H of the Board of Governors, and 3 N.Y.C.R.R. Part 300. The review of compliance shall cover all substantive requirements and compliance processes, including, but not limited to, reporting lines for following up on compliance findings and procedures to ensure that compliance issues are addressed.



**Suspicious Activity Reporting and Customer Due Diligence**

2. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written customer due diligence program designed to reasonably ensure the identification and timely, accurate, and complete reporting of all known or suspected violations of law against or involving the Bank to law enforcement and supervisory authorities as required by the suspicious activity reporting provisions of Regulation H of the Board of Governors (12 C.F.R. 208.62) and 3 N.Y.C.R.R. Part 300. At a minimum, the program shall include:

- (a) An effective system to ensure that all known or suspected violations of law are properly identified and reported;
- (b) a risk focused assessment of the Bank's customer base to:
  - (i) identify the categories of customers whose transactions and banking activities are routine and usual; and
  - (ii) determine the appropriate level of enhanced due diligence necessary for those categories of customers that the Bank has reason to believe pose a heightened risk of illicit activities at or through the Bank; and
- (c) for those customers whose transactions require enhanced due diligence, additional procedures to:
  - (i) determine the appropriate documentation necessary to confirm the identity and business activities of the customer;
  - (ii) understand the normal and expected transactions of the customer;
 and

(iii) report suspicious activities in compliance with the reporting requirements set forth in Regulation H of the Board of Governors (12 C.F.R. 208.62) and 3 N.Y.C.R.R. Part 300.

3. The program required by paragraph 2 hereof shall be subject to comprehensive independent testing (a) three months after the approval of the program and its adoption by the Bank pursuant to the provisions of this Agreement (the "Initial Testing"); and (b) 15 months after the Initial Testing. Prior to the implementation of the independent testing, the Bank shall submit to the Reserve Bank and the Department its audit scope and methodology for review and approval. The Bank shall make all work papers, work product, drafts and interim reports available as requested by the Reserve Bank and the Department.

#### Transaction Review

4. The Bank shall conduct a multi-stage review (the "Review") of cash transactions, sales of monetary instruments, and funds transfer activity in the retail operations of the Bank. The Review shall be designed to determine whether suspicious activity involving accounts or transactions at, by, or through the Bank was properly identified and reported by the Bank in accordance with applicable suspicious activity reporting regulations, and to evaluate compliance with the currency transaction reporting requirements of the BSA and the rules and regulations thereunder.

(a) Within 10 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written plan for the first stage of the Review, which shall cover all transactions during the period May 1, 2002 through the date of this Agreement. The plan shall set forth the proposed methodology for the first stage of the Review; the types of accounts, transactions, and banking activities to be reviewed; the proposed resources to be

dedicated to the first stage of the Review; the scope of the written report covering the first stage of the Review; and the expected date of completion of the first stage of the Review, not to exceed 120 days from the date of this Agreement.

(b) Within 30 days after completion of each stage of the Review, the Bank shall submit to the Reserve Bank and the Department:

(i) a written report setting forth the findings, conclusions, and recommendations of that stage of the Review;

(ii) an acceptable written plan setting forth the actions the Bank will take to respond to the findings, conclusions, and recommendations; and

(iii) an acceptable written plan for the next stage of the Review, setting forth the time period to be covered (to include time periods since May 2000), the methodology and the types of accounts, transactions, and banking activities to be reviewed; the proposed resources to be dedicated; the scope of the written report; and the expected date of completion.

(c) Upon completion of each stage of the Review, the Bank shall ensure that all transactions previously required to be reported have been reported in accordance with applicable regulations and guidelines.

(d) The Bank shall make all work papers, work product, drafts and interim reports relating to the Review available to the Reserve Bank and the Department upon request.

**Approval and Progress Reports**

5. The programs, plans, and audit scope and methodology required by paragraphs 1, 2, 3, and 4 of this Agreement shall be submitted to the Reserve Bank and the Department for review and approval. Acceptable programs, plans, and an acceptable audit scope and methodology shall be submitted to the Reserve Bank and the Department within the time periods

set forth in this Agreement. The Bank shall adopt the approved programs, plans, and audit scope and methodology within 10 days of approval by the Reserve Bank and the Department and then shall fully comply with them. During the term of this Agreement, the approved programs, plans, and audit scope and methodology shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Department.

6. Within 10 days after the end of each month following the date of this Agreement, the Bank shall submit to the Reserve Bank and the Department written progress reports detailing the form and manner of all actions taken to secure compliance with the provisions of this Agreement, and the results thereof. Management's responses to the audit reports on BSA prepared by internal and external auditors shall be included with the progress report. The Reserve Bank and the Department may, in writing, discontinue the requirement for progress reports or modify the reporting schedule.

**Notices**

7. All communications regarding this Agreement shall be sent to:

- (a) Ms. Sarah Dahlgren  
Senior Vice President  
Federal Reserve Bank of New York  
33 Liberty Street  
New York, NY 10045
- (b) Mr. P. Vincent Conlon  
Deputy Superintendent of Banks  
New York State Banking Department  
One State Street  
New York, NY 10004
- (c) Mr. Philip S. Toohy  
Senior Executive Vice President and General Counsel  
HSBC Bank USA  
One HSBC Center  
27<sup>th</sup> Floor  
Buffalo, NY 14203

**Miscellaneous**

8. The provisions of this Agreement shall be binding on the Bank, and each of its institution-affiliated parties in their capacities as such, and their successors and assigns.

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

10. Notwithstanding any provision of this Agreement, the Reserve Bank and the Department may, in their sole discretion, grant written extensions of time to the Bank to comply with any provision of this Agreement.


11. The provisions of this Agreement shall not bar, estop or otherwise prevent the Board of Governors, the Reserve Bank, the Department or any federal or state agency from taking any further or other action affecting the Bank, or any of its current or former institution-affiliated parties or their successors or assigns.

