S. Hrg. 112–597

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

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


Printed for the use of the Committee on Homeland Security and Governmental Affairs
<table>
<thead>
<tr>
<th>Name</th>
<th>Testimony</th>
<th>Prepared statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Levey, Stuart A.</td>
<td>49</td>
<td></td>
</tr>
<tr>
<td>Lok, Chiu Hon “Christopher”</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Stipano, Daniel P.</td>
<td>67</td>
<td></td>
</tr>
<tr>
<td>Thurston, Paul</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>Winchell, Leigh H.</td>
<td>13</td>
<td></td>
</tr>
</tbody>
</table>

**APPENDIX**

Report by the Permanent Subcommittee on Investigations Majority and Minority Staff entitled “U.S. Vulnerabilities to Money Laundering, Drugs, and Terrorist Financing: HSBC Case History,” July 17, 2012

**EXHIBIT LIST**

   b. HBMX Compliance Failures, chart prepared by the Permanent Subcommittee on Investigations .................................................. 576
   d. Excerpts from emails of David Bagley re HBUS awareness of Iranian transactions, 2003–2004 ................................................. 578
   e. Ratings Used in OCC Report of Examinations, chart prepared by the Permanent Subcommittee on Investigations .......................... 579
   f. 31 USC §5318(h)—Anti-Money Laundering Programs .......................... 580

**General Documents:**

   b. HSBC Group Circular Letters (GCL), GCL 120014—HSBC Global Standards. [PSI–HSBC–75–0001] .................................................. 583
   c. HSBC Group Standards Manual, Chapter 5 Legal, Compliance and Reputation .......................................................... 585

3. HSBC internal email, dated September 2008, re: Kyc hires (. . . still grappling with some of the grim realities of the present—the upcoming OCC exam in November being one of those grim realities.). [HSBC OCC 0616352–356] .......................................................... 587

4. 30 Day Observations and Recommendations Report from AML Director (Extremely high risk business model from AML perspective * * * AML Director has the responsibility for AML compliance, but very little control over its success). [HSBC–PSI–PROD–006532–334]............................. 592

5. HSBC internal email, dated October 2009, re: OFAC resources (. . . not good in that we don’t get the staffing levels we need.). [OCC–PSI–00162661] ........................................................................ 595

6. HSBC internal email, dated February 2010, re: Received a call from Kathy G this am. (we are in dire straights right now over backlogs, and decisions being made by those that don’t understand the risks or consequences of their decisions!!!). [OCC–PSI–00165898] ................................. 597

7. HSBC internal email, dated February 2010, re: Bco Nac Angola (We don’t appear to be on the same page as to who owns the risk.). [OCC–PSI–00165932] ............................................. 599
<table>
<thead>
<tr>
<th>Documents Related to HBMX and HSBC Mexico:</th>
</tr>
</thead>
<tbody>
<tr>
<td>8. HSBC internal email, dated July 2002, re: BITAL (There is no recognisable compliance or money laundering function in Bital at present . . .) [HSBC OCC 8877797–798] ................................................................................................. 605</td>
</tr>
<tr>
<td>11. May 2004 Group Audit of HBMX (In our opinion, based upon the foregoing, the Direction of Money Laundering Deterrence is operating with a BELOW STANDARD level of Control Risk.). [HSBC OCC 8874376–381] .................................................................................................................... 628</td>
</tr>
<tr>
<td>12. HSBC internal email, dated January 2005, re: COMPLIANCE EXCEPTION (. . . 3 members of the Compliance function within HBMX have alleged that senior persons within the Compliance function fabricated records of certain mandatory anti-money laundering meetings . . . * * * There appears little doubt that the transaction is a breach of the relevant OFAC sanction on the part of HBUS, . . .). [HSBC OCC 8873671–673] ..... 634</td>
</tr>
<tr>
<td>13. HSBC internal email, dated December 2005, re: OFAC (Some Western authorities allege more sinister purposes, e.g. the funding of terrorist Hezbollah activities . . .). [HSBC OCC 8876612–613] ................................................ 637</td>
</tr>
<tr>
<td>14. HSBC internal email, dated March 2007, re: Subject redacted by HSBC (This is a very serious, and high profile, case which has potential reputational damage to the HSBC Group, and must be given the highest priority.). [HSBC OCC 8874315–326] .................................................. 639</td>
</tr>
<tr>
<td>15. HSBC internal email, dated March 2007, re: Travellers Cheques (. . . in the year through 3Q04, HBMX has sold over USD 110 million of travellers cheques, an amount that eclipses that of HBEU here in the UK. . . .). [HSBC OCC 8876645–646] ............................................................. 644</td>
</tr>
<tr>
<td>16. HSBC internal email, dated April 2007, re: GROUP AUDIT COMMITTEE—APR07 (Lack of a compliance culture, evidenced (in the most serious way) by the number of staff defalcations and (in a more widespread general negligence) in the number of fines we receive from the regulators for avoidable errors . . .). [HSBC OCC 8874328–330] ............... 646</td>
</tr>
<tr>
<td>17. HSBC internal email, dated April 2007, re: Managerial Letter: HBMX (This process he initiated over a month ago following the seizure of the arms and money from our customer's premises. . . . * * * Not a happy story.). [HSBC OCC 8875010–014] .............................................................................. 649</td>
</tr>
<tr>
<td>b. Excerpt from Sigue Corporation Deferred Prosecution Agreement, January 24, 2008 .............................................................................. 658</td>
</tr>
<tr>
<td>19. HSBC internal email, dated July 2007, re: Weekly Compliance Report (It looks like the business is still retaining unacceptable risks and the AML committee is going along after some initial hemming and hawing.). [HSBC OCC 8875925–927] ................................................................................................. 673</td>
</tr>
<tr>
<td>20. HSBC internal email, dated July 2007, re: Subject redacted by HSBC (The principal factor here is that the quality of response from the CMB team has not been of the standard that leads me to believe that they are on top of the compliance risks here.). [HSBC OCC 8875132–135] ............... 676</td>
</tr>
<tr>
<td>21. HSBC internal email, dated October 2007, re: CNBV Inspection (This is disturbing and clearly we will need to look at the management structure and practices.). [HSBC OCC 8873538–342] .................................................................................. 680</td>
</tr>
<tr>
<td>22. HSBC internal email, dated November 2007, re: Mexico (. . . there are numerous cases of accounts with multiple SARs (16 in one case!!) in Mexico that remain open.). [HSBC OCC 8875423] .............................................................................. 685</td>
</tr>
<tr>
<td>23. HSBC internal email, dated December 2007, re: Warren Learning HBMX DEC Visit Issues (Sinaloa massive money-laundering scheme (USD 100 million)). [HSBC OCC 8875837] ................................................................................................. 686</td>
</tr>
</tbody>
</table>
24. 12/2007 Audit of HBMX-Money Laundering Deterrence (MLD), GROUP AUDIT MEXICO, AUDIT REPORT SUMMARY SCHEDULE (Main control weaknesses identified during the audit . . .). [HSBC OCC 8876347] 687

25. HSBC internal email, dated January 2009, re: US Issues—Various (. . . if they were contacted by US authorities then they should have thought to advise HBUS.). [HSBC OCC 8873759] 688

26. HSBC internal email, dated December 2006, 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?). [HSBC OCC 3407608–609] 689


28. HSBC internal email, dated February 2008, re: Subject redacted by HSBC (In spite of the seriousness of this case and the issues involved, CMB is proposing to retain this relationship.). [HSBC OCC 8875139–141 and HSBC OCC 8875020–021] 693

29. HSBC internal email, dated February 2008, re: CONFIDENTIAL—CNBV/FIU Meeting (This is most disturbing and we will need to have the most thorough of investigations.). [HSBC OCC 8966014–018] 698

30. HSBC internal email, dated March 2008, re: HBUS (The comments made by Leopoldo are quite concerning, and it would appear that he was more aware of the weaknesses, and the concerns of the CNBV, than Ramon has indicated.). [HSBC OCC 8874821–825] 703

31. HSBC internal email, dated July 2008, re: HBMX Visit Update (The report . . . concluded that KYC control was “below standard.” A sampling showed that 15% of the customers did not even have a file. For the files that could be found, there were serious failures in following Group procedures.). [HSBC OCC 8874387–489] 708

32. HSBC internal email, dated July 2008, re: HBMX—Cayman Accounts (. . . 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 [sic] cartels.). [HSBC OCC 8874829–833] 711

33. HSBC internal email, dated September 2008, re: Cayman Accounts (Account opening documentation is generally poor or non-existent and there is a lot of work to do. Money-laundering risk is consequently high.). [HSBC OCC 8876784–787] 716

34. HSBC internal email, dated November 2008, re: Seriously consider restricting the product Dollars accounts in the zona frontera Product 63 Cuenta Maestra en Dolares P.F. (In the same way we have already restricted new Caiman Island accounts from opening, due to the massive misuse of them by organised crime . . .). [HSBC OCC 8875736–738] 720

35. HSBC internal email, dated November 2008, re: Mexico (What I find most frustrating is the way in which new issues constantly emerge however much time is spent with HBMX.). [HSBC OCC 8875605–607] 723

36. HSBC internal email, dated December 2008, re: Mexico Visit (. . . significant backlog (3,659) of accounts to be closed. . . . 675 accounts pending closure were ordered to be closed by the CCC on suspicion that they are used for money laundering activity. . . . 16 accounts that were sent for closure in 2005, . . .). [HSBC–PSI–PROD–0197874–876] 726


38. OCC internal email, dated June 2010, re: HSBC (. . . this has the makings of potentially being a major criminal case . . .). [OCC–PSI–00928756–758] 745

39. HSBC Presentation, Conducting an Enhanced KYC for Grand Cayman Accountholders, undated (Almost no progress has been made in enhanced KYC completion success rate in file completion is approximately 25%). [HSBC OCC 8874560–566] 748
Documents Related to HSBC Affiliates—Circumventing OFAC Prohibitions:

40. HSBC internal email, dated May 2001, re: BANK MELLI (I wish to be on the record as not comfortable with this piece of business.). [HSBC–PSI–PROD–0096138–142] ................................................................. 755

41. HSBC internal email, dated July 2001, re: Bank Melli (With the amount of smoke coming off this gun, remind me again why we think we should be supporting this business?). [HSBC OCC 8876128–136] ................................. 760

42. HSBC internal email, dated October 2001, re: OFAC SANCTIONS (. . . bear in mind pending US legislation which will in effect give the US extra-territorial authority over foreign banks, particularly if we are unfortunate enough to process a payment which turns out to be connected to terrorism.). [HSBC OCC 8873890–893] ................................................................. 769

43. HSBC internal email, dated October 2002, re: IRAN (Your already processing USD payments from two existing accounts held in London.). [HSBC OCC 7687373–377]  ........................................................................................................ 773

44. HSBC internal email, dated January 2003, re: USD Payments from Iranian Banks (As you may recall, it was agreed that our London | Middle East office would put together a business case regarding plans for providing USD payment services to Iranian Banks . . . ). [HSBC OCC 3407510–515] ................................................................. 778

45. HSBC internal email, dated February 2003, re: BUSINESS CASE—US PAYMENTS FROM IRANIAN BANKS | ENTITIES (The business case includes a number of express references to practices which may constitute a breach of US sanctions, including the OFAC provisions, and could provide the basis for action against the HSBC Group . . . ). [HSBC OCC 8876487–488] ........................................................................................................ 784

46. HSBC internal email, dated October 2003, re: IRAN—STRAtegy DISCUSSION PAPER (. . . there remain serious political and reputational risks within the USA if they proceed with this . . . ). [HSBC OCC 8873941–947] ........................................................................................................ 786

47. HSBC Document, IRAN—STRAtegy DISCUSSION PAPER, undated, (The Iranian market offers substantial untapped potential for the HSBC Group.). [HSBC OCC 8873949–956] ........................................................................................................ 793

48. HSBC internal email, dated October 2003, re: USD Clearing—Iranian Banks (. . . HBEU have been manually intervening in the processing of Iranian bank payment instructions by removing the remitter's name and country to prevent the probable trigger of a filter in the US, and the subsequent declaration to OFAC (and possible freezing) of the funds.). [HSBC OCC 8875217–218] ........................................................................................................ 801

49. HSBC internal email, dated October 2003, re: Iran (The practice of amending instructions is clearly a long standing one which has hitherto continued despite the RMs believing it had ceased some years ago.). [HSBC OCC 8874660–663] ........................................................................................................ 803

50. a. HSBC internal email, dated December 2003, re: COMPLIANCE—OFAC ISSUES IN GENERAL AND SPECIFIC TO IRAN (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.). [HSBC OCC 3407517–525] ........................................................................................................ 807

b. HSBC internal email, dated June 2003, re: PLC—Re “do not mention our name” (When Funds Transfer staff noted the messages in the BBI field stating “do not mention our name” the payment was rejected, per our policy, due to concerns about evasion issues under the OFAC regulations.). [HSBC OCC 8873922–928] ........................................................................................................ 813
d. HSBC internal email, dated February 2008, re: Rami Makhlouf (Please be advised that we currently maintain a relationship with Sellor, Mohamad Makhlouf in our capacity as Trustee and the individual named in your search request (Rami Makhlouf) is actually a beneficiary of the Trust . . . ). [HSBC–OCC–8878838–840] ........................................................................................................ 823
52. HSBC internal email, dated March 2004, re: BankMarkazi Payment (The complexity of the OFAC regulations, and the fact that HBUS were unaware that any arrangements existed with Iranian Banks, has made speedy resolution of this issue difficult.). [HSBC OCC 8873985–986] .......... 830
53. HSBC internal email, dated April 2004, re: Iran Correspondent Banking Services—OFAC (. . . the most pressing issue to be resolved is that relating to the limited number of existing relationships that we have (for two small Iranian Banks) where I suspect that HBUS are not aware that payments may be passing through them.). [HSBC OCC 8873994–997] .................................................................................................................... 832
54. HSBC internal email, dated June 2004, re: Iran (. . . there are very compelling commercial reasons which need to be borne in mind when making this decision, not least of which is the threat to the Group's position in and business with Iran over the medium term.). [HSBC OCC 8874001–004] .................................................................................................................... 836
55. HSBC internal email, dated June 2004, re: Iran (. . . our interpretation was that we were being asked to "judge" the nature of the payments to avoid the U.S. embargo and seizure . . .). [HSBC OCC 8873999] .......... 840
56. HSBC internal email, dated July 2004, re: Iran (. . . we are being asked to amend instructions or, assume responsibility that the contents of the payment message do not attract the fed's attention and seize the payment. . . .). [HSBC OCC 8876861–863] .... 841
57. HSBC internal email, dated November 2004, re: U-turns (. . . initially there were concerns about the potential intentional removal of wording "off limit payments" from these payments.). [HSBC—PSI—PROD—0096165–167] .................................................................................................................... 844
58. HSBC internal email, dated December 2004, re: U-turns (Attached are the conditions under which HBUS will accept U-Turn transactions.). [HSBC OCC 3407526–527] .................................................................................................................... 847
59. HSBC internal email, dated June 2005, re: IRANIAN PAYMENTS (. . . HBME is currently seeking to open a USD account with JP Morgan Chase as our first choice . . . in order to process Iranian related USD payments.). [HSBC OCC 8878026–029] .................................................................................................................... 849
60. HSBC internal email, dated May 2006, re: TP GATEWAYS (I would have thought the US regulators would have taken a dim view of routing stuff around the US.). [HSBC OCC 7687437–438] .................................................................................................................... 853
61. HSBC internal email, dated May 2006, re: U TURNS (I anticipate that you would prefer to see Field 72 completed, but this will mean more hits in the filters even if they will then be passed.). [HSBC OCC 3243782–787] .................................................................................................................... 855
62. HSBC internal email, dated January 2007, re: Transactions with Iran/ Cuba, etc (. . . let's set up a completely different Swift address to help avoid any problems with Cuba and Iran.). [HSBC OCC 8876921–931] ..... 861
63. HSBC internal email, dated June 2007, re: Iran (There are further complications surrounding the process of closure with all Iranian banks as we have some USD 9m in reimbursements due from Sepah, where we are running off trade lines . . .). [HSBC OCC 8878214–216] .................................................................................................................... 872
64. HSBC internal email, dated June 2007, re: GROUP MESSAGING GATEWAY FOR LAM—CLEAR CHOICE REPORT (We have not engaged with CI and Nassau as we have no leadership responsibility for this geography.). [HSBC OCC 8874349–355] .................................................................................................................... 875
65. HSBC internal email, dated June 2008, re: OFAC processing in GSC's (. . . we're strapped and getting behind in investigations (on OFAC cases) and have some of our key managers in the queues releasing items . . . I cannot hire first level staff unless it's offshored . . .). [HSBC OCC 0616349–350] .................................................................................................................... 882
66. HSBC internal email, dated December 2009, re: OFAC Payments (. . . we could use 5 or 6 people for 10 days who can review payments to clear the 700 and building backlog of payments that have been held over and need to be worked to process.). [HSBC OCC 7688668–670] ........ 884
67. HSBC internal email, dated August 2010, re: Project Topaz US Urgent Requirements (We need to move quickly to reduce the AML alerts and the connected KYC issues as it is impossible to plan the required capacity * * * Attached is a list of 121 international banks that we can no longer support and need to exit. * * * the US requirements cut across business lines and it is crucial that the strategies of PCM, TSC and FIG are aligned to prevent this situation occurring in the future.). [HSBC OCC 8876104–106] ................................................................. 887


70. HSBC Group Circular Letters (GCL):
   a. GCL 050047—Compliance with sanctions (28/Jul/2005) [HSBC OCC 3407560–561]; ........................................................................................................ 901
   b. GCL 060011—US Dollar Payments (06/Apr/2006) [HSBC OCC 3407587]; ........................................................................................................ 905

Documents related to other countries:

71. a. HSBC internal email, dated September 2005, re: OFAC sanctions (In particular regard to the Sudanese payments, but also to a lesser extent, Cuban and Burmese, there are a considerable number of USD denominated transactions.). [HSBC OCC 8877213–214] 912
   b. HSBC document prepared May 2007. INFORMATION REQUESTED IN CONNECTION WITH: NORTH KOREA, CUBA, AND MYANMAR (We were notified that there are relationships with Cuban and North Korean customers.). [HSBC OCC 8876093–095] ................................................................. 914
   c. HSBC internal email, dated October 2005, re: 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.). [HSBC OCC 8874357–362] ........................................................................................................ 917

Documents Related to Al Rajhi Bank—Disregarding Links to Terrorist Financing:

72. HSBC internal email, dated January 2005, re: Al Rajhi Trading/Al Rajhi Banking (. . . 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 enforcement.). [HSBC OCC 1884218] ........................................................................................................ 925

73. HSBC internal email, dated March 2005, re: Al Rajhi Guidance Clarified (Looks like you’re fine to continue dealing with Al Rajhi. You’d better be making lots of money!). [HSBC OCC 3114022] ........................................................................................................ 926

74. HSBC internal email, dated May 2005, re: 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 . . .). [OCC–PSI–00144350] ........................................................................................................ 927

75. HSBC internal email, dated August 2005, re: Al Rajhi (We’ve gotten push back from OCC on Al Rajhi Trading, which is less controversial than the bank.). [OCC–PSI–00343527] ........................................................................................................ 929

77. HSBC internal email, dated November 2006, re: 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). [OCC–PSI–00150795] ...