2484

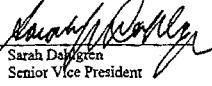
12. This Agreement is a "written agreement" for the purposes of, and is enforceable by the Board of Governors as order issued under, section 8 of the Federal Deposit Insurance Act and pursuant to Section 39 of the New York State Banking Law.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of this 30<sup>th</sup> day of April, 2003.

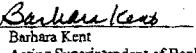
HSBC BANK USA

By:   
Youssef Mas  
President & Chief Executive Officer

FEDERAL RESERVE BANK OF NEW YORK

By:   
Sarah Dalrymple  
Senior Vice President

NEW YORK STATE BANKING DEPARTMENT

By:   
Barbara Kent  
Acting Superintendent of Banks

2485

From: Boss, Joseph  
Sent: Wednesday, October 27, 2010 7:00 PM  
To: Freas, Monica  
Cc: Straus, Lee; Boss, Joseph

Here is an E-mail I found that seems to be from a relationship manager (RM) requesting an opinion of Ali Kazmy (HBUS Policy Group) about the ranking of an exiting client. As you can see, the RM advised Ali that a Chairman is supposedly a wealthy investor who supports Osama bin Laden and that supposedly the client Islami Bank Bangladesh, Ltd., has been fined three times for covering up militant transactions. Also, as you can see, Ali stated that this client merits an SCC designation. I have reviewed other E-mails, both later and earlier, to see if there was any indication that the account be reviewed due to the extreme circumstances pointed out by the RM and have found no other E-mails to show that anything other than designating the client an SCC was done. I know that the parameters for a look back have already been decided, but thought you might want to consider adding in this client. This E-mail is under Cam Hughes E-mails and is document number [REDACTED]

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

Joe

From: ALI S KAZMY/HBUS/HSBC Sent: 2/3/2010 6:31:04 PM To: JON K JONES/HBUS/HSBC@HSBC02  
CC: PSRR@HSBC02; CAMILLUS P HUGHES/HBUS/HSBC@HSBC02; JUDY P STOLDT/HBUS/HSBC@HSBC02 Subject: Re: Islami Bank Bangladesh Ltd - Poss SCC The information appearing below does merit SCC classification. Regards, Ali S Kazmy Vice President/Senior Manager - Anti-Money Laundering Policy | HSBC BANK USA, National Association 452 Fifth Avenue, 7th Floor, New York, NY 10018  
Phone. 212-525-5560 Fax. 212-525-6994 Mobile. [REDACTED] Email. ali.s.kazmy@us.hsbc.com

From: Jon K Jones/HBUS/HSBC To: Ali S Kazmy/HBUS/HSBC@HSBC02 Cc: PSRR@HSBC02 Date: 02/03/2010 04:33 PM Subject: Islami Bank Bangladesh Ltd - Poss SCC Ali, In my review and research of the above client, I'd like to point out the below items and ask for your opinion on SCC status with regard to the above client: Vice Chairman and 10% owner is Yousif Abdullah al-Rajhi, General Manager of Al-Rajhi Company for Industry & Trade, K.S.A. Earlier, he performed duties of Branch Manager and Project Finance Manager of Al-Rajhi Banking and Investment Corporation from 1987 to 1995. At least three Owners (ownership confirmation currently underway) for approx. 30% are connected to the al-Rajhi family / businesses. Other Owners (listed as of now): Islamic Development Bank The Public Institution for Social Security - Owned by Government of Kuwait Kuwait Finance House - 49% owned by Kuwait - listed as a PEP Al-Rajhi Banking and Investment Corp., a client of CIB and Banknotes is SCC. Al-Rajhi Bank got it's start as a money chaining network and (Chairman, Suleiman al-Rajhi appeared on the "Golden Chain" of wealthy investors who supported Osama bin Laden.) Negative press: Per prior EDD ROF - "a notice of cause was issued by the Bank of Bangladesh to the CEO of Islamic Bank in March 2006 to explain accounts owned by suspected Islamic Militants. Client was subsequently fined by Bangladesh Bank and take measures against 20 officers for their involvement. Sources suggest this was the third time Islami Bank Bangladesh Ltd was fined for covering up militants transactions." Current internet searches found no additional items. Please review and advise, Jon K Jones Senior Analyst | HSBC Bank USA 90 Christiana Road, New Castle, DE 19720 Phone 302-327-2017

1

Confidential & Non-public OCC Information

OCC-PSI-00919631

2486

---

**From:** Tabor, Teresa  
**Sent:** Wednesday, September 08, 2010 3:42 PM  
**To:** Boss, Joseph  
**Subject:** RE: IPB Miami (Edge)

I will forward the report to him.

---

**From:** Boss, Joseph  
**Sent:** Wednesday, September 08, 2010 11:41 AM  
**To:** Tabor, Teresa  
**Cc:** Boss, Joseph  
**Subject:** RE: IPB Miami (Edge)

I guess you will let him know. Right?

---

**From:** Tabor, Teresa  
**Sent:** Wednesday, September 08, 2010 11:40 AM  
**To:** Boss, Joseph  
**Subject:** RE: IPB Miami (Edge)

Duh.....

It wouldn't hurt.

---

**From:** Boss, Joseph  
**Sent:** Wednesday, September 08, 2010 11:40 AM  
**To:** Tabor, Teresa  
**Cc:** Boss, Joseph  
**Subject:** RE: IPB Miami (Edge)

Mike Jarroll.

---

**From:** Tabor, Teresa  
**Sent:** Wednesday, September 08, 2010 11:38 AM  
**To:** Boss, Joseph  
**Subject:** RE: IPB Miami (Edge)

Who?

---

**From:** Boss, Joseph  
**Sent:** Wednesday, September 08, 2010 11:37 AM  
**To:** Tabor, Teresa  
**Cc:** Boss, Joseph  
**Subject:** RE: IPB Miami (Edge)

I agree. Do we have to notify MJ?

---

**From:** Tabor, Teresa  
**Sent:** Wednesday, September 08, 2010 11:36 AM  
**To:** Boss, Joseph  
**Subject:** RE: IPB Miami (Edge)

That's what I would say. I do not think they would combine the two.

---

**From:** Boss, Joseph  
**Sent:** Wednesday, September 08, 2010 11:36 AM  
**To:** Tabor, Teresa

1

Confidential & Non-public OCC Information

OCC-PSI-00921759



2487

**Cc:** Boss, Joseph  
**Subject:** RE: IPB Miami (Edge)

Since it is the Edge, I would assume that these are in addition to the 610 mentioned in the NY IPB report. Do you believe so as well?

Me

---

**From:** Tabor, Teresa  
**Sent:** Wednesday, September 08, 2010 11:29 AM  
**To:** Boss, Joseph  
**Subject:** IPB Miami (Edge)

I have attached an audit of IPB Miami (edge). Refer to page 25 where it talks about 925 bearer share accounts.

<< File: 10307 AUF- IPB Miami Final Report.doc >>

*Teresa Tabor, CRCM, CAMS, AMLP*  
Bank Examiner  
Large Bank Supervision  
10 East 40th St, 14th Floor  
New York, NY 10016  
(212) 525-7512 (Direct)  
(301) 433-8794 (Direct Fax)

This message is intended for designated recipients only. If you have received this message in error, please delete the original and all copies and notify the sender immediately. Federal law prohibits the disclosure or other use of this information. The content of this message is mine personally and does not reflect the position of the Office of the Comptroller of the Currency, the Department of Treasury, or the U.S. Government.

2488

---

**From:** Boss, Joseph  
**Sent:** Tuesday, June 15, 2010 3:01 PM  
**To:** De La Garza, Elsa  
**Cc:** Boss, Joseph  
**Subject:** FW:

Here is the Bearer Share information.

Me

---

**From:** Tabor, Teresa  
**Sent:** Tuesday, June 15, 2010 10:49 AM  
**To:** Boss, Joseph  
**Subject:**



All\_Bearer\_Shares\_  
Accounts\_in\_...

*Teresa Tabor, CRCM, CAMS, AMLP*  
Bank Examiner  
Large Bank Supervision  
10 East 40th St, 14th Floor  
New York, NY 10016  
(212) 525-7512 (Direct)  
(301) 433-8794 (Direct Fax)

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1

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OCC-PSI-00929779

Account No	Short Name	Customer Open Date	Country of Residence Desc
		4/8/1997	Bahamas
		9/25/1997	Bahamas
		10/16/2000	Bahamas
		6/17/1994	Bahamas
		8/31/2008	Belize
		9/22/2000	Belize
		1/28/1994	Cayman Islands
		12/18/1990	Netherlands Antilles
		4/16/1996	Netherlands Antilles
		2/22/2001	Netherlands Antilles
		10/14/2004	Netherlands Antilles
		5/21/1999	Panama
		3/3/2004	Panama
		3/16/2006	Panama
		7/22/2003	Panama
		7/22/2003	Panama
		7/22/2003	Panama
		11/4/1991	Panama
		10/23/1987	Panama
		10/23/1987	Panama
		2/25/1991	Panama
		12/23/1998	Panama
		11/8/1997	Panama
		11/18/1987	Panama
		1/13/2004	Panama
		11/18/2005	Panama
		3/17/2009	Panama
		6/8/2008	Panama
		8/23/2000	Panama
		8/10/1998	Panama
		10/11/1991	Panama
		5/24/2006	Panama
		8/30/1983	Panama
		2/6/2006	Panama
		3/21/887	Panama
		3/21/887	Panama
		3/21/887	Panama
		3/31/2004	Panama
		10/19/2003	Panama
		1/20/2004	Panama

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Permanent Subcommittee on Investigations

9/5/2000	Panama
6/11/2002	Panama
1/23/2003	Panama
6/3/2009	Panama
9/25/1984	Panama
6/29/1986	Panama
9/18/1987	Panama
4/11/2006	Panama
2/26/2007	Panama
10/31/2000	Panama
12/19/2002	Panama
1/6/2003	Panama
7/25/2005	Panama
7/25/2005	Panama
8/17/2005	Panama
10/6/2008	Panama
7/16/2007	Panama
12/5/1996	Panama
11/27/1986	Panama
10/22/1993	Panama
8/13/2003	Panama
9/24/2003	Panama
7/30/2004	Panama
6/22/2004	Panama
7/19/2007	Panama
12/23/1993	Panama
8/16/1996	Panama
12/5/2002	Uruguay
11/15/2008	Uruguay
11/21/2006	Uruguay
8/19/2007	Uruguay
8/27/2005	Uruguay
8/27/2006	Uruguay
7/27/2001	Uruguay
8/26/2005	Uruguay
4/10/2006	Uruguay
2/27/2007	Uruguay
5/26/2005	Uruguay
10/22/1986	Uruguay

2491

Account No	Short Name	Customer Open Date	Country of Residence Desc
		9/20/2002	British Virgin Islands
		9/8/2005	British Virgin Islands
		6/17/2005	British Virgin Islands
		12/22/1999	British Virgin Islands
		12/22/1999	British Virgin Islands
		9/8/1999	British Virgin Islands
		2/7/1997	British Virgin Islands
		5/29/1998	British Virgin Islands
		12/27/1999	British Virgin Islands
		11/23/2005	British Virgin Islands
		10/16/2003	British Virgin Islands
		10/16/2003	British Virgin Islands
		9/29/2005	British Virgin Islands
		3/27/2003	British Virgin Islands
		7/11/1988	British Virgin Islands
		9/29/1992	British Virgin Islands
		2/6/1998	British Virgin Islands
		6/11/1999	British Virgin Islands
		2/1/2000	British Virgin Islands
		4/14/2000	British Virgin Islands
		7/30/2007	British Virgin Islands
		4/7/1994	British Virgin Islands
		11/19/2001	British Virgin Islands