78. HSBC internal email, dated November 2006, re: Al Rajhi Banking (At the end of the day, its Compliance who's the key.). [OCC–PSI–00150892] ...

79. HSBC internal email, dated November 2006, re: Alrajhi [sic] (To cancel the Amanah business is much bigger than not dealing with banknotes.). [OCC–PSI–00154139] ...

80. HSBC internal email, dated December 2006, re: 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.). [OCC–PSI–00150892] ...

81. HSBC internal email, dated July 2007, re: Al Rajhi Bank in Saudi Arabia (This article on Al Rajhi Bank & TF was in the Wall Street Journal today). [OCC–PSI–00154139] ...

82. HSBC internal email, dated November 2007, re: ISLAMI BANK BANGLADESH LIMITED (the money is there and we should go for this account.). [OCC–PSI–0079987–991] ...

83. HSBC internal email, dated November 2007, re: ISLAMI BANK BANGLADESH LIMITED—Bangladesh (The Al-Rajhi family has been associated with Islami Bank, Bangladesh Limited, since its inception.). [OCC–PSI–00154139] ...

84. a. HSBC internal email, dated August 2009, re: EDD Report of Findings [redacted] Bank Ltd in Bangladesh (BN-SP & PCM) (I support Hersel's stance that this is such a large bank hence malfeasance is expected.). [HSBC OCC 7688017–024] ...

b. HSBC internal email, dated September 2005, re: Report of Findings—[redacted] Bank—FIG (Yes, corruption can be rampant in this bank. . .). [HSBC OCC 7690024–032] ...

85. HSBC Know Your Customer Profile for Al Rajhi Banking & Investment Corp., October 2010. [HSBC–PSI–PROD–0102310–324] ...

86. HSBC Know Your Customer Profile for Islami Bank Bangladesh Limited, June 2011. [HSBC–PSI–PROD–0117222–237] ...

87. a. Islami Bank Bangladesh Ltd. responses to questions from the U.S. Senate Permanent Subcommittee on Investigations, July 4, 2012. [PSI–IBBL–01–0001–003] ...


88. HSBC internal email, September 2008, re: 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.). [OCC–PSI–00409214–216] ...

89. HSBC internal email, dated November 2008, re: 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.). [OCC–PSI–008089659] ...

90. HSBC internal email, dated December 2008, re: Hokuriku Bank—information needed (They have been good enough to provide information so far for 2008. Do you may understand from bank secrecy viewpoint, they should not or cannot disclose customer information.). [OCC–PSI–00811358] ...

91. HSBC internal email, dated December 2008, re: 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.). [OCC–PSI–00888536] ...

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

93. HSBC internal email, dated August 2007, re: Bearer Share Companies (The following is our current policy for Bearer Share Corporations in NY . . .). [OCC–PSI–00318438] ................................................................. 1044

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 custodialize 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:
   a. HSBC internal email, dated June 2007, re: [redacted] Family (I spoke to Susan Wright, Group Head of AML. She is reluctant to grant the exception but will consider it.). [OCC–PSI–00214868] ................................. 1073

   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

Documents Related to OCC—Exercising Ineffective AML Oversight:

98. HSBC internal email, dated February 2010, re: OCC Meeting (In light of the extent of our alert backlogs, Sally indicated that they will shortly be issuing a Supervisory Letter . . .). [HSBC OCC 3405315–316] ................................. 1081

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

Additional Documents:

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


VOLUME 2

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
Hearing On  
*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**

(1109)
## DOCUMENT LOCATOR LIST

<table>
<thead>
<tr>
<th>Bates Number or Document Description</th>
<th>Page Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Articles related to “Taliban” bank, Afghan National Credit and Finance Ltd.</td>
<td>1122</td>
</tr>
<tr>
<td>BOG-A-203484-311</td>
<td>Sealed Exhibit*</td>
</tr>
<tr>
<td>BOG-A-207130</td>
<td>Sealed Exhibit*</td>
</tr>
<tr>
<td>BOG-A-300035-068</td>
<td>Sealed Exhibit*</td>
</tr>
<tr>
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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 steal 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.
Ein kleines Gehäuse in London diente offenbar als Haushalt der Taliban.

Taliban-Banker Ivett, der Afghane Mohammed al-Jailaki, sind die Direktoren der Bank, die im zerstörten Kabul ihren Sitz hat. Der Brite wohnt zusammen mit seiner Frau, einer Lehrerin, und ihrem kleinen Sohn in einem Haus in Harlingen.

Obwohl die Welt am Rande eines Krieges gegen das Taliban-Regime steht, schließt Ivett jeden Morgen die masslose Tür auf und dreht die Barometer schließlich nach draußen. "Wir legen mit der Schaltstufe Vive la France, die vor einigen Wochen beschlossen wurde, ab. Als wir sie geschlossen haben, haben wir einen schweren technischen Schlag verpasst", sagt Kerry, der damals die BCCI-Untersuchungen leitete.

UK Observer reports Taliban Banks Still Operating in 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 18.3m 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

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

Thanks Susan,

Lesley
Lesley Midzian
EVP & Chief Compliance Officer
HSBC Bank USA, N.A.
Tel: 212 525 6410

Original Message ---
From: Susan A Wright
Sent: 11/11/2008 03:35 PM GMT
To: Lesley Midzian
Cc: David W J Bagley
Subject: Fw; OFAC

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/HSHQ/HSBC on 11/11/2008 16:33 -----

David W J Bagley/GMO/HSBC
Sent by: Marion O Roach/HSHQ/HSBC
Nov 11 2008 15:10
Phone op: 7991 8645
44 0 20 7991 8645
Mail Size: 80586
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 all other additional information that you think would be helpful to Susan and her team tracking this issue back.

Yours
David Bagley

------ Forwarded by Marion D ROACH//HSBC//HSBC on 07/11/2008 11:01 -----
Lesley Midzain//HSUS//HSBC@HSBC02
Nov 06 2008 13:18
Mail Size: 6689

To
dwm w bagley
cc
Janet L Burak
Subject
Fax: 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 "issues" (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 11/NOV/08.

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:
- HSUS processes approximately 600,000 wire transfers on a weekly basis.
- Approximately 35% (203,000) generate possible matches which require review prior to releasing.
- During the period from 9/03 through 9/08 HSUS rejected and reported 121,321 transactions valued at $100 million.

Page 3
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 212-525-5410
Fax 212-525-5769
Email lesley.midzain@us.hsbc.com

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

Page 4
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 Responsible 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 (2003-07), and an additional spreadsheet provides this information in total (the "Total Items Analysis" sect).

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 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 in the system as refined.

Finally, "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 (e.g., 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 actions taken over the years.

As previously advised, further review and assessment is also being undertaken...
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/HGHO/HSBC]

Lesley Midzain
Executive Vice President & Chief Compliance Officer | HSBC BANK USA, N.A.
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New York, NY 10018

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

Lesley,

Thanks and I agree that the context helps.
Were the 61 and 12 spread across various categories within the OFAC sanctions in 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 ROACH/HSBC on 07/11/2008 11:01 ----

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

To
David W J BAILEY/SMO/HSBC

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. Remaining 2 for Cuba and 3 total from SDN list.

Regarding Group members, since Group policy was issued JUL08, 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).
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 fell into the category of 'no sanctioned interest'—so these, we'd need to do a deeper dive to determine if, e.g., 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.

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Mobile —
Email Lesley.Midzain@us.hsbc.com

Lesley,

Lesley,
Thanks and I agree that the content helps.

Were the 61 and 12 spread across various categories within the OFAC sanctions in different countries, SONS 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
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Registered in England number 617987

Page 9

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HSB937545211

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  
HSBC OCC 0616025
From: Mike Ebbs/HBU5/HSBC
Sent: 1/25/2008 8:53:38 PM
To: "Mark Voigt" <MARK.R.VOIGT@US.HSBC.COM>; Michael Hahn/HBUS/HSBC
CC: David Dew/HBUS/HSBC; Janet Burak/HSBC@HSBC; Anne Liddy/HSBC@HSBC; Michael Gallagher/HSBC@HSBC; Carolyn Wind/HSBC@HSBC; Bob Schulebert <BOB.SCHUEPER@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 Noller
Cc: Mike Ebbs; Janet Layton; Michael Hahn; Monica Thomas; Barbara

Page 1

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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.

HSUS 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 please discuss this at Tuesday’s GPS call. Thank you.

From: Elizabeth Protomastro
Sent: 01/25/2008 04:46 PM EST
Cc: Anne Uddy
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/HSUS/HSBC on 01/25/2008 04:39 PM -----
Camille Muzalewski/HSUS/HSBC 01/25/2008 04:00 PM
To: Jole Matias/HSUS/HSBC 01/25/2008 04:00 PM
Cc: Donald W McPherson/HSUS/HSBC, Elizabeth Protomastro/HSUS/HSBC, Mary A Caskin/HSUS/HSBC, Monica A Thomas/HSUS/HSBC, Nancy Hedges/HSUS/HSBC, Susan Cruz/HSUS/HSBC
Subject: Re: Myanmar-related payment.

Page 2
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: 716-841-2449
Fax: 716-841-2000
Mobile: camilla.muzalewski@us.hsbc.com

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

To
Elizabeth Protomastro/HSBC@Republic, Mary A Caskin/HSBC@HSBC

Cc
Camille Muzalewski/HSBC@HSBC, Monica A Thomas/HSBC@HSBC, Don W McPherson/HSBC@HSBC, Susan cruz, Nancy Hedgest/HSBC@HSBCAMERICA

Subject
Myanmar-related payment.

Elizabeth,

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

Page 3
1148

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HSBC-Occ_9009360.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
Wilmington, Delaware 19820
Tel: 302-997-2393
Fax: 302-997-2383
Email: jose.matias@us.hsbc.com

Page 4
HSBC

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

Dear Mr. Wood:

Ref: Disclosure of Facts – Wire Payment USD 15,000 (Burma)

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

Amount: USD 15,000

Sending Bank: HSBC Singapore

Originator: United Overseas Bank Ltd.

Beneficiary: United Overseas Bank Ltd.

On 15-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 HSUS 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 25-Jan-2008, HSUS received information on the transaction from the remitting bank, HSBC Singapore, and provided the information to BONY via authenticated SWIFT (Exhibit 3). We assume that the information indicated that the payment did not involve any SDN and was for the benefit of a non-U.S. person. 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.

One reason for this incident was determined that our filter identified a potential OFAC match, but a formatting issue caused the filter to overlook 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 data 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
1500 Pennsylvania Avenue, N.W.

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OCC-PSI-0085806

Confidential & Non-public OCC Information

OCC-PSI-0085806

Confidential & Non-public OCC Information

OCC-PSI-0085806

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OCC-PSI-0085806
An immediate temporary fix was incorporated into the payment process to detect references to “Tajik” and “Bosnian” 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, HSUS maintains integrated software to scan its U.S. funds transfer instructions. This software monitors funds transfer payments to detect the presence of, or reference to, sanctioned countries and Specially Designated Nationals/Entities. HSUS also maintains a software filter to scan supporting information files in order to determine if sanctions exist with HSUS involve Specially Designated Nationals/Entities or sanctioned countries. Pernances are in place to resolve, investigate and report OFAC sanctioned transactions and/or accounts.

In closing, we confirm 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) 625-6692.

Very truly yours,

Elizabeth Protonasto,
VP/Compliance
HSBC Bank USA, N.A.

cc: Carolje Wadh, E.V.P.
     Brenda Frentz, E.V.P.
     Anne Liddy, E.V.P.
     Nancy Hodgson, E.V.P.
     Mary Ann Caslin, E.V.P.
To: [Redacted]
From: [Redacted]
CC: [Redacted]

Subject: [Redacted]

Body: [Redacted]

---

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[Redacted]
EXHIBIT (3)

CMIMS -- Correspondence Display

[Redacted]

(1) Template name: GRAPHEROFPSH
curr. type: SHF
party name: HSBC SINGAPORE GENERAL ACCOUNT

[Redacted]

(2) Template name: GRAPHEROFPSH
curr. type: SHF
party name: HSBC SINGAPORE GENERAL ACCOUNT

[Redacted]

(3) Template name: GRAPHEROFPSH
curr. type: SHF
party name: HSBC SINGAPORE GENERAL ACCOUNT

[Redacted]
EXHIBIT (J) CONT.

CLAIM  -- Correspondence Display

Claim Type: TP  Claim 0
party name: HSBC SINGAPORE GENERAL ACCOUNT

[If the MT type is 999, enter the text amount.]

(1) 12345678
(2) 98765432

Redacted by the Permanent Subcommittee on Investigations

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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

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<tr>
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*2006 Jaws are calculated from 2006-09 CAGR
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
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
- Tactical Initiatives Under Review:
  - Inter/intra-company charges
  - Pager cancellation
  - FDR charges
  - External Training Policy
- Convey recommended reductions to 2008 AOP by line item
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 2% for the MAU 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 NOP to reduce costs throughout the year. Positions may be filled as indicated below: 

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

GEO: Hiring of currently budgeted and NOP approved roles to be approved by Marion Young and Lamia Scott before active recruitment takes place. Existing proposal processes will be followed before an offer is extended.

HRM:

Revenue generating roles:

FFS: Hiring of currently budgeted and NOP approved roles to be approved by respective Regional President and Susan Fu. (should mortgage corp be listed separately?)

Non-revenue generating roles: replacements and additions should be placed on NOP 11- June 2008. Executions 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
Confidential & Non-public OCC Information

From: DAVID OEW/HBUS/HSBC
Sent: 9/14/2007 8:58:06 AM
To: CAROLYN M WEND/HBUS/HSBC
CC: JANET L BURAK/HBUS/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 me 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: 212-525-8088
Email: david.dew@hsbc.com
Anthony,

I have my own differing views on what should be put into shared services but I think the safe point that has to be dealt with ASAP is how to rationalize the HBS FTE involved in this discussion. As I mentioned on the call, HBS 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 freeze" which restricts approval from appropriate COO members to new HBS FTE beyond the current level of support for overall HBS 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

VP, Compliance & AM

HSBC BANK USA, N.A.

325 Fifth Avenue, T-7

NY, NY 10018

Phone: 212-382-5963

Fax: 212-525-5503

Email: carolyn.m.wind@hsbc.com

CC: Denise A Kelly/HSBC@HSBC; Karen K

speculative/HSBC@HSBC; Lesley Miozais/HSBC@HSBC

Subject: Re: Organizational Changes

Good morning Denise,

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

Your note is very helpful because it helps me understand that you and I need to catch up on some of the developments from the CPO 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 in a much better place to talk forward.

Page 1
As you may anticipate, I disagree with the attached. The proposed organizational structure embeds specific AML operational functions that are not shared services that exist throughout the entire compliance team. 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 redirected to urgently needed areas in the AML team (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. 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 the recommendations (end Aug) is disappointing to say the least. All other CPO

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) 294-6500
Senior Executive Assistant:
Jennifer Czaplewski (847) 294-2059

Integrity - Our Tradition and Our Future

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Denise A Kelly/HSBC/HSBCO
02/25/2008 01:31 PM
To Anthony K Gibbs/HSBC/HSBCO2
CC: Carolyn W Wind/HSBC/HSBCO2, Curt X Cunningham/HSBC/HSBCO2, Lesley Midek/WBC/HSBCO2, Karen K Groth/HSBC/HSBCO2
Subject: Re: Organizational Changes

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To be clear, given the sensitive closeness to a true understanding of the functions and activities that are competing for finite resources, putting all roles and responsibilities on a transfer of HSBC staff with roles and responsibilities to be determined was not feasible.

Denise A. Reilly
SVP compliance
7th Floor
452 5th Ave, NY 10018

Phone. 212-525-2000
Mobile.
Email. denise.a.reilly@hsbc.com

To: denise.a.reilly@hsbc.com
CC: sample@hsbc.com

subject: Organizational changes

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

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 individuals 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 "non-
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 as a part and may result in re-work and be disruptive to our team members. In my experience the effectiveness and morale of any changes seems to suffer when reporting lines are done first, followed by more detailed analysis and then task realignment as determined appropriate.