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Confidential & Non-public OCC Information

OCC-PSI-00929782

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Permanent Subcommittee on Investigations

12/18/1998	British Virgin Islands
10/20/2000	British Virgin Islands
2/5/2003	British Virgin Islands
2/5/2003	British Virgin Islands
9/15/2008	British Virgin Islands
3/22/2007	British Virgin Islands
3/22/2007	British Virgin Islands
2/28/1991	British Virgin Islands
9/17/1990	British Virgin Islands
7/1/1991	British Virgin Islands
1/22/1992	British Virgin Islands
7/15/1991	British Virgin Islands
7/1/1996	British Virgin Islands
11/6/1996	British Virgin Islands
4/22/1998	British Virgin Islands
11/7/1997	British Virgin Islands

Total count = 39

2493



Teresa A. Pesce  
Executive Vice President  
Anti-Money Laundering Director

March 3, 2006

Mr. Anthony J. DiLorenzo  
Examiner in Charge  
Large Bank Supervision  
Comptroller of the Currency  
10 East 40<sup>th</sup> Street - 14<sup>th</sup> Floor  
New York, NY 10016

**Subject: International Private Banking BSA/AML Examination**

Dear Mr. DiLorenzo:

HSBC Bank USA, N.A. ("HBUS") respectfully submits this response to your letter dated January 31, 2006 summarizing the findings of the International Private Banking BSA/AML examination conducted by the Office of the Comptroller of the Currency ("OCC"). In addition to our responses to the specific "Matters Requiring Attention" set forth below, we wish to reaffirm HBUS' commitment to ensuring the maintenance and enforcement of robust AML/BSA controls within this business area.

**MATTERS REQUIRING ATTENTION:**

*Policy and Procedures for Bearer Shares*

**Required Action** – Management should evaluate the risks associated with bearer share accounts. BSA/AML policy and procedures need to be revised to ensure that either the bank or an acceptable third party controls the bearer shares. The bank must monitor legal requirements in countries that allow for the organization of International Business Companies (IBCs) and Private Investment Companies (PIC). Policies and procedures need to define "acceptable third parties" and any applicable due diligence, and specify documentation required by the bank to ensure that the shares have been properly received by the third party custodian.

**Management Commitment** – Management agreed to implement revised policies and procedures for bearer shares in accordance with our recommendation by March 31, 2006. In addition, management stated it would provide the bank's plan for taking control of bearer shares associated with existing accounts.

HSBC North America Holdings Inc.  
452 Fifth Avenue, New York, NY 10018  
Tel: (212) 525-6099 Fax: (212) 525-5769  
E-Mail: teresa.pesce@us.hsbc.com

**Confidential & Non-public OCC Information**

**OCC-PSI-01358804**

## Response

Compliance management is working with the business to revise the policies and procedures for Bearer Share corporations. We are taking a risk-based approach. The bank will require share certificates for Bearer Share corporations classified as high risk to be held in custody (either with HSBC or an approved third party). For all other Bearer Share corporations, the Beneficial Ownership letter be completed and renewed every two years (instead of the current three years). Factors that will be considered to determine high-risk classification include:

- Risk classification of ultimate beneficial owner
- Involvement of HSBC in the creation of the Bearer Share corporation (if HSBC created the corporation, we have significant knowledge of the client)
- Number of accounts the Bearer Share client maintains (if the only account with HSBC is the PIC (Bearer Share corporation), then the client would probably be considered high risk)
- Length of time Bearer Share corporation has been a client
- Level and nature of activity in the Bearer Share corporate account(s)

The bank's plan for implementing the policy will be developed by March 31, 2006.

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on Investigations**




**Redacted  
by  
Permanent Subcommittee  
on Investigations**

OCC-PSI-01358806  
OCC-PSI-01358807

**Redacted  
by  
Permanent Subcommittee  
on Investigations**

Please feel free to contact me if you have any questions about the responses provided above.

Yours sincerely,



Teresa A. Pasce  
Executive Vice President /  
Anti-Money Laundering Director

2497

cc: M. Glynn  
G. Aquilina  
D. Bagley  
J. Boss  
J. Burak  
D. Dew  
J. Kauffman  
A. Liddy  
P. Musacchio  
D. Reilly  
I. Stern  
C. Wind

6

**Confidential & Non-public OCC Information**

**OCC-PSI-01358809**



# BSA Officer Roundtable

## Bank Secrecy Act Policy and Legal Update

John Wagner  
Director, BSA/AML Compliance Policy

Jim Vivenzio  
Senior Attorney, BSA/AML



# Agenda

- AML Retrospective (2001-2011)
- Common Issues / Themes
- Wachovia / HSBC Lessons Learned
- Observations
- Risk Areas
- Hot Topics
- OCC BSA/AML Strategic Risks

Office of the Comptroller of the Currency

# AML Retrospective 2001-2011

❖ 911

❖ USA Patriot Act

❖ Riggs National Bank (\$25MM CMP, 2004)

❖ Am South Bank of Birmingham

❖ ABN Amro (\$80MM CMP-2005, \$500MM Forfeit-2010)

❖ FFIEC BSA/AML Examination Manual (2005)

❖ Interagency Enforcement Guidance (2006)

❖ DOJ Actions (Prosecution & Forfeitures) 2007

## AML Retrospective 2001-2011

### Enforcement Actions:

- ❖ American Express Int'l (\$25MM CMP, DPA, \$55MM Forfeit, 2007)
- ❖ Union Bk of California (\$10MM CMP, DPA, \$21.6MM Forfeit, 2007)
- ❖ Credit Suisse-Zurich (\$536MM Forfeit, 2009)
- ❖ Lloyds TSB Bank plc-London (\$350MM Forfeit, 2009)
- ❖ Wachovia Bank (\$50MM CMP, DPA, \$110MM Forfeit, 2010)
- ❖ HSBC (C&D, 2010)
- ❖ Zions National Bank (\$8MM CMP, SAR Vio, 2011)
- ❖ Pacific NB (\$7MM, CMP Directors, 2011)
- ❖ JPMC – OFAC Vio (\$88.3MM CMP, 2011)

## Common Issues/Themes

- Poor Culture of Compliance
- Imbalance in Risk Management Processes
  - Line of Business Focus on Profits
- Deficient Internal Controls
- Higher Risk Areas
  - Foreign Correspondent Banking
  - International Remote Deposit Capture
  - Bulk Cash Shipment
  - Third Party Payment Processors
- Cost Cutting / Budget



## Wachovia/HSBC Lessons Learned

- Overview of Money Laundering Scheme
- Background CDD System & London Exam
- Culture Problems
- New Technologies and Volume
- Staffing Issues – Alert Capping
- OCC Supervisory History
- Other Federal Agency Involvement

## Observations

- Supervisory Letters link to Conclusion Memos
- Tone and Message conveyed in Supervisory Ltr
- Citing MRAs (State Problem, Corrective Action)
- MRAs and Systemic View
- Surveillance Monitoring Systems for LBs
- Keeping Up with New Technologies and Growth
- Compliance Department Staffing
- Annual Reviews or Roll-ups

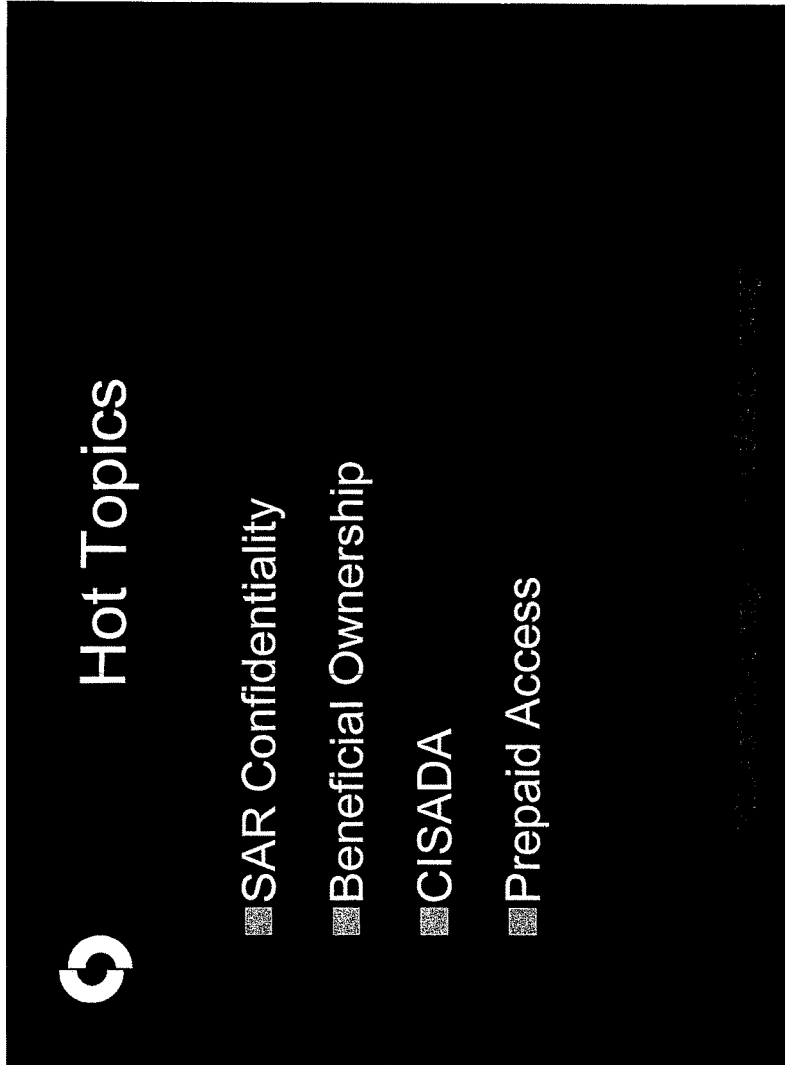
## Risk Areas


### ■ Fraud:

- Remotely Created Checks
- Third Party Payment Processors
- Corporate Account Takeover