Page 3
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 freeing 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. Gibbs
Managing Director, Chief Operating Officer
HSBC North America Legal and Compliance
Phone (614) 104-0300
Senior Executive Assistant:
Jennifer Czaplewski $(614) 291-2059

Integrity - our Tradition and our Future

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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 Kelly/HSB/HKBC606b
07/03/2008 06:10 AM

To Anthony A Gibbs/HSB/HKBC606b
CC Carolyn M Wind/HSB/HKBC606b, Lesley Hildine/HSC/HKBC606b, Curt X
compting/HSC/HKBC606b, Karen K Una/HSB/HKBC606b
Subject: Organizational Changes

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

Armbrust - NHAN
Jantceelli - NHAN
Gibbs - NHAN

Page 4

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSB08645417
Confidential & Non-public OCC Information

Buscaglia - HNAH
Dallavalle-Neurin - HNAH
Carbone - AML
GRASS - AML, ATELL SYSTEM
Kowalski - AML, INFO SECURITY

Moore - PTA support - To be discussed if more appropriate to move to CIWM support team (Bill Wong)
Marzano - has transferred out and position being re-deployed to AML Correspondent banking

Additional Positions
Branchek - HNAH
Sarkis - HNAH
Vasquez - HNAH
Adams - HNAH
MacGaffey - HNAH

Denise A. Reilly
SVP Compliance
7th Floor
435 5th Ave, NY 10018

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Email:
212-321-2005
denise.a.reilly@hsbc.com

Page 5
Here's Terry's message, Sandy Bericken called us today and continued to push us on remedies. I pushed back and up of this moment, I think we will be able to say out our recommendations for last year. But we are facing a major problem for this year, Sandy's message is that we should be going out at the law and that we have to meet our objectives. The bottom line, we are not at market with our current comp, particularly in NYC, so if we roll back bonus to Sandy's desired revs we will be even further behind market and have lots of unhappy employees. Buscher is trying to get a same market study done this quarter but we have been pushed so hard on our cap that we have no money for salary adjustments. Terry and I spoke to editors and Karisdemo 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 top tier to stay competitive. Also, all our private banking and investment banking compliance officers are on the bank comp plan. These officers and our comp officers can get new jobs in a hot market, people seem to forget how hard and costly it is to have to replace people and stabilize teams, given all the change going on at the businesses, our compliance risk is going up. Absolutely going to have to go to HR and get a process of dealing with this. I'm also going to go speak to Paul Lawrence tomorrow about this issue. I am not sure how many more of these fights I can go through, want to start a neat legal process with your US compliance colleagues? We try to keep same sense of humor but no willy having fun.

Carolyn

From: Teresa Pesce
Sent: 02/22/2007 01:03 PM
To: Carielyn Wind; Gareth Powell; Karen Gross; Kathryn Heaton; Robert Buscher;
David Gibbons
Subject: Re: MIP overages - URGENT

Page 1
Jeanne -

We have reviewed our numbers. While SOI de anomalies need to be accounted for (including one HBIO employee who sits on our books and whose entire compensation is charged back pursuant to SOI), 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 these goals. It does not surprise us that we have many who achieved their stretch goals as we have had a challenging year. The SOI/SOI program was again a challenge; superintendents/compliance officers have spent a tremendous amount of time redefining positions, restructuring workloads, and assessing the impact of customer complaints. SOI/SSO, of course, is not limited to SOI/SSO. In addition to the increased SOI/SSO challenges, we also had increased demands on our operational and IT examiners throughout the institution with issues in domestic and foreign banking, and multiple exams in specialty 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 Transatlantic payments have required the work of all employees to support other Group offices. Our support of global resourcing has increased our 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, our managers have carefully and thoughtfully reviewed their people and provided an honest assessment. On the whole, I would say we are in line with our stretch goals.

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 not 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 HBIO employees regularly communicate, will receive no payout as there is no corporate factor. Indeed, I had to bend over backwards 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 study data commissioned this year) we would be very hard 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 all 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 less — especially lower level employees. Thus, at this point, I believe our numbers are justified and should stand.

Terry

Teresa A. Pesce

EVP/Managing Director

Anti-Money Laundering Compliance
As a whole, the bank is over its 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 AM are two of the highest payout percentages, ahead of all line groups except one. Overall, AM is at 109% of target, so if you could verify with [redacted] and [redacted] that this is on track and I've requested that we trace this out. At this point it 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 Ebersole, SPHR
Executive Vice President Human Resources
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Confidential & Non-public OCC Information

FROM: KAREN K GROM/HSBC
SENT: 2/27/2007 8:42:58 PM
TO: CAROLYN WIND/DISSEY;TERESA PECS
CC: DAVID O GIBBONS/HSBC;PATRICIA MCCLEARY-PAREZ;SARAH HAMILTON;KATHRYN HATTER
SUBJECT: HR 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 Nusdeo, cin Hughes, Kevin O’Faha, Irene Stern, Gloria Strazza, Allen von Kacyshin, Terry Kelly, Carolyn Wind. We had phone conversations with Anna Schilly and Terry Hass. Pat McCauley and Michele Coppa also participated in all of these conversations to provide their insights 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 TDP days and better benefits.

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

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, we're experience and our knowledge of the current market, we anticipate that the review will be very extensive and will require additional meetings.

Some of the leaders we spoke with feel 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. Workplace has become smaller, having no storage or sharing desks in tight spaces is a 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.

Karen K. Grom
Director, Human Resources
HSBC Corporate/Global Support
(847) 559-2511 (Office)
(847) 222-6140 (Cell)

Assistant: Mary D. Brown
(847) 564-6109
Forwarded by Michael B Gallagher/HSBC on 10/31/2006 04:15 PM ---

From: Charles C DelBusto/HBUS/HSBC
Sent: 10/31/2006 02:31 PM

To: Michael B Gallagher/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 01 plan.

From: Charles C DelBusto
Sent: 10/31/2006 12:31 PM

To: Michael B Gallagher
Cc: Sandra Peterson
Subject: Re: FW: Additional compliance headcount needed to support PCM
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 S. Gallagher/HBUs/HSBC
30/31/06 09:14 AM

To: Charles G DelBusto/HBUs/HSBC, Sandra Peterson/HBUs/HSBC

CC: Mike

Subject: Additional compliance headcount needed to support PCM

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

Michael S. Gallagher
EVP, Head GTB Corporate, NAFTA
425 5th Avenue
New York, NY 10018
Tel: 212-525-5680

----- forwarded by Michael S. Gallagher/HBUs/HSBC on 10/31/2006 09:43 AM -----

Alan T. Ketley/HBUs/HSBC
Tel: 212-525-6147
30/31/06 09:13 AM

To: Michael S. Gallagher/HBUs/HSBC

CC: Teresa Perez/HBUs/HSBC, Denise A. Reilly/HBUs/HSBC, Charles G. DelBusto/HBUs/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.

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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 volumes are expected to trend upwards due to the ongoing effect of the cover to serial conversion. Better KYC analysis leading to identification of political involvement in existing clients requiring their recategorisation as SCS 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., RTIKS, AOFM, 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:

Wire activity flowing over SEC accounts.

Wire activity review to new accounts.

Credit card services provided to nano Africa de Investimentos.

Various stored value cards initiatives.

Based on discussions 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 PON 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 7,800 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.

Your agreement to this proposal is requested.

Alan T. Ketley
Senior Vice President, Anti Money Laundering

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

I hope you find the information beneficial.

---

Alan T. Ketley
HSBC USA, Compliance
452 Fifth Avenue, New York, NY 10018

Phone: 212-525-6147
Fax: 212-382-7569
Email: alan.t.ketley@us.hsbc.com

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

To: Alan T. Ketley/HSBC
From: Judy Stoldt/HSBC

Re: Correspondent survey

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 HSBC, by a large margin. If we treat OZFS volume as a proxy for correspondent banking, HSBC has more than one bank overall, with more than HSBC, a routing number of average ACs per country. The average ACs per country is 6.9, while HSBC is 6.9, Deutsche is 6.9, and HSBC is 6.9.

Our competitor all acknowledge filing more than HSBC.

Page 1
EDO ROF process we can also get a high risk account opened in 24-48 hours (if all the correct information has been provided.) ‘Challenging’ KYC 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. Ketyley
SVP AM, Compliance
412 FPP 2 Avenue, New York, NY 10018

Phone: 212-315-6147
Fax: 212-525-6147
Email: alan.m.ketyley@us.hsbc.com

Attachment: Corbanking KYC support.xls.zip

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0816385
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 12/15/2008 and 2/15/2009, 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 Prince’s Gate, London.

We further note that, from 7/22/2008 through 2/12/2009, HBUS sold a total of Euros 459,124 (31 transactions) to HBEU. 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, N.A.
432 Fifth Avenue, New York, New York 10018

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March 20, 2009

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
CIBM - Institutional Banking

Part One - Medium Risk

OECD FATF website

KYC Profile Reference Number: Al Rajhi Banking and Investment Corporation

A Basic Identification Details

Address: Head Office, Al Akaryya Building, Oleya Street

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)

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: 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 licence/certificate of incorporation has been waived.

http://cme-apps.ystemx.uk hsbc/ CoreApps/ KY C/ gby4y- m/blyY-4/26ECE C/DECID ... 23/05/95

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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)

We confirm it has a physical presence and is not a Shell Bank

Year in which the client was established:
1986

Client's rank in country:
3rd [Assets]

Is the client traded on an exchange?
Yes

Which exchange? (Please click here to see Explanatory Note 9)
Saudi Stock Market

Date Relationship commenced:
1990

Ownership/Management

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

Yes

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 Reuters 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 Amaranth 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...
bank was established through a merger in late 1980's. He added that AI Rajhi brothers together have a 52% shareholding, although total AI 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 HSNE have known the AI 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].

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)

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

http://emos-apps.systems.sl.hbco/CoreAppsKYCG\Data\KYC\General\General\General\General... 23/05105
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.

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.
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 website)

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 Cheques / Drafts by tourists against proper identification
- encashment of Haj / Umrah Cheques / Cheques
- 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.

http://ema-apps.systems.uk.hsbclCoreApps/KYC/glqkyc.asf(111F43HSCBDDBC3D) /
23/05/05

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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 authorized 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...
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, scrutinize 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

Clients 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

http://enes-upps��统.hk.hk/CenApps/KYC/kyckeynsfi([all])/F426BEDDDCE3D... 23/03/05

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc.  HSB01043162
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 0659994
### E Additional Local Regulatory Requirements

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

### F Global Relationship Manager

Global Relationship Manager: Sharif Siddiqi  
Has the IS one-way consent letter been sent out? *(Please click here to see Explanatory Note 20)*  
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  
- **Clients stated use/purpose of the account/relationship:** It is an existing relationship for HSBC.  
  [Note: The Banknotes relationship with HSBC 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)*

---

**http://emea.apps.systems.uk.tibco/ComApps/KYC/gb/kyc.nsl?djl/F426BECDBCDDC3D... 23/05/05**

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HSB01043163  
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  
HSBC OCC 0659995

---

VerDate Nov 24 2008 09:24 Nov 27, 2012 Jkt 076646 PO 00000 Frm 00095 Fmt 6633 Sfmt 6633 P:\DOCS\76646.TXT SAFFAIRS PsN: PAT
Please Note that it is against policy to accept payment instruction from Shell Banks direct, or via relationship 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 (US$ 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: Ihsan 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): 05/2006

Please click here to see Explanatory Note 28:

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

Head of Institutional Banking/Regional Sector Head concuring: (Only required for High Risk countries, where one or more of the principal owners/controllers are classified as an SFC, or for Offshore Banks/Financial Institutions)

Aasaf Zafar, Managing Director HSBC Amaranth

http://emea-apps.systems.uk.hsbc/CoreApps/KYCC/kycc.html?kyyF4XBECDO6CC2D: 23/05/05

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB01043164
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0659996
Name and date: Please click here to see Explanatory Note 28
Compliance officer (RMLOCC in Asia Pacific) concurring: (Only required for High Risk countries)
Name and date:
Please indicate if the profile has been declined or approved:
Date form completed: 18/05/2005

**Author Details**

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0659997
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

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
To:  

Subject: Memo: Re: Al Rahji

Steven,

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 Rajji, 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 Rajji to supply written proof of this as a reasonable request to make.

Steve

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

To: Stephen J ALLEN@HSBC

cc: Gordon BROWN@HSBC

bcc:  

Subject: AL Rahji

Steve

Gordon has been chasing me with regard to Al Rajji 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 Rajji as well as some information about who their customers are - the relationship used
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. Ketley
First Vice President, Anti Money Laundering
Tel: 212 525 9147
Fax: 212 382 7580

---

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0695041
From: ANGELA CASSELL-BUSH@HSBC
Sent: 12/6/2007 9:41:13 AM
To: CHRISTOPHER LOK@HSBC
CC: 
Subject: Fw: ISLAMI BANK BANGLADESH LIMITED-Bangladesh

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

--- Forwarded by Angela Cassell-Bush@HSBC on 12/6/2007 09:40 AM ---
Muhammad SHOHIDUZZAMAN@HSBC
12/6/2007 4:12 AM

To: Angela Cassell-Bush@HSBC
cc: Aftab HAIDER@HSBC, Anthony Julian@HSBC, Gillian E. Sparks@HSBC, Christopher Lok@HSBC, Stephen P. Baches@HSBC, Hersel Mehari@HSBC, Princely P. Muniyappa@HSBC, Stephanie L. Napier@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 internal 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@HSBC
12/6/2007 10:19 PM

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0741466
To: Princely P Muro/HSBUS@HSBC
  cc: Bruce Spurke/HSBUS@HSBC, Gillian E Bachstein/HSBUS@HSBC, Anthony Julian/HSBUS@HSBC, Christopher Lok/HSBUS@HSBC, Muhammad Shahiduzzaman/HSBUS@HSBC, Arab HAIDER/HSBUS@HSBC, Stephanie L Napier/HSBUS@HSBC, Hersel Mehan/IHBUS/HSBC@HSBC, PSRR@HSBC

Subject: Fw: ISLAMI BANK BANGLADESH LIMITED-Bangladesh

Princely:

Attached 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 AI 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 Mail Factory is a subsidiary of the AI Rajahi Group of Companies, which is subsequently related to AI Rajahi Bank and Islami Bangladesh Bank, Limited. I believe that this is the same family. However, we would need for the ORM 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 Christians Road New Castle, DE 19720

Phone. 302-327-2017
Fax. 302-327-2129
Email. angela.cassell-bush@us.hsbc.com

--- Forwarded by Angela Cassell-Bush/HSBUS@HSBC on 12/05/2007 11:34 AM ---

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

To: Arab HAIDER/HSBUS@HSBC
  cc: Gillian Bachstein/HSBUS@HSBC, PSRR@HSBC

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0741467
Subject: Fw: ISLAMI BANK BANGLADESH LIMITED—Bangladesh

Aftab: In Shohid’s absence, can you assist in clarifying the item in blue below?

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

To: Christopher Lok@HSBC
cc: Benjamin J SARAH@HSBC, Gillen E Bachstein@HSBC, Muhammad SHOHIDUZZAMAN@HSBC, Wing Kin - Sg CHAN@HSBC, Hersel Methodist@HSBC, Kwok Ying FUNG@NBD

Subject: Re: ISLAMI BANK BANGLADESH LIMITED—Bangladesh

Chris;

Please refer to the official website of the Gulf Paper Mill Factory/AI Rajhi 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 AI Rajah Group of Companies, which is subsequently related to AI 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. 302-327-2129
Email. angela.cassell-bush@us.hsbc.com

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

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB01124636
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0741468
To
Angela Cassel-Bush/HSBC@HSBC
cc
Benjamin J SARAH/HSBC@HSBC, Gillian E Bachstein/HSBC@HSBC,
PSRR@HSBC, Wing Kin - Sg CHANCEO 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 (7.5% 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 Cassel-Bush/HSBC@HSBC
11/09/2007 10:57 AM
To
Christopher Lok/HSBC@HSBC
cc
Benjamin J SARAH/HSBC@HSBC, Wing Kin - Sg CHANCEO
PSRR@HSBC, Wing Kin - Sg CHANCEO HSBC@HSBC, Gillian E Bachstein/HSBC@HSBC,
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 & Tourism
Company for Industry & Trade, 9.94%, Abdullah Abdul Aziz Al-Rajhi, 7.56%
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.   HSBC OCC 0741469
Regards,

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

Phone: 302-327-3017
Fax: 302-327-2128
Email: angela.cassell-bush@us.hsbc.com

Christopher Lok/HSBC 11/06/2007 16:17 AM
To
Kwok Ying FUNG/HSBC
cc
Benjamin J SARAM/HSBC

Subject
ISLAM 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 name we long ago takes 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/HSBC 11/06/2007 11:12 PM
To
Christopher Lok/HSBC
cc
Wing Kin - Sg CHANCE/HSBC, Benjamin J SARAM/HSBC
Subject
ISLAM 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 <FUNG@HSB @ HSBC> on 11/07/2007 12:00 PM -----

Beth Fisher <FISHER@HSB @ HSBC>
07 Nov 2007 03:07 Mail Size: 15888

To
Angela Cassell-Bush <BUS @ HSBC>
Benjamin J SARAM <SARAM@HSB @ HSBC>, Gillian E Bachstein <BACHSTEIN@HSB @ HSBC>,
Kwok Ying <FUNG@HSB @ HSBC>

Subject
Re: Fw: KYC BankNotes Profile is IS Denied for: ISLAM BANK BANGLADESH LIMITED

Our Ref
You Ref

Additionally, I had mentioned to Gillian the past relationships with Al Rajhi.
In particular, a couple/few years ago, HSBC 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 <BUS @ HSBC>
11/06/2007 01:41 PM

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0741471
To
Kwok ¥lng FUNGI@HSBC
cc
Gillian E Bachstein@HSBC, Benjamin J SARAM@HSBC, Beth Fisher@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 CIS. 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 ¥lng FUNGI@HSBC
1324-2007 10:41 AM
To
Jarrett L Payne@HSBC, Angela Cassell-Bush@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 get the

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profile bank 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

A BankNote Profile in BANGLADESH for HSBC Office Singapore, has been IB Denied
(Reference:)

Click on the attachment to link to the BankNote Profile.
From: CHRISTOPHER LOK@HSBC
Sent: 6/13/2006 2:07:56 PM
To: DANIEL JACK@HSBC@HSBCAMERICAS
CC: ALAN P WILLIAMSON@HSBC@HSBC02; DAVID M WILLENS@HSBC@HSBC02; STEPHEN J ALLEN@HSBC@HSBCMERIDIAN@HSBC; GARY C H YEUNG@NBD RNH@HSBC; ROGER T KOGHD NBD RNH@HSBC@HSBC; CHRISS J ALLEN@HSBC@HSBCMERIDIAN@HSBC
Subject: Re: Fw: Banknotes with AI 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 it's proved we cannot simply rely on the Wall Street Journal's reports and unconfirmed allegations and 'punish' the client.