### ■ Money Laundering:

- Cash Structuring
- International Remote Deposit Capture
- Foreign Corruption



 **Hot Topics**

- SAR Confidentiality
- Beneficial Ownership
- CISADA
- Prepaid Access

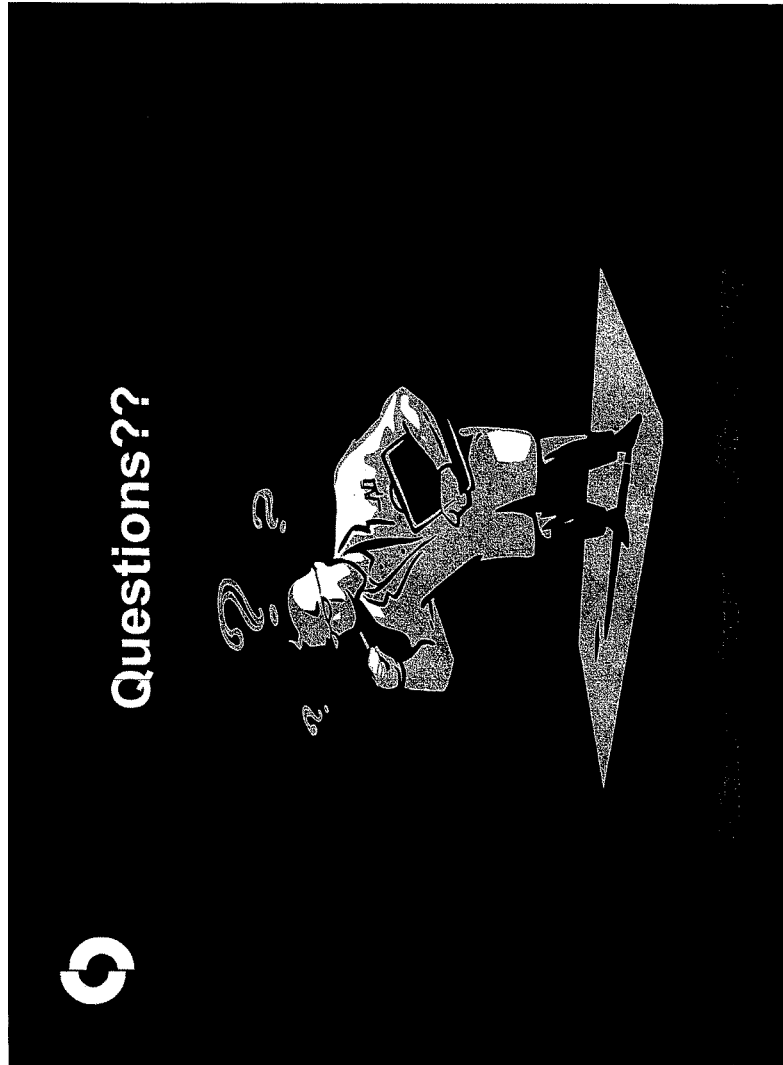


## OCC BSA/AML Strategic Risks

- **NOT** Identifying high-risk banks
- **NOT** Examining appropriate High-Risk Areas (PSC&G)
- **NOT** Focusing OCC Resources in High Risk Areas
- Examiner's **NOT** appropriately Identifying systematic Weaknesses
- Examiners **NOT** Appropriately Reporting Examination Issues
- OCC **NOT** Taking Appropriate Actions

2508

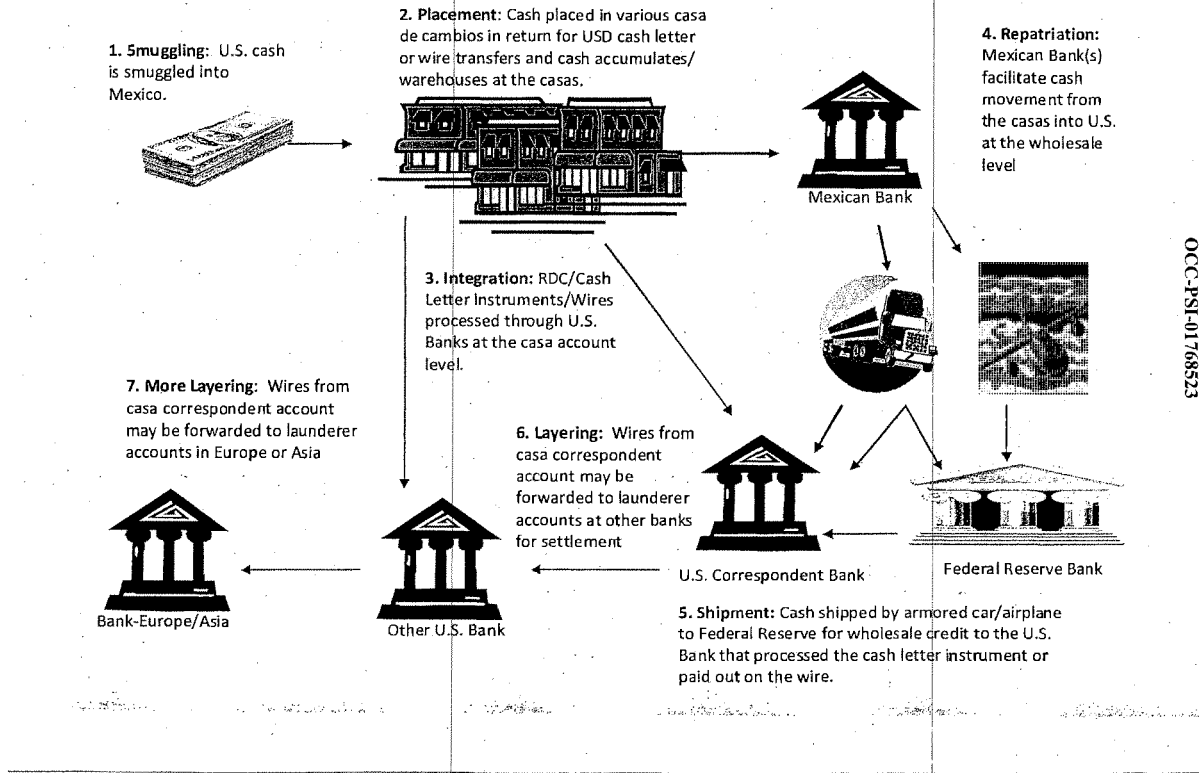
OCC-PSI-01768523



## Notable BSA/OFAC Penalty Cases

Royal Bank of Scotland (forfeiture)	2010	\$500,000,000
Wachovia Bank, N.A. (DOJ/OCC/FinCEN) (forfeiture and CMPs)	2010	\$160,000,000
Credit Suisse (Zurich) (DOJ/NYAG)(forfeiture)	2009	\$536,000,000
Lloyds TSB Bank plc (London) (DOJ/NYAG) (forfeiture action)	2009	\$350,000,000
United Bank of Africa (Federal Branch), NY, NY (OCC/FinCEN)	2008	\$15,000,000
Union Bank of California, San Francisco, CA (DOJ/OCC/FinCEN) (forfeiture action and CMPs)	2007	\$21,600,000
American Express Bank International, Miami, FL (DOJ/FRB/FinCEN) (forfeiture action and CMPs)	2007	\$65,000,000
ABN/AMRO, Chicago, IL (FRB/OFAC/NYSBD/Illinois)	2005	\$80,000,000
Riggs Bank N.A., Washington, D.C. (DOJ/OCC/FinCEN)	2004	\$25,000,000

# Bulk Shipments of Cash, Pouch, Wire Transfers

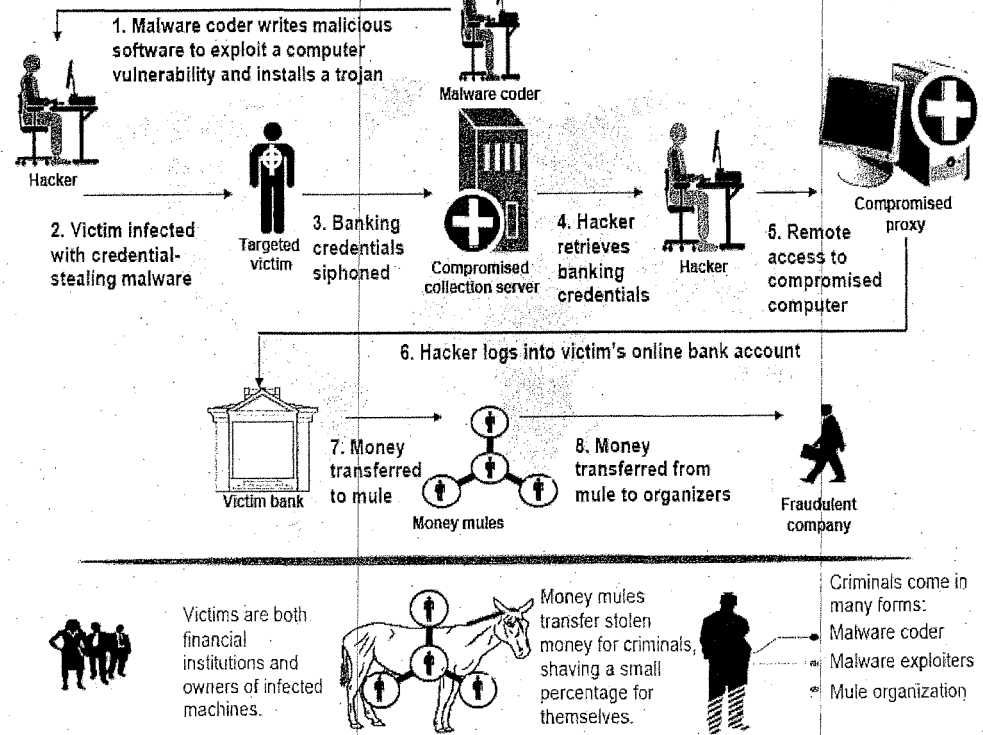


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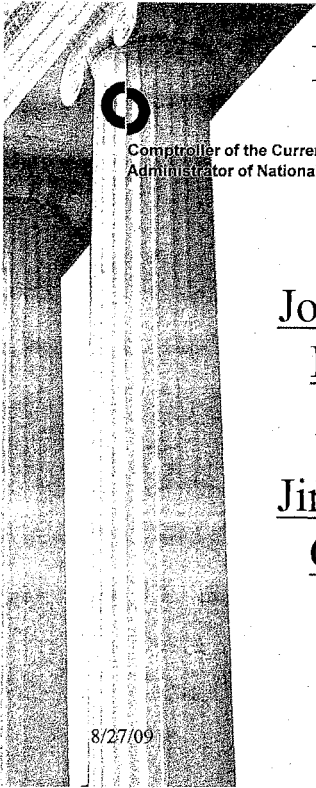
2510



## How the Fraud Works



OCC-PSI-01768523



## Large Bank EIC Meeting BSA/AML Panel

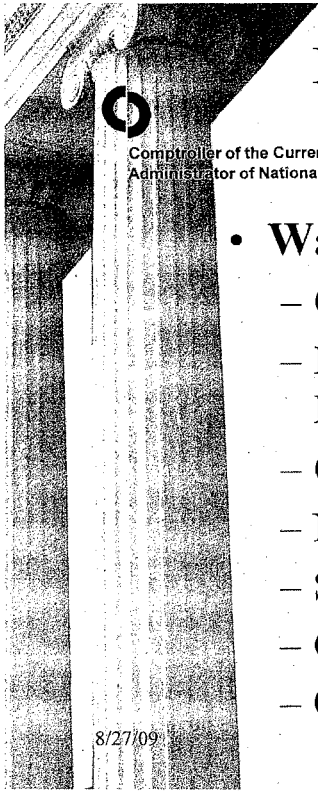
John Wagner, Director, Compliance  
Policy (202-874-6073)

Jim Vivenzio, Senior Counsel, Chief  
Counsel's Office (202-874-5200)

OCC-PSI-01768523

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Comptroller of the Currency  
Administrator of National Banks

## Large Bank EIC Meeting BSA/AML Panel

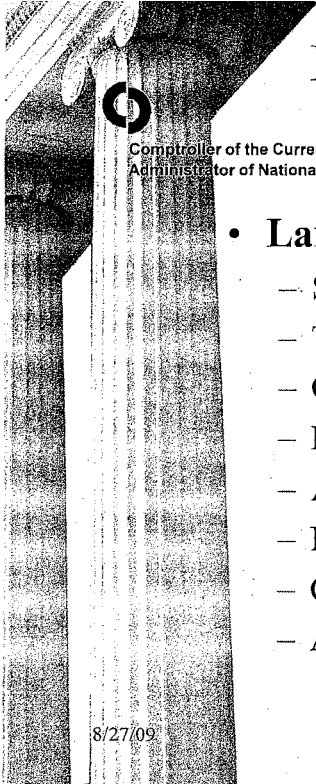
- **Wachovia Lessons Learned**
  - Overview of Money Laundering Scheme
  - Background CDD System & London Exam
  - Culture Problems
  - New Technologies and Volume
  - Staffing Issues – Alert Capping
  - OCC Supervisory History
  - Other Federal Agency Involvement