Nevertheless we should ask Chris Pagett's group and do an independent review of this name. Let's see their result first.

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

Chris

Daniel Jack@HSBC
06/03/2006 02:38 PM

To: Christopher Lok@HSBC@HSBC02, Stephen J Allen@HSBC@HSBCMERIDIAN@HSBC
Cc: David M Willems@HSBC@HSBC02, Alan P Williamson@HSBC@HSBC02

Subject: Fw: Banknotes with AI Rahji Banking in S.A.

Chris / Steve,

Yesterday Alan & I reviewed various KYC profiles pending CO approval for HRGs. We approved most of them, but the Banknote Profile for HR to deal with AI 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 HSBC relationship.

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HSB01135173

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

HSBC OCC 0752005

VerDate Nov 24 2008 09:24 Nov 27, 2012 Jkt 076646 PO 00000 Frm 00109 Fmt 6633 Sfmt 6633 P:\DOCS\76646.TXT SAFFAIRS PsN: PAT
Thanks and regards,

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

Phone: 212-525-6556
Email: daniel.jack@us.hsbc.com

--- Forwarded by Daniel Jack@HSBC on 06/03/2008 02:25 PM ---

Gloria Strazzas@HSBC
06/03/2008 10:38 AM

To: Daniel Jack@HSBC
cc: Anne Liddy@HSBC, Denise A Reilly@HSBC

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 are 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@HSBC]
[attachment "Email copies.doc.zip" deleted by Christopher Lok@HSBC]

EDO ROFs
Email Note accompanying latest EDO ROF:
04 Dec 2007 11:57
From: FIG HSBC Tel: 
Title: 
WorkGroup: Mail Size: 62760
Sent by: Bob Powers

To: Daniel Jack@HSBC
cc: Gordon BROWN@HSBC, FIG HSBC

Subject: Report of Findings - Al Rajhi Banking and Investment Corp (Al Rajhi Bank) - FLU

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INVESTIGATIVE CONTROL AND REPORTING OFFICE (ICRO)

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 0752006
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 ARCCCE: The predecessor 52%
- New Founders of the Bank 5%
- Employees' 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 AI 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 lnstitution, 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 35 Avenue, Tower 7, New York, NY 10018
Telephone: (212) 525-5609

PRIOR EDD ROFs:
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*** FOR INFORMATIONAL PURPOSES ONLY ***
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: PCMI 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 ARCEC 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 Abdulaziz Al Rajhi, Chairman and Managing Director
Abdulrahman Al Rajhi, Chief Executive Officer
Fahad Abdulaziz Al Rajhi, General Manager, Treasury and Financial Institutions
Cassim Docrat, AGM Head, Financial Institutions
Syed Mustaf Qadder, General Manager, Corporate Group

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSB OCC 0752009
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 Hosni, Director
Abdullah Al Sulaiman Bin Abdulaziz Al Rajhi, General Manager
Fahad Abdullah Al Rajhi, Manager
Saleh Abdullah Abdullah, Deputy General Manager
Abdulrahman bin Oghail, Deputy General Manager
Sulaiman Al Shalty, Branch Manager
Nassar Bin Mohammed Al Subaiy, Deputy General Manager
Ismail Hussein, Officer

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

Saleh Abdul Aliz Al Rajhi, Director
Saeed Orner Qasim Alesayi, Director
Salah Ali Aba Al Khail, Director
Mohamed Abdullah AI Ojairi, Director
Naser Mohammed Al Subalny, Director
Mohammed Osman AI Bishar, Director
Suleiman Saleh AI Rajhi, Director
Mohammed Ibrahim Aljaba, Director
Mohammed Abdul Aziz Al Rajhi, Director
Ali Mohamed Alissa, Director
Mohammed Abdul Aliz AI Rajhi, Director
Abdullah Abdul Aziz AI Rajhi, Director
Abdulrahman Al Shalty, Director

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,~ 911/06).”

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; 11/9/05).

Sulaiman Al Shalty, 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 Salehman Al Abulaziz Al Rajhi's alleged links to terrorism 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
Subject: Report of Findings - AI Rajhi Commercial Foreign Exchange, Jeddah

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FINANCIAL INTELLIGENCE GROUP (FIG)

REPORT OF FINDINGS (UPDATE)
SUBJECT: AI Rajhi Commercial Foreign Exchange, Jeddah
ENTITIES: AI Rajhi Commercial Foreign Exchange, Jeddah
REQUESTOR: Kevin O'Donnell
DEPARTMENT: AVM Support

A report of findings in support of enhanced due diligence was requested for AI Rajhi Commercial Foreign Exchange, Jeddah. The most recent update review of the AI Rajhi Trading Establishment in Saudi Arabia was sent in April, 2005. That update provided findings subsequent to the first report regarding AI 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 posted 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 AI Rajhi Commercial Foreign Exchange, Jeddah.

AI Rajhi Commercial Foreign Exchange, Jeddah

According to “Bankers Almanac,” AI 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 AI 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 AI 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 AI 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 AI Rajhi Commercial Foreign Exchange or its president Abdul Rahman Al-Rajhi.

Text of previous reports regarding AI 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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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0752012
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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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-.....£736
Title: Associate Location: 452 5th Ave, Floor 07
WorkGroup: COMP/ANTI-MONEY LAUNDERING Mail Size: 7097
Gliene Strazza/HSBC@HSBC
Sally G LOMAS/HSBC@HSBC
Daniel Jack/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.
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 Richards
Financial Investigator (FIG)

--- Original Report of Findings by Peter Javier, complete with charts, is
saved on the Shared Drive in the Elma folder. The file name is EIDD AL
RAJH_20041207153945.pdf

Gloria Strazza
Sr. Manager - ICRD
452 Fifth Avenue, Tower 7
New York, NY 10019
Mail Code: 31
Tel: 212-525-6634
Fax: 212-525-5769

Daniel Jack/HBUS/HSBC
06/22/2009 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 A Rahji Banking in S.A.

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 VII 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 Banknotes Profile (for HK) now pending CO Approval:

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

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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:

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<th>Currency</th>
<th>Sales by HSBC:</th>
<th>Purchases by HSBC:</th>
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<td>USD Currency</td>
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<td>0</td>
</tr>
<tr>
<td>Other Major Currency</td>
<td>THAI BAHT 40,000,000</td>
<td>0</td>
</tr>
<tr>
<td>Other Major Currency</td>
<td>HONG KONG DOLLAR 2,000,000</td>
<td>0</td>
</tr>
<tr>
<td>Other Major Currency</td>
<td>SAUDI RIYAL 30,000,000</td>
<td>0</td>
</tr>
</tbody>
</table>

Thanks and regards,

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

Phone 212-525-6666
Email daniel.jack@us.hsbc.com

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

To
Anne Liddy@HSBC, Denise A Reilly@HSBC, Gloria Struzzo@HSBC, Daniel Jack@HSBC
cc Daniel Jack@HSBC

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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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0752016
From: CHRISTOPHER LOK@HSBC
Sent: 7/18/2008 8:19:29 AM
To: ALAN P WILLIAMSON@HSBC, DANIEL JACK@HSBC, DAVID M WILENS@HSBC
CC: DANIEL JACK@HSBC, DAVID M WILENS@HSBC
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 Al-Saraha) get the money from Asia (like ourselves) hence it is 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@HSBC
07/17/2008 08:41 PM

To: Christopher Lok@HSBC, Daniel Jack@HSBC, David M Wilens@HSBC
CC: Christopher BAYLISS@HSBC

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

Chris

I discussed with Lexi 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@HSBC
06/11/2008 06:27 AM

To: Daniel Jack@HSBC, Alan P Williamson@HSBC, Christopher Lok@HSBC, David M Wilens@HSBC, Christopher BAYLISS@HSBC

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

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc.   HSB01144096
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.   HSBC OCC 0760928
Subject
Re: Fw: Banknotes with Al Rahji 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 Rahji 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 Rahji 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 4903
Mobile ~
Email steve.allen@hsbcgroup.com

Mark P MCGUIGAN/HQHQ/HSBC
HSBC
11/06/2008 10:42
Phone No. 799 13868
+044 (020) 7991 3898
Mail Size: 4107
To
Stephen J ALLEN/HBMD/HSBCMERIDIAN
cc
Subject
Al Rahji 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.

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 3999
Fax: +44 (0)20 7991 4542

Daniel Jack/HBJS/HSBC@HSBC02

HBJS

03/06/2008 13:38
From: CHRISTOPHER LOK@HSBC
Sent: 07/18/2008 8:09:50 PM
To: JOHN N NG@HSBC
CC: GARY C H YEUNG@HSBC; ALEX F TSANG@HSBC
Subject: Fw: Banknotes with Al Rahji Banking in S.A.

You're in business now

Chris
 Forwarded by Christopher Lok@HSBC on 07/18/2008 09:04 PM  
Christopher Lok@HSBC  
07/18/2008 09:05 PM

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

Alan

Gracias !!

Chris

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

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

Chris

I just discussed with Lesley and approved.

Alan
Christopher Lok@HSBC
07/12/2008 09:19 AM

To
Alan P Williamson@HSBC
Daniel Jack@HSBC, David M Wllens@HSBC

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

Alan

Let me try my best to answer those 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 it is 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@HSBC
07/17/2008 08:41 PM

To
Christopher Lok@HSBC, Daniel Jack@HSBC, David M Wllens@HSBC

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

Chris

I discussed with Lesley, who asked two questions: 1) why does Al Raji 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/HSBCMENIDIAN@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 Wilson\HBUS/HSBC@HSBC02, Christopher BAYLISS\IBEU/HSBC@HSBC  
Subject  
Re: Fw: Banknotes with Al Rajhi Banking in S.A.  

Dear,

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 0207992 4555  
Fax 020 7992 4993  
Mobile  
Email steve.j.allen@hsbcgroup.com  

Mark P MCGUIGAN\HGQ/HSBC  
HGQ  
11/02/2008 10:42  
Phone No, 799 13999  
+0044 (020) 7991 3895  
Mail Size: 4157  
To  
Stephen J ALLEN\HBMD/HSBCMENIDIAN  
cc  

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

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc.  
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.
Subject
AI-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.

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-911 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

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB01144185
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0761017
From: DENISE A REILLY@HSBC
Sent: 10/29/2002 2:00:50 PM
To: GARY BOON@HSBC
CC: NANCY HEDGES@HSBC
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:
Mail Size: 13226

To: Denise A Reilly@HSBC
cc: Nancy Hedges@HSBC
Subject: IRAN- USD PAYMENTS

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

If HSBU receive an MT100/MT103 from an Iranian Bank in USD then HSBU must forward the MT100/MT103 to HBUS for processing thus ensuring full details of the ordering and beneficiary parties are inserted. 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 transaction criteria and full disclosure requirements.

For control purposes within HBUS Operations it is deemed that HSBU 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 HSBU 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 HSBU settle the above HBUS would be in a position to potentially become Iran's USD Clearing Agent, HSBU would be their USD Correspondent Bank? Obviously subject to HBUS committee, who sits on that? The proposition that has been put forward to date is to process transactions on behalf of Bank Mell. 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.
I would be grateful for your response and the answers to the following questions (remaining ols 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's 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 the 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 will seek to establish the volumes on the table and how the existing competition are tackling this issue prior to the introduction of FATF 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@HSBCAMERICAS
    Denise A Reilly/HBUS@HSBCAMERICAS
    Andrew P Drolet/HBUS@HSBCAMERICAS
    Nigel J WEIR/HMIB/MEMI/HSBC
    John R WILKINSON/HBEU/HSBC
    Mike R BANYARD/HBEU/HSBC

From: Gary BOON Tel: 7604 4695;44 2672 004988

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
Michael Crox, Senior Manager, PCM Sales
John Chappenden, Senior Manager, Payments Co-ordination Unit
Mike Banyard, Payments Product Manager

I can now confirm that HSBC 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 you are 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 receive less than 10% or 15% as MT100 type payments and the remainder as MT202 cover payments, as HSUS would have sent the MT100 direct to the bene bank.

Charges for HSUS 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 RONY 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?

Are there any scenarios that we haven't considered that would cause HSUS 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 HSUS 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

Gary Booth
Manager, Sales
Global Payment and Cash Management
Phone: +44 (0)20 7290 4669

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc.   HSB01333067
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.   HSBC OCC 0948194
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
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
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
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, however, is 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@HSBC.

The installation of 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 to 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
Is the WOLF initiative linked to the Customer Activity Monitoring (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/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/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, CMP on (+44) 20 7991 8643, or by email to John ALLISON/HSBC.
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 Group's 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 day's 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 this period 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 July, 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.
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.
From: DANIEL JACK/HSBC
Sent: 7/30/2007 5:35:51 PM
To: ALAN P WILLIAMSON/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

Phone. 212-525-8696
Email. daniel.jack@us.hsbc.com

--- Forwarded by Daniel Jack/HSBC on 07/30/2007 06:32 PM ---

Daniel Jack/HSBC
07/26/2007 11:16 AM

To: Alan T Ketley/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.

HSBC London sells them USD & EUR (No Purchases).

USD Sales to them:
- in 2007: $8.8 Million, in Jun-07 only
- in 2006: None
- in 2005: $16.4 Million, in Jan-05 only
- in 2004: $50.0 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
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

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 02/10/96. They now trade under Sharia law and the larger deals for USD will now be agreed at 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 tourists out of the country particularly in the summer months when demand for USD is higher with Saudis and expats 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:

Thanks and regards,
Daniel Jack
VP - AML Compliance | HSBC Bank USA, NA
452 Fifth Avenue, 7th floor, New York, NY 10018

Phone: 212-525-8856
Email: daniel.jack@us.hsbc.com

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 1413726
Alan T Kettey
SVP AML Compliance
452 Fifth Avenue, New York, NY 10018

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

--- Forwarded by Alan T Kettle/HRUSHSBC on 07/26/2007 10:16 AM ---

"Boss, Joseph" <Joseph.Boss@occ.treas.gov>
07/26/2007 08:24 AM

To
alan.t.kettle@us.hsbc.com
cc
"Boss, Joseph" <Joseph.Boss@occ.treas.gov>

Subject
Saudis

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 AI

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 the 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...
From: DANIEL JACK@HSBC
To: ALAN P WILLIAMSON@HSBC; HSBC02
CC: 
Subject: Re: Banknotes with Al Rohji 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 04/21/2008 by you. ->
I don’t think you should CQ deny - or even hesitate now - on this for HK, despite the negative info on TT & Rep risk, which is not new (e.g. WSJ in Jul-07, EDD in Dec-07). I understand why Denise/Anne/Siona 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
432/7th Avenue, 10th floor, New York, NY 10018

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

Gloria Strozzi@HSBC
08/03/2006 10:36 AM

To: Daniel Jack@HSBC; HSBC02, Alan P Williamson@HSBC@HSBC02
Cc: Anne Liddy@HSBC; HSBC02, Denise A Reilly@HSBC@HSBC02
Subject: Re: Banknotes with Al Rohji 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 7-12.doc.zip" deleted by Daniel Jack/HSBC/HSBC]
[attachment "Email copies.doc.zip" deleted by Daniel Jack/HSBC/HSBC]

EDO ROFs
Email Note accompanying latest EDO ROF:
04 Dec 2007 11:57
From: FIG HBUS Tel:
Title: Leader:
WorkGroup: Mail Size: 82760
Sent by: Bob Powers
To: Daniel Jack/HSBC/HSBC
cc: Gordon BROWNIiBEUlHSBC@HSBC@HSBC02
FIG HBUS@HSBC
Subject: Report of Findings - AI Rajhi Banking and Investment Corp (AI Rajhi Bank)· FlU

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--FOR INFORMATIONAL PURPOSES ONLY 1 FOR INTERNAL USE ONLY--
INVESTIGATIVE CONTROL AND REPORTING OFFICE (ICRO)
FINANCIAL INTELLIGENCE UNIT
Research as of: 12/04/07 UPDATE
SUBJECT: AI Rajhi Banking and Investment Corp
ENTITIES: AI Rajhi Banking and Investment Corp (AKA AI 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.
From: DENISE A REILLY/HBUS/HSBC
Sent: 6/30/2008 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 Rajji 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. 212-525-2608
Mobile. 732-996-8672
Email. denise.a.reilly@us.hsbc.com

--- Original Message ---
From: Gloria Strazza
Sent: 06/03/2008 10:38 AM EDT
To: Daniel Jack; Alan P Williamson
Cc: Anne Liddy; Denise A Reilly
Subject: Re: Banknotes with Al Rajji Banking in S.A.

Dan

Can you forward to relevant business heads and ask for their response back to you?

Thx

Alan

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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/HSBC]
[attachment "Email copies.doc.zip" deleted by Alan P Williamson/HSBC]
From: CHARLES G DELBUSTO/HBUSLHSBC
Sent: 4/24/2006 2:59:29 PM
To: MICHAEL B GALLAGHER/HBUSLHSBC@HSBC
CC: 
Subject: ING Wliteup

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.

<table>
<thead>
<tr>
<th>Amount</th>
<th>USD 3,000,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value date</td>
<td>21 May 02</td>
</tr>
<tr>
<td>Originating Bank</td>
<td>BANCO INTERNACIONAL DE COMERCIO S.A</td>
</tr>
<tr>
<td></td>
<td>20 DE MAYO Y AYESTARAN</td>
</tr>
<tr>
<td></td>
<td>6 LA HABANA, CUBA</td>
</tr>
<tr>
<td>Receive Bank</td>
<td>BANCO BILBAO VIZCAYA ARGENTARIA, NEW YORK</td>
</tr>
<tr>
<td></td>
<td>1345 AVENUE OF THE AMERICAS</td>
</tr>
<tr>
<td></td>
<td>NEW YORK, NY 10105</td>
</tr>
<tr>
<td>Beneficiary Bank</td>
<td>BIDCCUR</td>
</tr>
<tr>
<td></td>
<td>BANCO INTERNACIONAL DE COMERCIO S.A</td>
</tr>
<tr>
<td></td>
<td>20 DE MAYO Y AYESTARAN</td>
</tr>
<tr>
<td></td>
<td>6 LA HABANA, CUBA</td>
</tr>
<tr>
<td>Bank to Bank Information</td>
<td>BANCO BILBAO VIZCAYA ARGENTARIA</td>
</tr>
<tr>
<td></td>
<td>29 AVENUE DE L'OPERA</td>
</tr>
<tr>
<td></td>
<td>75001 PARIS, FRANCE</td>
</tr>
</tbody>
</table>

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 Protozastro and John Holinka. Although we were in compliance with OFAC regulations, Elizabeth Protozastro 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 funds.

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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 Proia and the information received from Branch Operations and Marketing in relation to interest paid on deposits, HSBS presented the following interest schedule to be applied to blocked funds.

<table>
<thead>
<tr>
<th>Principal</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>$999,999.99 or below</td>
<td>Current SAV2 Rate Effective Fed Fund Rate less .25BP</td>
</tr>
<tr>
<td>$1,000,000.00 and above</td>
<td></td>
</tr>
</tbody>
</table>

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 on deposits 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 HSBS 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:

- 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).
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 (HEB) 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.
From: TERESA.PESCE@HSBC
To: DANIEL.JACK@HSBC
CC: ALAN.T.KETLEY@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 here.

Daniel Jack on 05 Jan 2005 10:21
Note
05 Jan 2005 10:21
From: Daniel Jack  Tel: 212-525-4686
Title: Vice President Location: 452 5th Ave, Floor 07
WorkGroup: Legal Compliance  Mail Size: 144227
To: Teresa Pesce@HSBC
Cc: Alan T Ketley@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@HSBC
Cc: Alan T Ketley@HSBC
Subject: Re: KYC Status of Profiles for Banknotes by Office: December 2004

Please communicate that Group Compliance will be recommending terminating the Al Riji relationship.

Daniel Jack on 04 Jan 2005 18:57
Note
04 Jan 2005 18:57
From: Daniel Jack  Tel: 212-525-4686
Title: Vice President Location: 452 5th Ave, Floor 07
WorkGroup:
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
Christine JENKINS@HSBC

Robyn SZETO
Robyn SZETO@HSBC

Rosa P Y LEUNG
Rosa P Y LEUNG@HSBC

Alan T KELLEY
Alan T KELLEY@HSBC

Ronald SCHMICKL
Ronald SCHMICKL@HSBC

Sandra Peterson
Sandra Peterson@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 Banknote 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 "All 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 14 are Deactivated.

Many pending Banknote 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 (G8S or VAX).

Customer Profiles for the following (8) 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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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
# TABLE OF CONTENTS

- Executive Summary ...................................................... 3  
- Scope and Objectives .................................................. 8  
- Background .................................................................. 10  
- Findings and Recommendations ...................................... 15  
- Appendix ..................................................................... 24  
  - Comptroller's Engagement Memo ...................................... 25  
  - Sources That Guide OCC's BSA/AML Supervision .............. 27  
  - Committee on Bank Supervision BSA/AML Operating Plan FY 2005-2006 .............................................. 30  
  - Scope and Methodology – Large and Mid-size Bank Sample ................................................................. 34  
  - Summary of Report Conclusions ...................................... 36  
  - Sample Banks – Supporting Details .................................. 40  
  - Risk Identification Programs ............................................ 53  
  - Abbreviations ................................................................. 63  
  - Matters Requiring Attention (MRA) ................................. 66  
  - Review Team Members ................................................... 57  

-2-
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 in response to formal or informal supervisory activities has declined to 30%.
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 C.F.R. § 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
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
1253

- 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.
SCOPE AND OBJECTIVES


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 C.F.R., § 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.
BACKGROUND

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 program 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, 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.

1 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. 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.

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2 Informal and formal enforcement actions are defined in the Appendix of this Report.

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc.  HSB02880711
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 2495069
FINDINGS AND RECOMMENDATIONS

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 planning 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 (37%). 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 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 dated 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

-20-

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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 promulgated 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.

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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.
APPENDIX

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MEMORANDUM

Comptroller of the Currency
Administrator of National Banks
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

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.

-25-

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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.

c: Committee on Bank Supervision
Chief Counsel
Chief of Staff
SOURCES THAT GUIDE OCC'S BSA/AML SUPERVISION

**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)
- Britten/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)

**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)
- 2001-07 Basel paper (February 2001)
- 2001-09 Foreign Official Corruption Guidance (February 2001)
- 2003-43 BSA Examination Procedures (October 2003)
- 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  
  FinCEN
- Fraud Investigation Symposium  
  FinCEN

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 Violations (includes "Citing Violations of 12 CFR 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

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<td>12 CFR 21.21</td>
<td>Procedures for Monitoring BSA Compliance</td>
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<td>31 CFR 103</td>
<td>Financial Recordkeeping and Reporting of Currency and Foreign Transactions</td>
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COMMITTEE ON BANK SUPERVISION

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 designees 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, MCBS 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.

Midsize and Community Banks

- We will use a team approach for conducting examinations at our six highest risk community banks and horizontal reviews at our midsize 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.
1278

- 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.

- MCBS 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.
Midsized/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.
SCOPE AND METHODOLOGY – LARGE AND MID-SIZE BANK SAMPLE

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 you have factored your conclusions about BSA/AML into the bank’s risk assessments, quality of risk management, quantity of 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

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- BS/DE = Board of Supervisors

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Informal discussions along the regulatory chain and/or in

the OCC resulted in actions less severe than what was

actually considered or recommended.

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Examination Cautiousness

EIC report examined guidance not consistently applied

LIB report exam procedure too extensive to complete
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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.
- OCC 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 not to 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.

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 FEC has not found any significant BSA deficiencies.

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.

The 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.

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 1Q05. 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 RaE) 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.
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 03131102 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:
  - Follow-up 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 in other areas within the bank.
- The bank warranted a C&D, per policy based on repeat violations and bank's slow responsiveness.
- 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 evidence of difficulties with OCC examination staffing.
  - Bank was not presented to Washington SRC.

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.

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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 06/00) 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.

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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:
  • Ed&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.

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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
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 analysis 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. s**

**As of Date:**

<table>
<thead>
<tr>
<th>Total Assets:</th>
<th>EIC Name:</th>
<th>Field Office:</th>
</tr>
</thead>
</table>

**Determine the extent of activity occurring within certain areas of the bank:**

<table>
<thead>
<tr>
<th>Wire Transfer Department: (Wire volumes are average daily volume)</th>
<th>Y/N</th>
<th>Aggregate Number of Accounts</th>
<th>Aggregate Dollar Volume (1)</th>
<th>Estimated or Verified</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Wires only Payable Upon Proper ID (PUPID) Activity:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Wires High Risk Location (sending and receiving)*.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* See Advisory Letter 2005-S and CFPB BSA website for a list of high-risk countries.
[www.consumerfinance.gov/haarb.html](http://www.consumerfinance.gov/haarb.html)

**Trust Department:**

<table>
<thead>
<tr>
<th>Trust Department:</th>
<th>Charitable Trusts and Foundations (Foreign &amp; Domestic)</th>
<th>Y/N</th>
<th>Aggregate Number of Accounts</th>
<th>Aggregate Dollar Volume (1)</th>
<th>Estimated or Verified</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Directed (non-discretionary) Accounts</td>
<td>Custodial Accounts</td>
<td>Investment Advisory Accounts</td>
<td>Revocable Trusts</td>
<td>Foreign Grantor or beneficiaries</td>
<td>Loans or Closely held corporations</td>
</tr>
</tbody>
</table>

**Private Banking Department:**

<table>
<thead>
<tr>
<th>Private Banking Department:</th>
<th>Domestic Customers only</th>
<th>International Customers</th>
<th>Geographic Focus:</th>
</tr>
</thead>
</table>

---

3 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).

4 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.)
<table>
<thead>
<tr>
<th>International Department: Geographic focus:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Correspondent Accounts with Foreign Banks: Geographic focus:</td>
<td></td>
</tr>
<tr>
<td>Brokerage Department / Operations:</td>
<td></td>
</tr>
<tr>
<td>Investment Advisory / Management:</td>
<td></td>
</tr>
<tr>
<td>International Branch Facility: (if yes, locations)</td>
<td></td>
</tr>
</tbody>
</table>

### Determine the extent of activity occurring from certain products and services:

<table>
<thead>
<tr>
<th>Y/N</th>
<th>Aggregate Number of Accounts (2)</th>
<th>Aggregate Daily Volume (2)</th>
<th>Estimated Or Verified</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Issuance of traveler’s 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. in-house, 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 money) (This volume is based on average daily volume)

### Determine the extent that certain types of customers have deposits relationships with the bank:

<table>
<thead>
<tr>
<th>Y/N</th>
<th>Aggregate Number of Accounts (2)</th>
<th>Aggregate Daily Volume (2)</th>
<th>Estimated Or Verified</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Non-traditional financial entities:
  - Casas de Cambio (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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<table>
<thead>
<tr>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convenience Stores</td>
</tr>
<tr>
<td>Truck Stops</td>
</tr>
<tr>
<td>Liquor Stores</td>
</tr>
<tr>
<td>Restaurants</td>
</tr>
<tr>
<td>Foreign (Off-shore) Corporations with transaction accounts:</td>
</tr>
<tr>
<td>Last Countries:</td>
</tr>
<tr>
<td>Charitable Organizations (Foreign &amp; Domestic):</td>
</tr>
<tr>
<td>Non-Resident Alien Transaction Accounts (personal):</td>
</tr>
<tr>
<td>Car and Truck Dealerships (new and used)</td>
</tr>
<tr>
<td>Boat and Airplane Dealerships</td>
</tr>
<tr>
<td>Jewelry Store (retail) and Jewelry, gem, and precious metal dealers (wholesale)</td>
</tr>
<tr>
<td>Travel agencies</td>
</tr>
<tr>
<td>Import / export companies</td>
</tr>
<tr>
<td>Casinos</td>
</tr>
<tr>
<td>Stock Brokerage firms (Broker dealers)</td>
</tr>
<tr>
<td>Tel-marketers</td>
</tr>
</tbody>
</table>

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 2495112
### CTR/SAR data and Optional Examiner feedback:

<table>
<thead>
<tr>
<th>Estimated Currency Transaction Report (CTR) volume (by number) for the previous 12 months (column 1)</th>
<th>Examiners comments regarding the Compliance and Reputation risk associated with BSA/AML (High, Medium, or Low). We also encourage comments on the quality of the bank's BSA/AML risk management system.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Suspicious Activity Report (SAR) volume (by number) for prior 12 months (column 2).</td>
<td>Optional: Feedback/suggestions on ways to improve the Risk Assessment form, and our analysis of BSA/AML Compliance and Reputation risk.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CTR Volume (12 months)</th>
<th>SAR Volume (12 months)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
AML Risk Assessment Program

Model of AML Program – Central District
Purpose of AML Risk Assessment Program

-59-

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Model of AML Program
Phase I - Role of Administrative Assistant

I. Quarterly, emails Field Office Analysts, Midsize Compliance EIICs and Large Bank Compliance Teams requesting list of BSA exams scheduled for following quarter.

II. For each bank with a BSA exam scheduled in the following quarter the AA downloads CTRs and SARs from FinCEN's CBRS database.

III. AA creates file for each bank with downloaded CTRs and SARs - files are stored on a shared O:\ Drive in a folder all members of the group can access.

IV. AA assigns a compliance specialist to each scheduled BSA exam for the analysis process and emails the group to inform them CTR/SAR are on the O:\ Drive.

At the end of each quarter the AA burns a CD with the preceding quarter's AML analyses.

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<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADC</td>
<td>Assistant Deputy Comptroller</td>
</tr>
<tr>
<td>AML</td>
<td>The Annunzio-Wylie Anti-Money Laundering Act, enacted in 1992</td>
</tr>
<tr>
<td>BSA</td>
<td>Bank Secrecy Act; universal name used for the “Currency and Foreign Transactions Reporting Act” passed in 1970</td>
</tr>
<tr>
<td>C&amp;D</td>
<td>Cease and Desist Order, a formal enforcement action</td>
</tr>
<tr>
<td>CBS</td>
<td>Committee on Bank Supervision</td>
</tr>
<tr>
<td>CMP</td>
<td>Civil Money Penalties; a formal enforcement action</td>
</tr>
<tr>
<td>CTR</td>
<td>Currency Transaction Report</td>
</tr>
<tr>
<td>DC</td>
<td>Deputy Comptroller</td>
</tr>
<tr>
<td>DSRC</td>
<td>District Supervisory Review Committee</td>
</tr>
<tr>
<td>E&amp;C</td>
<td>Enforcement and Compliance, a division of the Chief Counsel's Office</td>
</tr>
<tr>
<td>EIC</td>
<td>Examiner-in-Charge</td>
</tr>
<tr>
<td>ESSP</td>
<td>Examiner Specialized Skills Program</td>
</tr>
<tr>
<td>EV</td>
<td>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.</td>
</tr>
<tr>
<td>FA</td>
<td>Formal Agreement; a formal enforcement action</td>
</tr>
<tr>
<td>FDIC</td>
<td>Federal Deposit Insurance Corporation</td>
</tr>
<tr>
<td>FDICIA</td>
<td>Federal Deposit Insurance Corporation Improvement Act of 1991</td>
</tr>
<tr>
<td>FEIC</td>
<td>Functional Examiner-in-Charge — responsible for a functional area of a bank</td>
</tr>
<tr>
<td>FFIEC</td>
<td>Federal Financial Institutions Examinations Council</td>
</tr>
<tr>
<td>FinCEN</td>
<td>Financial Crimes Enforcement Network</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
</tr>
<tr>
<td>--------------</td>
<td>-------------</td>
</tr>
<tr>
<td>FIRRREA</td>
<td>Financial Institutions Reform, Recovery, and Enforcement Act of 1989</td>
</tr>
<tr>
<td>FTE</td>
<td>Full-time Equivalent</td>
</tr>
<tr>
<td>ITS</td>
<td>Information Technology Services</td>
</tr>
<tr>
<td>LBS</td>
<td>Large Bank Supervision</td>
</tr>
<tr>
<td>MCBS</td>
<td>Midsize/Community Bank Supervision</td>
</tr>
<tr>
<td>MOU</td>
<td>Memorandum of Understanding; an informal enforcement action</td>
</tr>
<tr>
<td>MRA</td>
<td>Matters Requiring Attention; an informal enforcement action</td>
</tr>
<tr>
<td>MRABA</td>
<td>Matters Requiring Board Attention; an informal enforcement action</td>
</tr>
<tr>
<td>NAMLG</td>
<td>National Anti-Money Laundering Group</td>
</tr>
<tr>
<td>OCC</td>
<td>Office of the Comptroller of the Currency</td>
</tr>
<tr>
<td>PCA</td>
<td>Prompt Corrective Action</td>
</tr>
<tr>
<td>RAS</td>
<td>OCC's Risk Assessment System</td>
</tr>
<tr>
<td>ROE</td>
<td>Report of Examination</td>
</tr>
<tr>
<td>SAR</td>
<td>Suspicious Activity Report</td>
</tr>
<tr>
<td>SDC</td>
<td>Senior Deputy Comptroller</td>
</tr>
<tr>
<td>SIS - LB</td>
<td>Supervisory Information Systems – Large Banks; The official electronic file for entities supervised by the Large Bank line of business.</td>
</tr>
<tr>
<td>SPSU</td>
<td>Special Supervision division in OCC headquarters that oversees supervision of the most critical problem national banks.</td>
</tr>
<tr>
<td>SO</td>
<td>Supervisory Office</td>
</tr>
<tr>
<td>S&amp;S</td>
<td>Safety and Soundness Order; a formal enforcement action</td>
</tr>
<tr>
<td>WSRRC</td>
<td>Washington Supervisory Review Committee</td>
</tr>
</tbody>
</table>
USAPA USA PATRIOT Act, enacted in 2001, as a result of the 9/11 terrorist attacks
MATTERS REQUIRING ATTENTION (MRA)

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 OCC follow-up activities. In all lines of business, 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.

-66-
REVIEW TEAM MEMBERS

Project Leaders:

Linda Robertson – National Bank Examiner
Certified Quality Manager
Senior Program Administrator
Quality Management

Sue Thompson – National Bank Examiner
Certified Quality Manager
Senior Program Administrator
Quality Management

Review Team Members:

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Mid-size Banks

Stan Crisp – National Bank Examiner
Chartered Financial Analyst
Capital Markets Expert
Large Banks

Lauri Henderson – National Bank Examiner
Chartered Financial Analyst
Certified Regulatory Compliance Manager
Compliance Specialist
Large Banks

Greg Issacs – National Bank Examiner
Credit Risk Specialist
Credit Risk

Steven Key – Senior Attorney
Bank Activities and Structure
Ken Kohrs – National Bank Examiner
          Certified Regulatory Compliance Manager
          Compliance Specialist
          Southern District

Jane Otto – National Bank Examiner
          Fraud Specialist
          Central District

Gary Porter – National Bank Examiner
          Certified Quality Auditor
          Program Accountability

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2006 London Banknotes Review Meeting – 24th July 2006

Attendees

Stephen J Allen (SA) Chairperson
Gordon Brown (GB) KYC
Richard Skidell (RB) Trader
Francesca Cain (FC) CIBM Central Compliance
Kevin Dicken (KD) Trader
Lee Foster (LF) Banknotes Vault
David Belling (DB) Head Trader
Alan Kerley (AK) US Compliance via conference call
Jonathan Mcmull (JM) General Compliance & AML
Ciara Q Connell (CQ) minutes
Andrew Rizcala (AR) US Compliance via conference call
Ronald Schumack (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. Compliance

US Compliance

AK comments:

Terry Pesce has been negotiating with Joe Ioss (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 a 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 FFIEC – 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
comments that with the OCC exam completed, prospects will be the focus and we anticipate to push through a backlog 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 Cheristine Jenkins (CD) 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 G8 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 CIBM’s 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 Guliver, 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.