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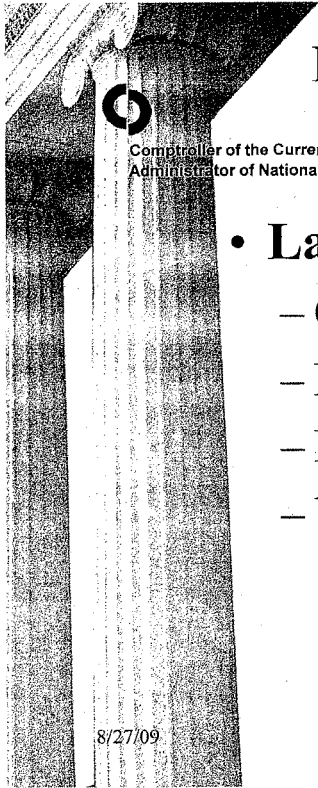
  
Comptroller of the Currency  
Administrator of National Banks

## Large Bank EIC Meeting BSA/AML Panel

- **Large Bank Review Team Observations**
  - Supervisory Letters tied to Conclusion Memos
  - Tone and Message conveyed in Supervisory Ltr
  - Citing MRAs
  - MRAs and Systemic View
  - Automated Systems for Large Banks
  - Keeping Up with New Technologies and Growth
  - Compliance Department Staffing
  - Annual Reviews or Roll-ups

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## Large Bank EIC Meeting BSA/AML Panel

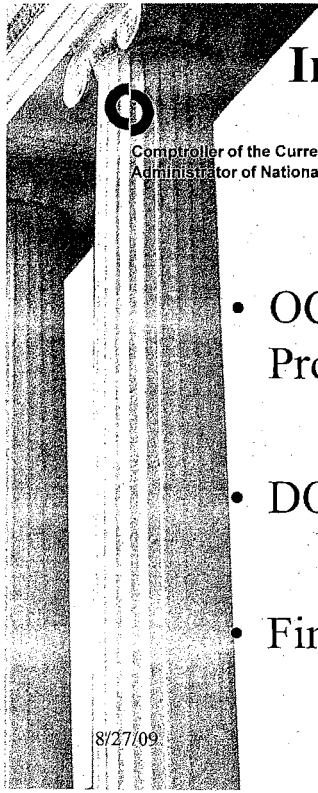
- **Large Bank Analytics**
  - Quality of Risk Management
  - High Risk Areas
  - MRAs
  - Violations

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# Interagency Coordination – How to Proceed

- OCC Exam Process and Enforcement Process
- DOJ Investigation
- FinCEN Enforcement Process

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## Notable BSA/OFAC Penalty Cases

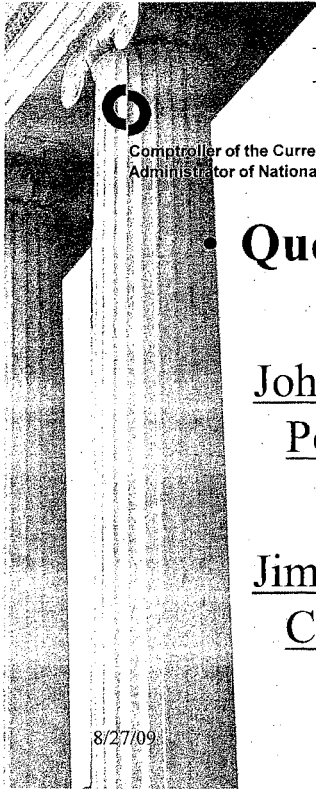
Comptroller of the Currency Administrator of National Banks Royal Bank of Scotland (forfeiture)	2010	\$500,000,000
Wachovia Bank, N.A. (DOJ/OCC/FinCEN) (forfeiture and CMPs)	2010	\$160,000,000
Credit Suisse (Zurick) (DOJ/NYAG)(forfeiture)	2009	\$536,000,000
Lloyds TSB Bank plc (London) (DOJ/NYAG) (forfeiture action)	2009	\$350,000,000
United Bank of Africa (Federal Branch), NY, NY (OCC/FinCEN)	2008	\$15,000,000
Union Bank of California, San Francisco, CA (DOJ/OCC/FinCEN) (forfeiture action and CMPs)	2007	\$21,600,000
American Express Bank International, Miami, FL (DOJ/FRB/FinCEN) (forfeiture action and CMPs)	2007	\$65,000,000
ABN/AMRO, Chicago, IL (FRB/OFAC/NYSBD/Illinois)	2005	\$80,000,000
Riggs Bank N.A., Washington, D.C. (DOJ/OCC/FinCEN)	2004	\$25,000,000

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### • Questions?

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Jim Vivenzio, Senior Counsel, Chief  
Counsel's Office (202-874-5200)

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BSA/AML MRA  
 Large Banks  
 Full Information System Extract (LBIS)

	# of BSA/AML MRA	Earliest Date	Most Recent Date
HSBC	85	Jan-05	Mar-10
		Aug-05	Feb-10
		Apr-04	Apr-10
		Mar-04	Mar-10
		May-05	Jan-10
		Sep-05	Jul-09
		Feb-05	Jun-09
		Feb-06	Mar-10
		Jan-05	Nov-09
		Mar-05	Feb-10
		12/06, 8/07, 2/08	
		8/07, 7/09, 7/09	
		Aug-07	
		Jan-10	

Redacted by the  
 Permanent Subcommittee on Investigations

■ MRA at 9/05 Exam)