KYC

GB comments:
The majority of the time of the 2nd quarter was taken up preparing profiles for the OCC examination. 1st 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...
counterparts to review the customer profile. A total of 74 profiles were worked on including those of the examination, updating for example, past certificate details, requiring cross referencing with DSS. 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 continued 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 Amman (a former client of HSUS), BN is now getting more Middle East currency, especially Kuwaiti, from them – a million was purchased today 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 LSD foreign exchange company so that should hopefully increase the numbers even more for the next period.

Jordan

Although we are still trying to re-engage a 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 volume over the coming months but thinks the majority of the trouble will be reflected either through Cyprus or Israel themselves. There was an inquiry last week on how BN purchased 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 border 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 the 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 a bank although we have KYC approval for Bank Again, Bahrain are serving Qatar locally because Bahrain offer a much cheaper logistic movement then BN can, so figures are quite modest.

Tanzania
This is the only client here but have recently had [redacted] and [redacted] KYC approved. Following AW’s visit last month we should hopefully see some improved volumes in the next quarter.

Uganda
Currently there are three clients here, [redacted] 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. [redacted] 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.L. comments.
Bahrain
[redacted] is our only client in Bahrain and they are an SCC. [redacted] in Dubai and [redacted] 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 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 [redacted] 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.
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, BN have been working closely with over the last year to increase their business. They are now aggressively going after 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 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 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, who have a contract with Paris that makes them the only people who can ship valuable cargo from Paris and attempts at a HSBC BN relationship with Paris has proved impossible. BN gained 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 and on occasions through 5 good deals have been picked up in the last quarter totalling $545 million. Each deal is either for $100 million or €100 million. After losing out to we have negotiated better terms with 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 Rubles. 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 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 who are the main wholesale bank in Russia - BN are not trading with them but KYC has been submitted for approval 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.
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], 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 remain the biggest competitors.

Uzbekistan

[Redacted] Bank and BN have had to reduce pricing in [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 increase. On the buying side, BN offer them a very good service which outsides 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.

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 $3 million to $6 million but overall year on year, business with [Redacted] going down.

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.

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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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 2691122
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] but could also be that [redacted] has lost business to [redacted].

There sales figures have gone up. They are a relatively new client to BN and KD estimate 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 well. [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 BN 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 gone...
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. 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, though their business with us was small.

Kyrgyzstan

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

Has seen a downturn in business for SAL and SAL, this is perhaps due 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.
CONFIDENTIAL

FIF 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 placed 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) 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 Rajhi 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 Baida 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 (UPG03148)
SUBJECT: Al Rajhi Trading Establishment
ENTITIES: Al Rajhi Trading Establishment
REQUESTOR: Paul DeBenedetto
DEPARTMENT: Client Services – Financial Institutions
Accounts: Al Rajhi Trading Establishment, Banknotes - 000155704

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. Test of these 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
AI Rajhl Trading Establishment has appeared in the news very infrequently in the time since the initial report was conducted on AI Rajhi entities in 2003. No evidence of criminal activity relating specifically to AI Rajhl Trading Establishment could be found in our review.

The most significant report concerning AI Rajhl Trading was published in “Ethnic Newswatch” in August, 2004. This article reported that AJ Rajhl Trading was one of eight financial institutions to be merged into AJ Bihad Bank, a new banking corporation expected to launch operations in mid-2005. AJ Bihad will have a capital of $800 million.

In April, 2005, the “EU Riskwire” reported that AJ Bihad was still waiting to open. AJ Bihad will be Saudi Arabia’s 11th commercial bank.

Text of previous reports regarding AI 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
SUBJECT: AI Rajhi Banking & Investment Corporation
ENTITIES: AI Rajhi Banking & Investment Corporation
REQUESTOR: Sally Lomas

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03110811
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 2725169
From: PAUL PLESSER/HBUS/HSBC
Sent: 2/22/2005 11:04 AM
To: ALAN T KETLEY/HBUS/HSBC@HSBC
CC
Subject: Fw' Al Rahjl Trading/AI 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: -- Va-ul PlesseflHBUSfHSBC
Cc: Alba Khnury
Sobhi Tabbara
Subject: Re: AI Rahjl Trading/AI Rahji Banking

Paul,

For us is business as usual. Alba spoke to Edmond Cattan and Sobhi Tabbara and they were not informed of any decision regarding Al Rajhi. Also no instructions from IPML compliance

From: Paul Plesser
Sent: 02/22/2005 08:19 AM
To: Georges Atallah
Cc: Nazem Elsabeh
Subject: Fw' AI Rahji Trading/AI Rahji Banking

Georges,

As you know, Nazem Elsabeh deals FX with Al Rajhi 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
Paul Plesser/HBUS/HSBC
Albert Yu/HBUS/HSBC
Mark A Bakos/HBUS/HSBC
Karl Frenz/HBUS/HSBC
Mary Jo Cohane/HBUS/HSBC
Debra J LDDGE/HBUS/HSBC
Thomas Law/Zppo/HBUS/HSBC
Grant Thompson/HBUS/HSBC

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc.  HSB03497530
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 3111988
Subject: Fw: AI Rahji Trading/AI 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 Pagano/HBUS/HSBC@HSBC, Ethel Tenaci/HBUS/HSBC@HSBC, Peter G Mermi/HBUS/HSBC@HSBC, Brad Menini/HBUS/HSBC@HSBC, Joseph A Belfatto/HBUS/HSBC@HSBC, Benjamin Walsh/HBUS/HSBC@HSBC, Andrew S Lombardo/HBUS/HSBC@HSBC, Tony Murphy/HBUS/HSBC@HSBC, Daniel Minervi/HBUS/HSBC@HSBC, Fernando P PEREZ/HBUS/HSBC@HSBC, Jose Luis Guerreo/HBUS/HSBC@HSBC

cc: Joseph M Petri/HBUS/HSBC@HSBC

Subject: Fw: AI Rahji Trading/AI Rahji Banking

FYI.
----- Forwarded by Joseph M Petri/HBUS/HSBC on 01/30/2005 07:33 AM -----

Teresa Pesce on 28 Jan 2005 11:01

From: Teresa Pesce Tel: 212-525-6099
Title: Executive Vice President
Location: 452 5th Ave, Floor 07
WorkGroup: COMPANIES-ANTI-MONEY LAUNDERING
Mail Code: 317

To: Michael B Gallagher/HBUS/HSBC@HSBC, Christopher Loy/HBUS/HSBC@HSBC, Peter G Mermi/HBUS/HSBC@HSBC, Tony Murphy/HBUS/HSBC@HSBC, Joseph M Petri/HBUS/HSBC@HSBC, Cameron M Wind/HBUS/HSBC@HSBC, Camillus P Hughes/HBUS/HSBC@HSBC, Alan T Kelley/HBUS/HSBC@HSBC, William M Wong/HBUS/HSBC@HSBC, Susan A Wright/HBUS/HSBC@HSBC
cc: Tony Murphy/HBUS/HSBC@HSBC, Joseph M Petri/HBUS/HSBC@HSBC, Cameron M Wind/HBUS/HSBC@HSBC, Camillus P Hughes/HBUS/HSBC@HSBC, Alan T Kelley/HBUS/HSBC@HSBC, William M Wong/HBUS/HSBC@HSBC, Susan A Wright/HBUS/HSBC@HSBC

Subject: AI Rahji Trading/AI Rahji Banking

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 enforcement.
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
From: GEORGE TSUGRANES@HSBC
Sent: 3/15/2005 2:43:07 PM
To: NAKAYO RYAN@HSBC
CC: SHARYN MALONE@HSBC; ALAN T KETLEY@HSBC; WILLIAM WEHMEYER@HSBC
Subject: Hokuriku Bank Activity

Nan - attached is a spreadsheet of cash letter deposit activity on Hokuriku Bank. Over the last few months deposits totaling 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
From: WILLIAM WEHMeyer/HBUS/HSBC  
Sent: 11/29/2005 4:37:56 PM  
To: MARK BALAWENDER/HBUS/HSBC  
CC: GEORGE TSUGRANES/HBUS/HSBC; ALAN T KETLEY/HBUS/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 05:17 PM  
To  
William Wehmeyer/HBUS/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 Facanazopoulos etc) use those figures.  

regards,  
George  
--- Forwarded by George Tsugranes/HBUS/HSBC on 11/29/05 03:15 PM ---  
Ali T Ketley/HBUS/HSBC  
11/29/05 08:36 AM  
To  
George Tsugranes/HBUS/HSBC  
cc  
Subject  
Fw: Brooklyn cash letter  

George  
Can you give Mark the cash letter figures we have for what Brooklyn processes.
Thanks

Alan

________________________ Forwarded by Alan T Ketley@HSBC on 11/28/2005 08:28
AM __________________________ From: Mark Balawender on 11/28/2005 13:41

To: Alan T Ketley@HSBC
From: Mark Balawender on 11/28/2005 13:41
cc: Karin O'Neal@HSBC, Carol A Tuten@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.

Alan, I wouldn't really worry about Wholesale Lockbox as they have to get knockout information and the checks should receive more individual scrutiny.

Lastly, I mispoke, 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

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 paper and matches the name on the deposit ticket. This should be completed individually, not in bulk.
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
11/23/2005 03:41 PM
To
Mark Balawender
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 11/23/2005 14:03

To: Alan T Ketley

Subject: Re: Brooklyn cash letter

Alan,

I am told by Float Management that the best list of clearing 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
11/23/2005 04:02 PM

To
"Mark Balawender" <mark.balawender@us.hsbc.com>

Subject
Brooklyn cash letter

Mark

Is there a way to identify for which non-PCM clients the Brooklyn check processing area handles cash letters?

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
<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td>5760</td>
<td>THE HOKURIKU BANK</td>
<td>41</td>
<td>182295 55</td>
</tr>
</tbody>
</table>

Redacted by the Permanent Subcommittee on Investigations

<table>
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</tr>
</tbody>
</table>

Redacted by the Permanent Subcommittee on Investigations
HSBC OCC 3180764

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

Redacted by the Permanent Subcommittee on Investigations
Redacted by Permanent Subcommittee on Investigations

HSBC OCC 3180786 – HSBC OCC 3180797
From: ALAN T KETLEY@HSBC
Sent: 12/11/2005 8:13:10 AM
To: GILLIAN E BACHSTEIN@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@HSBC on 12/14/05 08:12 AM -----
Alan T Ketley@HSBC
02/02/05 03:24 PM

To: Daniel Jack@HSBC, George Tsugravanis@HSBC, Lynda J Cassell@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@HSBC on 03/02/2005 03:22 PM -----

To: Christopher Lok@HSBC, Stephen J Allen@HSBC, Gyanen Kumar@HSBC, Roger T K So@HSBC

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03570665
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3185023

VerDate Nov 24 2008 09:24 Nov 27, 2012 Jkt 076646 PO 00000 Frm 00252 Fmt 6633 Sfmt 6633 P:\DOCS\76646.TXT SAFFAIRS PsN: PAT
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 affect, 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).

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.
If you have any questions about this please let me know.

Regards,

Alan

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc.  HSB03570567
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 3185025
From: ALAN T KETLEY/HSB@HSBC
Sent: 3/20/2006 5:31.20 PM
To: BETH FISHER/HSB@HSBC
CC: 
Subject: Re; Al-Rajhi

Beth

I gather than Banknote wants to revive the relationship but has not yet done so.
Do you know what the facility is supporting?

Alan T. Kelley
First Vice President, Anti Money Laundering
Tel: 212 325 9147
Fax: 212 382 7561

Beth Fisher/HBUS/HSBC
03/20/06 04:51 PM

To: Alan T. Kelley/HBUS/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 Financial
HSBC Securities (USA) Inc.
Tel 212-525-9644

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc.  HSB03610535
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 3224893
From: BETH FISHER/HBUS/HSBC
Sent: 3/21/2006 3:53,51 PM
To: DOROTHY A GULMANIHBUSIHSBC
CC: ALAN T KETLEYIHBUSIHSBC;CHRISTOPHER J HEUSLER/HBUSIHSBC;MANWEI HUANGIHBUSIHSBC;ROBERT ABREUIHBUSIHSBC
Subject: Re: Updated TSO/TCS2 spreadsheet

From: BETH FISHER/HBUS/HSBC
Sent: 3121/2006 3:53,51 PM
To: DOROTHY A GULMANIHBUSIHSBC
CC: ALAN T KETLEYIHBUSIHSBC;CHRISTOPHER J HEUSLER/HBUSIHSBC;MANWEI HUANGIHBUSIHSBC;ROBERT ABREUIHBUSIHSBC
Subject: Re: Updated TSO/TCS2 spreadsheet

From: BETH FISHER/HBUS/HSBC
Sent: 3/21/2006 3:53,51 PM
To: DOROTHY A GULMANIHBUSIHSBC
CC: ALAN T KETLEYIHBUSIHSBC;CHRISTOPHER J HEUSLER/HBUSIHSBC;MANWEI HUANGIHBUSIHSBC;ROBERT ABREUIHBUSIHSBC
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 at 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 "2006 review.xls" deleted by Beth Fisher/HBUS/HSBC]
From: MICHAEL ELLI/HBUS/HSBC
Sent: 5/15/2006 4:08:42 PM
To: PIERRE NASSER/HBUS/HSBC
CC: STEPHANIE L NAPIERlHBUS/HSBC; MUHAMMAD SHOHIDUZZAMANIIB; DAKLHBAP/HSBC@HSBC; AFTABHAIDERlIB DAKLHBAP/HSBC@HSBC; GEORGE TSUGRANES/HBUS/HSBC@HSBC; FIG HBUS@HSBC
Subject: Report of Findings - Islam 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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"FOR INFORMATIONAL PURPOSES ONLY" 

FOR INTERNAL USE ONLY"

INVESTIGATIVE CONTROL AND REPORTING OFFICE (ICRO) 
FINANCIAL INTELLIGENCE UNIT 
REPORT OF FINDINGS (UPDATE) 
(Research as of 05/11/06) 

INVESTIGATOR: Kathleen Dischner 
SUBJECT: Islam Bank Bangladesh 
ENTITIES: Islam Bank Bangladesh 
REQUESTOR: Pierre Nasser 
DEPARTMENT: Banknotes 

An updated Report of Findings in support of Enhanced Due Diligence was conducted for Islam 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 Islam Bank:
AI RaJhi Company for Industry & Trade, Riyadh Al-Khobar (9.9369%) 
Islamic Development Bank, Jeddah (7.5025%) 
Kuwait Finance House KSC, Safat (5.25%) 
The Public Institution for Social Security, 6.46% 
Abdallah Abdul Aziz Al-Rajhi, 7.58% 
Abdallah Abdul Aziz Al-Rajhi, 7.58% 
Kuwait Awqaf Public Foundation, 4.3%
Other shareholders with less than 2% ownership.

Most Current List of Top Executives Found:

- Kazi Harun-ur-Rashed, Chairman
- Abdur Raquib, Executive President & Chief Executive Officer
- M. A. Mannan, Executive Vice President International Banking
- Md Fazlebuddin Ahmed, Executive Vice President of Operations

Please note that we were unable to confirm in our ordinary sources either Musadiq 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, Bangia Bhai, were arrested for being responsible for the terrorist blast attacks 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 Laltighat 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. (Asia-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 – Politics, 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.

Issa Saada, 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).
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. ("United 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 colleagues were sued for misappropriating Tk 2,500,000 (approximately US$36,927). In 1996 he had reportedly opened a fake account in the name of Anwar 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

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 3241694

FINANCIAL INTELLIGENCE GROUP (FIG)
REPORT OF FINDINGS
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).

**Islam Bank Limited**

In a Banker’s Almanac entry dated February 14, 2005, Islami Bank Bangladesh Ltd. is listed under the address of PO Box 233, Islam Bank Tower, 40 Gulshan 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 1,553rd in the world and 2nd in Bangladesh, and that the bank currently has 143 branches nationwide 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 cooperation 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 Banker’s 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. Fahaduddin Ahmed, Executive Vice-President Audit & Inspection, Md. Shahjahan Chowdhury, Executive Vice-President Asset Management, Md. Setuon Rahman, Executive Vice-President Project Management, A. T. M. Haque-ul-Rashid Chowdhury, Executive Vice-President Operations, Md. M. A. Mannan, Senior Vice-President International Banking Wing & Foreign Exchange, A. W. Shamsuzzoha, Vice-President International Banking Wing & Documentary Credits, Md. Siddique Rahaman, Senior Vice-President Correspondent Banking, Abu Zafar Md. Sheikul Islam, Vice-President Information Technology, Md. Nurul Islam, Senior Vice-President Human Resources, Md. Shamsuzzoha, 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
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 through 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 officials 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 Register on 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, Sheikh Hasina Wajed in connection with military purchases of the DV 2000 frigate from South Korea's Daewoo 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.
The Banker’s Almanac provides the following shareholder list for Islam! Bank:

AI Rajhi Company for Industry & Trade, Riyadh Al-Khobarah (9.9369%),
Islamic Development Bank, Jeddah (7.5025%),
Kuwait Finance House KSC, Safat (5.25%),
The Public Institution for Social Security, 6.46%,
Arabian Travel &
Abdullah Abdul A..ziz AI-Rajhi, 7.58%
A search for the AI-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 A..ziz AI-Rahih, and he is also a 7.58% shareholder in Islam! Bank. According to World-Check, Mr. AI-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 Islam! Bank’s shareholders listed above to criminal activity.

The following civil case was retrieved in a search for Islam! Bank, although it could not be confirmed that the Islam! 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
CASE NUMBER: 19S7CI00014
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 Islam! Bank.
No information was found linking Islam! Bank to corruption or criminal activity
Feel free to contact me if you have any questions regarding this report.

Sincerely,
Maria Shkolnik
FIG Investigator

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03627339
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3241697
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 "Ethics Newsweek" 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 $900 million. This press report refers to Al Rajhi Trading as a "Money Changer."

In April, 2005, the "EU 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 AlRajhi Trading, Sheikh Abdul Rahman S Al Rajhi, is the son of
Sheikh Abdul Aziz Al Rajhi, founder and director of AlRajhi Banking and
Investment Corp. According to business records we've found, AlRajhi Trading
is not a subsidiary company of AlRajhi 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 AlRajhi Trading
Establishment or its owner could be found in our review.

Text of previous reports regarding AlRajhi 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

CONFIDENTIAL
*** FOR INFORMATIONAL PURPOSES ONLY ***
FINANCIAL INTELLIGENCE GROUP (FIG)
REPORT OF FINDINGS (UPDATE)
SUBJECT: AlRajhi Banking & Investment Corporation
ENTITIES: AlRajhi Banking & Investment Corporation
REQUESTOR: Sally Lomas
DEPARTMENT: Banknotes
ACCOUNTS: AlRajhi Banking & Investment Corporation (Reference #)

An enhanced due diligence was conducted on AlRajhi 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.

AlRajhi Banking & Investment Corporation:

In 2004, AlRajhi 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 an 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 AlRajhi'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 leveled 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, Muhammad SHOHIDUZZAMANIIB DAKlHBAPIHSBC@HSBC, Aftab HAIDER/IB DAKlHBAPIHSBC@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 Requib, 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
or
Stephanie L Napier/HBUS@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.
Kazi Harun-ar-Rashid-Chairman
Mutad Abdullah Al-Rahi-Vice Chairman
Mouhamed Zainul Abedin-Vice Chairman
Monirul 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

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03627343
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3241701
From: TERESA PESCE/HBUS/HSBC
Sent: 5/30/2006 7:51:41 AM
To: ALAN T KETLEY/HBUS/HSBC
Subject: Re: U-Turns

Alan - we have no choice. JPMC won't take them.

Sent from my BlackBerry Wireless Handheld

From: Alan T Kelley
Sent: 5/30/2006 6:28 AM
To: Gary BOON; Alan KERR
Cc: Pallavi KEMPALAIAH; Teresa Pesc; 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. Kelley
First Vice President, Anti Money Laundering
Tel: 212 525 6147
Fax: 212 382 7580
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) 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 via through HSBC USA.

We now have a requirement that w/e 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.

Gary

Alan T. Ketley
HBUS
05/26/2006 10:33 PM
Mail Size: 3000
To: Alan KERR@HSBC, Gary BOON@HSBC
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 as we can explore establishing the necessary infrastructure.

Thanks

Alan T. Ketley
First Vice President, Anti Money Laundering
Tel: 212 525 6147
Fax: 212 382 7940
From: SALMAN HUSSAINIHBMEHBSBC
To: ALAN T KETLEYIHBUSIHSBC
CC: DAVID B HUANGIHBMAHBEUHSBC:
     DAVID B HUANGIHBMDIHSBC:EMRAN.ALI.REZA@HSBC.COM:
     SHARIQ Z SIDDIQUIHBMEHBSBC:HAMMAD ZAIDIHBMEHBSBC:
     STEPHEN D LOFFREDOIHBUSIHSBC:GARY BOSNIALHBMElHSBC
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.

- Shariq Siddiqi, GRM Amanah Finance, Dubai
- David B Hing, Banknotes HBEU, London

As I understand from talking to all parties that we had an excellent relationship with Al Rajhi Bank until year 2004, the Banknote (David Hing) stopped doing business while being the largest revenue generator in the Middle East. Amanah Finance in London (Emran Ali Reza) still trades 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 Loffredo are working on as an intro to this bank. The amount of potential business/revenue is quite substantial and if their Sharia 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: +973 17594340
Email: Salman.Hussain@hsbc.com

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HSBC Bank Middle East Limited
Registered Office: HSBC House, Esplanade, St Helier, Jersey, JE4 8LQ
Registered Number B56002

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc.  HSB03636297
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 3250655
From: ALAN T KETLEY/HBUS/HSBC
Sent: 6/22/2006 12:38:30 PM
To: SALMAN HUSSAINIHBMEIHSBC
CC: DAVID B LING/HMD/HSBC;FIRDAN@HSBC; EMAN ALIREZA@HSBC.COM; GARY BROWN/HMHSBC@HSBC; HAMAD ZADIRH/BUS/HSBC@HSBC; SHARIQ Z SIDDIQUI/HBUS/HSBC@HSBC; STEPHEN D LOFFREDO/HBUS/HSBC@HSBC; LYNDA J CASSELL/HBUS/HSBC@HSBC; SHARIQ Z SIDDIQUI/HBUS/HSBC@HSBC; STEPHEN J ALLEN/HD/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 DCC 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

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 CasseIl/HBUS/HSBC
04/12/2006 12:03 PM

To: Stephen J ALLEN/HHSBC@HSBC; Gordon BROWN/HBUUS/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
Profiile 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 HSUS are utilized in these cases.

Detail the client's intended use of USD banknotes, e.g., percentage to client's current branches versus commercial enterprises (subsidiaries/affiliates). Usage by customer type, e.g., construction / commodity 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 on any of the above, please feel free to contact me.

Lynda J Cassel
1st Vice President, Sr. AML Policy Advisor
HSBC USA NA
432 Fifth Ave 7th Floor
New York, NY 10018
Telephone: (212) 525-6026
Fax: (212) 525-5760

---------- Forwarded by Lynda J Cassel "HSU@HSBC" on: 04/10/2006 10:56 AM ----------

Lynda J Cassel "HSU@HSBC"
02/08/2006 05:46 PM

To: Gordon BROWN/HBUS/HSBC
   cc: Alan T. Kidd/HBUS/HSBC, Clara O'CONNELL/HBUS/HSBC, Daniel Jack+h@HSBC, Susan SALAM@HSBC, Teresa Pesce/HBUS/HSBC, Stephen J. ALLEN/HBUS/HSBC, MERIDIAN@HSBC, Christopher Lok/HBUS/HSBC

Subject: AML Procedures: AlRajhi Banking & Investment Corp., Saudi Arabia

Gordon, in accordance to our previous conversation, the AML compliance decision to do business with AlRajhi 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 AlRajhi’s AML Policy and Procedures, I find there 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
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
402 Fifth Ave 7th Floor
New York, NY 10016
Telephone: (212) 525-6026
Fax: (212) 525-5769

Gordon BROWN/BEU/HSBC
02/06/06 11:50 AM

To
Lynda J Cassell/HSBC
cc
Susan SALAB/EU/HSBC, Ciara O’CONNELL/EU/HSBC, Daniel Jack/EU/HSBC, Alan T Kielty/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/HSBC"]
From: ANNE LLDDYIHBUSIHSBC
Sent: 06/22/2006 4:34:59 PM
To: ALAN T KETLEY/HBUS/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-Danish
Subject: Re: 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: Re: You Turn Payments

FYI:

Bob Shetty
Global Payments & Cash Management
HSBC Bank USA,
212 525 2001

----- Forwarded by Bob Shetty/HBUS/HSBC on 08/22/2006 08:57 AM -----

Gary BOON/HBM/EHSBC
08/22/2006 07:24 AM

To: Bob: Shetty/HBUS/HSBC@HSBC
cc: Richard C Boyle/HBUS/HSBC@HSBC
Subject: Re: You Turn Payments

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc.  HSB03636372
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 3250730
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

-------------------

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 5999. Thanks.

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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.
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 2801
From: SHARYN MALONE/HBUS/HSBC
Sent: 8/3/2006 4:07:56 PM
To: STEPHANIE L NAPIER/HBUS/HSBC; AFAF ABDELSAYED/HBUS/HSBC; GILLIAN E BACHSTEIN/HBUS/HSBC; PRINCELY P MURUGH/HBUS/HSBC; HERSHEL MEHANI/HBUS/HSBC; ALAN T KETLEY/HBUS/HSBC; GEORGE TSUGRANES/HBUS/HSBC; ROBERT A MCAVITT/HBUS/HSBC; SANDRA PETERSON/HBUS/HSBC; ANTHONY JULIANI/HBUS/HSBC; NANCY HEDGES/HBUS/HSBC; ANDREW P DROLET/HBUS/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 (IIO) for facilitating fundraising for al Qaida and affiliated terrorist groups", we have today placed a debit block on Social Investment Bank account #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 BOP income & NII. Also, SIB holds USO 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:

  Infl Islamic Relief Organization (IIO)
  Social Trust Fund
  Publicly Traded; Widely Held - None with 5% or more ownership

After speaking with Compliance, we have placed a debit block on outgoing payments subject to the receipt of a response from SIB, 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 Qaeda Network
The U.S. Department of the Treasury today designated the Philippine and

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03645578
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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 (UN) 1267 Committee's consolidated list of individuals and entities associated with the Taliban, al Qaida and/or Umaran Bin Ladin.

In 2001, 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 1980s and personally knew Usama Bin Ladin and deceased al Qaida co-founder Abdullah 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-Mujail
Dr. Abd Al-Hamid bin Sulaiman Al Mujail
Abd al-Hamid Al-Mujail
A.S. Mujjal

DOB:
Abu Abdullah

Nationality:
Saudi Arabian

International Islamic Relief Organization, Philippines Branch Offices

The IIRO-PHL is a source of funding for the Al Qaeda-affiliated ASG. IIRO-PHL has served as a front 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 Khamah, who is Usama bin Laden's brother-in-law and has been identified as a senior Al Qaeda 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 Qaeda through his relations with senior Al Qaeda supporters, including Specially Designated Global Terrorist (SDGT) Wadi Hemez 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-Jali[ 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 Carranza in San Jose Gau, Zamboanga City, Philippines on June 29, 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-Isamiyah
Hayat Al-Aghatha al-Islamiya al-Aminiyah
Hayat al-Igatha
Hayat Al- Igatha
Ighatha
Ighatha
Igatha
Igatha
Egatha

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03645580
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3259938
Address:
International Islamic Relief Organization, Philippines Offices
201 Holiday Tower Building
108 Valero Street
Salcedo Village, Makati City
Metro, 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 channelled 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-Qa'ida 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
Islamic Relief Organization
Al Igatha Al-Islamiya
Hayat al-Ighatha al-Islamia al-Alamiya
Hayat al-Iqatha
Hayat Al-Iqatha
Igatha
Igatha
Iqasha
Igasha

Address:
International Islamic Relief Organization, Indonesia Office
Jalan Raya Cipinang Jaya No. 90
East Jakarta, 13410, Indonesia
P.O. Box 1654
Jakarta, Indonesia 1401

-30-

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03645581
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3259939
From: ANDREW RIZKALLA/HBUS/HSBC
Sent: 8/7/2006 8:01:39 AM
To: GEORGE TSUGRANES/HBUS/HSBC
CC: ALAN T KETLEY/HBUS/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 cop 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
cc: Andrew Rizkalla/HBUS/HSBC
Subject: Re: Fw: Social Invst Bank Bangladesh

Although the Philippines and Indonesia branch offices were cited, the Treasury action also cited Abd Al Hamid Sulaiman Al-Mujil, 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 - 000 is to say that they won't sooner or later start moving funds through this acct.

Also, the support attached is "lukewarm" in my opinion.

regards
George
Thoughts?

Alan T. Ketley
First Vice President, Anti Money Laundering
Tel: 212 525 6147  
Fax: 212 392 7980

--- Forwarded by Alan T. Ketley/HBUS/HSBC on 08/07/2006 08:10 AM ---

To

Alan T. Ketley/HBUS/HSBC, George Tsugranes/HBUS/HSBC@HSBC
cc: Sharyn Malone/HBUS/HSBC@HSBC, Stephanie L Napier/HBUS/HSBC@HSBC

Subject

Fw: Social Invst Bank Bangladesh

---

Dear all,

CEO email from Dhaka is self-explanatory.

My decision is to maintain the account and monitor activities for six months.

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 IRS and this should allow us to document that EDD was swiftly performed and will continue to be performed as long as the IRS has share in this bank next month.

We need to discuss if possible early from the execution of payments held on Friday and whether to close and release these funds as indicated in the email. Again I want to support Dhaka in maintaining the account.

...
From: Steve BANNER
Sent: 08/06/2006 09:06 AM
To: Hemel Mehani
Cc: Sharyn Malone; Alan T Ketley; George Tsugranes; Stephanie Napier; Htekhar ALAM; Muhammad SHOHIDUZZAMAN
Subject: Fw: Social1nvst Bank Bangladesh

Hemel,

I refer to your note sent on Friday. I attach a self explanatory note from Shohid, who has (along with Htekhar) been following up on this matter with SIBL’s management.

Based on the feedback from SIBL, IIRG’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 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 IIRG 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 IIRG 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 me 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/HBA/HSBC on 08/05/2006 06:19 PM -----
Muhammad SHOHIDUZZAMAN/HBAP/HSBC
Dak/Hbaap
08/06/2006 05:45 PM
Phone: 880 2 880136 x 255
Mail Size: 35202

To: Steve BANNER/CEO DAK/HBA/HSBC
Cc:
Steve

Iftekhar 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 (CMD)
03. Mr. Mahamud Hassan, Senior Vice President and Company Secretary (CS)

I briefly described the background of the present issue 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/share 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/share 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 issue of concern locally. But since the matter has been raised by the US Treasury, HSIB should take appropriate measure after careful examination of all the present and potential aspects. FYI, presently SIBL is maintaining two nostro accounts with HSIB and INM. We do not have any credit relationship with this bank.

Regards
Shohid

--- Forwarded by Muhammad SHOHIDUZZAMANIIB DAK@HSBC on 08/09/2006 03:10 PM ---
Dear Shohid

I just finished updating Ifekhar on Social Invest Bank. He will call you to discuss this issue. Tomorrow he will speak to 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 IRC 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. IGASA; a.k.a. HAYAT AL-IGHATHA AL ISLAMIA AL ALAMIYA; a.k.a. HAYAT AL-IGATHA; a.k.a. HAYAT AL IGATHA; a.k.a. IGASA; a.k.a. IGAGE, a.k.a. IGASA; a.k.a. IGATHA; a.k.a. IRG; 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, Jakarta 13410, Indonesia; P.O. Box 3654, Jakarta, Java 54021, Indonesia

INTERNATIONAL ISLAMIC RELIEF ORGANIZATION PHILIPPINES BRANCH OFFICE (a.k.a. AL IGATHA AL-ISLAMIYA; a.k.a. IGASA; a.k.a. HAYAT AL-IGHATHA AL ISLAMIA AL ALAMIYA; a.k.a. HAYAT AL-IGATHA; a.k.a. HAYAT AL IGATHA; a.k.a. IGASA; a.k.a. IGAGE, a.k.a. IGASA; a.k.a. IGATHA; a.k.a. IRG; a.k.a. INTERNATIONAL ISLAMIC AID ORGANIZATION, a.k.a. INTERNATIONAL ISLAMIC RELIEF ORGANIZATION; 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, Jakarta 13410, Indonesia; P.O. Box 3654, Jakarta, Java 54021, Indonesia

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 3260413
Just to confirm our discussions this afternoon regarding IRO’s designation by the US Department of Treasury as a supporter of Al Qaeda. 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 IRO 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

08/04/2006 09:04 AM

To
minar03@hotmail.com

cc

Subject

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc.  HSBC03646056

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 3260414
From: ALAN T KETLEY/HBUS/HSBC
Sent: 9/7/2006 8:47:40 AM
To: HERSEL MEHANIIHBUS/HSBC@HSBC; SHARYN MALONE/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

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 SGC Category 4 (reputational risk) with immediate effect and will be subject to closer monitoring as a result (George - an ALT of 62,000 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 ample 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
Tel: 212 525 6147
Fax: 212 382 7580

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03646068
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3260426
From: TERESA PESCE@HSBC
Sent: 8/11/2006 9:45:45 AM
To: ALAN T KETLEY@HSBC; ANDRE RIZKALLAH@HSBC
CC: 
Subject: Fw: Report of Findings - Social Investment Bank Limited - Bangladesh - FIG

This makes me very uncomfortable. Can we talk 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@HSBC on 08/11/2006 10:44 AM ---

FIG HSBC
Sent by: Michael Elia
08/11/2006 08:27 PM
To: George Tsugrane/HBUS@HSBC, Alan T Ketley/HBUS@HSBC, Gillian E Bachstein/HBUS@HSBC, Melissa Oggenfuss/HBUS@HSBC, Pierre Nassour/HBUS@HSBC, Andrew Rizkalla/HBUS@HSBC, Pierre Nassour/HBUS@HSBC, Andrew Rizkalla/HBUS@HSBC, Pierre

CONFIDENTIAL

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 Sulaman Al-Mujil, the Executive Director of IIRO's Eastern Province Branch in...
Saudi Arabia, as a SDGT.

According to Banker's 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 06/04/06)

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 Tsouganas, 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 Afza! Haque, Chairman
Alhaj Mohd Afzal Hossain, Vice-Chairman  
K M Asbaduzzaman, Managing Director  
Abu Shadik Shihab, 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, Abdul-Hadi al-Gaafil, 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/sec.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 1988 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. Major 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 - operates worldwide. 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 Shafiqu! 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 of 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 on 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

15 Mar 2005 18:02

From: FIG HBUS
Tel: 
Title: 
Location: 
WorkGroup: Mail Size: 30784
Sent by: Bob Powers

To: Rhonda Lee-Thomas/HBUS/HSBC
Nanayo Ryan/HBUS/HSBC
Gloria Strazza/HBUS/HSBC
Teresa Pesce/HBUS/HSBC
Alan T Kelley/HBUS/HSBC
Lynda J Castress/HBUS/HSBC
FIG HBUS/HSBC

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3261522
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

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 posted 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 group 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 10th in its country and 2,257 in the world. In 2003, the bank reported $359.9 million in total assets. Kamailluddin Ahmed is the current Chairman of the bank, with Kazi Anwaru Mahbub listed as the bank's Managing Director. The bank's correspondent banking relationships do not extend beyond its relationships with the global branches of Standard Chartered Bank and American Express Bank Ltd. Its relationships with these two corporations allow 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 LexisNexis reports that the International Islamic Relief Organization (IIRF) is the bank’s largest shareholder with an 8.62% stake in the bank. As detailed above, the IIRF 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 (IIRF) 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. Mortahan, Mohammad Aslam, 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 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 terrorists for the 1998 African embassy bombings" and having been involved in "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 1990s. 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 Bi! Inc., which was responsible for investing the money. Sana Bi! 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, Salamah S. Shahri, 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 $200,000 to the Turkmen Zanat Committee, a human-affiliated organization in the West Bank. IIRO has also been linked to several other organizations that have been accused of terrorist financing, including Al-Shama! 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 Matlab family and Yaqub Mirza, which have been accused of supporting terrorists.

Islamic Charitable Society Lajnat Al-Bin Al Islam

Lajnat al-Bin Al Islam was established in 1997. It has been stated that Lajnat al-Bin Al Islam 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 Ahmed, 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 "Truth
project" for Makhtab al-Khidmat, 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
do Labor and Employment. He was charged in a 2002 government white paper with
illegal spending of government money. Because M.A. Mannans 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.

Mohammed 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 Mohammed 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
terrorist.
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 Islami (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 Bechlein/HBUS/HBSC@HSBC
Melissa Oggenfuss/HBUS/HSBC@HSBC
Pierre Nasser/HBUS/HSBC@HSBC
PSRR@HSBC
Andrew Rizkallah/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 James/HSBU/HSBC
07/21/06 12:15 PM

To: George Tsugranes/HBUS/HSBC
cc: PSRR@HSBC, Gillian E Bechlein/HBUS/HSBC@HSBC, Pierre Nasser/HBUS/HSBC, Melissa Oggenfuss/HBUS/HSBC@HSBC

Subject: Re: Social Investment Bank Limited Bangladesh

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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
<table>
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<td>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)? (Yes, subtract 5 points)</td>
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<td>If yes, exchange, sector, and other information about the relationship to the country of origin</td>
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<td>All &quot;Red flags&quot; or any other potential information or activity of interest to the due diligence process for any reason (1-4 points; may be added as a business judgement linking them to Al-Qaeda, Osama Bin Laden and/or financing terrorist activities)</td>
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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 02.44 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: 212-5250902
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 ProfNo in SAUDI ARABIA is ready for your approval (Reference
Beth/Alan,

I now have the following additional info from Salman for your kind attention.

Steve


Salman Hussain/HBME/HSBC
HBME
11/17/2006 13:56
Phone No. 0097317569599
Mail Size: 10233

To: David Billings/HBMD/HSBCMeridian, Gordon Brown/IBEU/HSBC, Stephen J Allen/HBMD/HSBCMeridian@HSBC
Cc: Ciara O’Connell/IBEU/HSBC, Shariq Siddiqui/HBME/HSBC, John L Scott/IBEU/HSBC, Hamzael Deul/IBU/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. Gaskin Douret, Head of FI, until the end of Nov. to respond to their weather we will be able to resume the booknote business or not. Mr. Douret indicated that HSBC Amman business will be at risk and they will cancel any dealings with HSBC.

Mr. Douret understands the Compliance Dept. requirements and suggested we request further information from Moody’s (Attn. Mr. Anwar Hasson) or S&P. He also indicated that JPMorgan Chase, their main US$ clearer had done the same and accordingly an USD limit of $290 million 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,
Salman Hussain  
Regional Sales Manager  
Global Transaction Banking  
HSBC Bank ME Ltd.  
P.O. Box 57  
Manama, Kingdom of Bahrain  
Tel.: +973 17569599  
Mobile:  
Fax.: +973 17568888  
Email: salman.hussain@hsbc.com

Salman HUSSAIN  
HSBC  
19 Sep 2006 10:10  
097317569599  
Mail Size: 11765  
To: Gordon BROWN/EU/HSBC  
cc: Shariq Z SIDDIQI/HSBC  
Gary BOON/HMME/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 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:  
Fax.: +973 17564343  
Email: salman.hussain@hsbc.com
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)
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.
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 etc.

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 Banknote 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.
From: STEPHEN J ALLEN/HSBCMERIDIAN
Sent: 11/17/2006 9:37:00 AM
To: BETH FISHER/HBUS/HSBC@HSBC
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/HSBCMERIDIAN@HSBC
cc: Alan T Ketley/HBUS/HSBC@HSBC, Christopher J Heusler/HBUS/HSBC@HSBC
Subject: Re: Al Rajhi Banking

Steve,

I am not trying to be difficult, but I do not personally feel comfortable in 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 when the Al Rajhi name appears in US news media. Therefore, please ask another officer to approve. I am IB-Denied the KYC, so that my name can be removed as RM.

Thank you.

Beth

Stephen J ALLEN/HSBCMERIDIAN
Tel: 799 24555; +44 (0) 20 7992 4555

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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 restart 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 restart 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 'IB 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
From: SALMAN HUSSAIN/HBME/HSBC
Sent: 11/20/2006 5:35:28 PM
To: ALAN T KETLEY/HBUS/HSBC
CC: GORDON BROWN/IBEU/HSBC; JOHN L SCOTT/HSME/HSBC; SHARIQ Z SIDDIQI/HBME/HSBC; STEPHEN J ALLEN/HBMD/HSBCMERIDIAN
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 17509888
Email: salman.hussain@hsbc.com

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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
From: Alan T. Ketley/HBUS/HSBC
Sent: 11/22/2006 1:17:08 PM
To: Emma E. Lawson/HGHQ/HSBC
Cc: Teresa Pesce/HBUS/HSBC
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. Lawson/HGHQ/HSBC
11/22/2006 12:51 PM

To: Alan T. Ketley/HBUS/HSBC
Cc:

Subject: Re: Fw: AlRajhi Banking & Investment Corp., Saudi Arabia

Can we pick this up again please. Has progress been made.

Thanks and regards Emma

Alan T. Ketley/HBUS/HSBC
HSUS
20/06/2008 16:21
Mail Size: 3309

To: Emma E. Lawson/HGHQ/HSBC
Ccc: Teresa Pesce/HBUS/HSBC

Subject: Re: Fw: AlRajhi Banking & Investment Corp., Saudi Arabia

Entity

HSBC Holdings plc - HGHQ

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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@HSBC
06/02/2006 03:19 AM

To
Alan T. Ketley/HSBC@HSBC
cc
Teresa Pesce/HSBC@HSBC
Subject
Fw: AlJundi 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@HSBC on 06/02/2006 06:37 ---
From: ELIZABETH PROTONASTRO/HBUSHSBC
Sent: 12/18/2006 1:58:01 PM
To: DONNA S M CHAN/HBUSHSBC; GRACE C SANTIAGO-DARVISH/HBUSHSBC; ALAN T KETLEY/HBUSHSBC
Subject: Fw: TT NSC_ HKP114DEC06

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 posted below:

http://ustreas.gov/offices/enforcement/ofa/OFAClicinfo.pdf

Below is the link to the OFAC website for information on the current sanctions program:

http://ustreas.gov/offices/enforcement/ofa/index.html

Let us know if you have any further questions.

----- Forwarded by Elizabeth Protonastro/HBUSHSBC on 12/18/2006 01:48 PM -----

Alan T Ketley/HBUSHSBC
12/18/2006 07:54 AM

To: Elizabeth Protonastro/HBUSHSBC, "Grace C Santiago-Darvish"
<grace.c.santiago-darvish@us.hsbc.com>

Cc: Donna S M Chan

Subject: TT NSC770937//HKP0320-14DEC06

Ladies

Would you be so kind as to reply to Donna.

Thanks

Alan

----- Reduced by the Permanent Subcommittee on Investigations -----
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:

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.

You would like to seek your advice 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
Information about Abd Al-Hamid Salaman Al-Muallili, suspected to be associated with Al-Qaeda.

The above information is subject to the FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSBC03727824

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From: GEORGE TSUGRANES/HEBUS/HSBC
Sent: 3/2/2007 2:47:11 PM
To: ALAN T KETLEY/HSBUS/HSBC
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
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</table>

Redacted by the Permanent Subcommittee on Investigations.
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. The 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,

By GLENN R. SIMPSON
July 26, 2007

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, Sultan Al Rajhi once told an intelligence officer, and for many years he would hand gold bars to strangers tendering fliers 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.

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 officials 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. AI 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. AI Rajhi ordered AI 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. AI 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 "AI Rajhi Bank: Conduit for Extremist Finance.

AI Rajhi Bank and the AI 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

AI 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 AI Rajhi family and their bank were financing terrorists, probably knowingly. This is the summary page 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.

The CIA's report and other U.S. intelligence on AI-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 AI-Rajhi provided anything but routine banking services to terrorists. Read the order.

This 1992 State Department cable from the U.S. ambassador in Riyadh discusses the Saudi press coverage of the AI Rajhi bank's purported role in the BCCI scandal. One of the AI 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. The fundraising solicitation is from the IIRO's March 2007 newsletter. The group strongly denounces terrorism on its Web site.

U.S. intelligence has alleged connections between al Qaeda and the IIRO since 1996, and the Treasury Department now alleges the IIRO has been deeply penetrated by al Qaeda. The group denies supporting terrorism in this statement.

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overseas, and that its accounts are frozen by Saudi banks. Yet its most recent fundraising letter
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
<http://wsj.com/public/resources/documents/90perationAIFallujah2004.ppt>. In 2002, the bank sued The Wall Street Journal Europe after an article said Saudi authorities were monitoring some AI Rajhi Bank accounts at U.S. request, in a bid to prevent them from being used, unwittingly or unwillingly, 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 terrorists, 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 overseas 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 shutting down of known centers of terrorist financing.” A CIA spokesman said “publishing details of how our government seeks to block 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 Sauds 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 royal, 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 $26 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 photographs 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 Rajhl built the Al Rajhl
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 1993, 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 Rajhl 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 alm amid the oil boom. As the clerics’
charities spread, they became entwined with Al Rajhl Bank and the conservative
Al Rajhl 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

There are indications not all the giving was for such purposes. The Al Rajhl
name appeared on a list of regular financial contributors to al Qaeda that was
discerned 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 2002 German police report said Sulaiman Al Rajhl 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,
this 2003 CIA report lists of efforts by two Al Rajhl brothers to keep some
giving secret. It says that Sulaiman and Salah transferred $4 million to
parties in Germany and Pakistan in December 1998 using “a unique computer code
to send funds to regular recipients 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 “sireded operations in Afghanistan, Indonesia,
Pakistan, Saudi Arabia, Turkey, and Yemen” to use Al Rajhl Bank. Mamatullah
Salim, convicted mastermind of the 1998 embassy bombings in Kenya and Tanzania,
was carrying records of an Al Rajhl account (number 00142414) 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 2005 carried $150,000 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-Baligh, 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.

Al 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 donations. 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 layman 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 28 people, including nine Americans. Delegates 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 asking 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 N Qaeda."

Ultimately, the Bush administration again chose merely to continue privately exerting pressure on the Saudis to stiffen their oversight.
From: GLORIA STRAZZA@HSBC
Sent: 7/26/2007 12:11:28 PM
To: ALAN T KETLEY@HSBC
CC: "ALAN WILLIAMSON" <ALAN.WILLIAMSON@US.HSBC.COM>; "ANNE Liddy" <ANNE.Liddy@US.HSBC.COM>; MONIQUE CODJOE@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
Tel: 212-525-8634
Fax: 212-525-5769

Alan T Ketley@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.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, NY 10018
Phone: 212-525-6147

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HSB03776904
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3391282

VerDate Nov 24 2008 09:24 Nov 27, 2012 Jkt 076646 PO 00000 Frm 00335 Fmt 6633 Sfmt 6633 P:\DOCS\76646.TXT SAFFAIRS PsN: PAT
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

TEROR 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 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
AI Rajhi Bank by alleged extremists, and how U.S. officials agonized over what to do about it.

At 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 AI 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 AI 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 AI 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 “rewired” $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 “AI Rajhi Bank: Conduit for Extremist Finance.”

AI Rajhi Bank and the Al Rajhi family deny any role in financing extremists.

The bank declined to address specific allegations made in American intelligence and law-enforcement records, citing client confidentiality.

Related Documents

AI-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.

The CIA’s report and other U.S. intelligence on AI-Rajhi remained secret, and in 2005 a federal judge threw out a lawsuit against the bank by victims of AI Qaeda, saying there was no evidence AI-Rajhi provided anything but routine banking services to terrorists. Read the order.

The AI-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 communique recounting the incident 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 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 is from the
IIRO's March 2007 newsletter. The group strongly denounces terrorism on its
Web site. U.S. intelligence has alleged connections between al Qaeda and the IIRO since
1996, and the Treasury Department now alleges the IIRO has been deeply
penetrated by al Qaeda. The group denies supporting terrorism in this statement
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 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.

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, willingly or unwillingly, for
funding 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
deciding to comment on Al Rajhi Bank specifically, says Saudi officials
haven't made a promise to create a commission to oversee Saudi charities, many
of which bank with Al Rajhi. "They are also out holding people responsible for
sending money abroad for jihadi," 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
fundraisers 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 Saudi family, any confrontation with the Al Rajhis could be
politically treacherous. To stay in power, the Sauds 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 AI Rajhs also have close ties to another group critical of the royals, Saudi Arabia's conservative clerics.

The AI Rajhl 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 AI Rajhl 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 AI Rajhi built the AI 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 1993. 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.

In 1963, the brothers won permission to open Saudi Arabia's first Islamic bank, one that would observe religious norms such as a ban on interest. But relations with the ruling family frayed. The government-controlled press in 1992 publicized AI 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 AI 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. AI Rajhi blamed the royal family, the CIA report says.

Although AI 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 AI Rajhi Bank and the conservative AI Rajhi family's own extensive financial support for Islamic causes. There is no reliable estimate of how much the AI Rajhis have given to promote Islam over the years, but an endowment holding much of Saleh AI 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 AI Rajhl 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 AI Fadl, who is in the federal witness-protection program. He called the contributor list the "golden chain."

A 2003 German police report said Sulaiman AI 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 AI 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 willing of the courier's travel 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 finances, 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."

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May 2003 that killed 26 people, including nine Americans. Deputy 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.
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 the case but certainly worth checking into.
   - It's 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. We are in 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 (consistent 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 why they are driving this push to change the reporting line. However, if that is the case, the OCC should address this as an 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:
     a. conflict of interest (audit reports to the AML director, or Risk Management)
     b. 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.
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 more 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 these policies.
4. Have the AML Director report to either the board or the Audit Committee.

I know Wyn wants this. The regulators would like this. 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 Moss and Lisa de la Garza, and PRB Examiner Michael Barrett to discuss the issue of TRAC independence. The issue at hand was TRAC independence in light of the financial services now occurring that would result in both TRAC and the FIU reporting to the COO Compliance. The regulators are aware 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 COO 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 Audit’s other independent testing function, Internal Audit. This would include the approval and review of the TRAC annual risk assessment and plan. The Board of Audit 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 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 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...
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.

I made numerous requests to Cam (which he then escalated to Lesley) and she did not address this until April. She selected and HSBC person in a completely new position was hired (which was a mistake). Although HSBC has made every effort to function in this role, it is clear that TRAC was not prepared to manage a project of this size and scope. As a result, we have recently learned that there are still unresolved issues outstanding. This is at least a week behind schedule. We still believe that this is not directly the fault of HSBC. The costs could have been incurred in a different way. It is also sends a poor message to the regulators that we did not assign a project of this size to someone with the appropriate experience.

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 increased its enforcement process and the fine levels have been increased. We are at serious risk of being fined by OFAC now.
In addition, OFAC has required that all banks upgrade the filtering functions of their OFAC screening tools to include the MTZ02 COV by Nov 20th.

Lesley asked [redacted] to lead the project. [redacted] has experience (as you know) for screening the main 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 Lesley 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 [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 1" but she did not know anything about Phase 2. 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 AntiMoney and RISK. Stretchered 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, Alisa and John and the only one that agreed is John. Lesley has received approval from Sam to hire three lower level staff.

Current systems person at [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 MTZ02 COV deadline. The regulators would see this as a positive effort to comply should any additional issues 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 when you need clarification on the spreadsheet; he's a great guy and will be happy to help you. I'm landing at 3ET so feel free to call me on my cell at 202 841 6898. Thanks.

Debra L Bonosconi
HSBC North America | Sr. VP - Director, Financial Intelligence Unit
1330 Connecticut Ave NW, 12th Floor
Washington, DC 20036

Phone. 202-496-8766
Mobile. 202-496-8766
Email. debra.l.bonosconi@us.hsbc.com
From: BOB MARTIN/HSBC/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 EDT  
To: BOB MARTIN  
Subject: FW: OFAC "cautionary letter" received today  
FYI:

------ Original Message ------
From: David W J BAGLEY  
Sent: 03/10/2008 18:17 EDT  
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 won'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/GWO/HSBC on 03/10/2008 18:13 ------
Lesley Midzaini/amrs/hsbc@mhsbc02  
Oct 03 2008 17:06  
Mail size: 56806  

To: Janet L Burak, david w j bagley  
Cc: anne liddy  
Subject  

Page 1

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc.  
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.
Janet, David,

Please see the attached regarding a cautionary letter from OFAC for 12 failures to stop payments between Sep 2008 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 PNC 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 212-525-6430
Fax 212-525-5769
Mobile 917-892-9967
e-mail Lesley.Midzain@us.hsbc.com

----- Forwarded by Lesley Midzain/HBUS/HSBC on 10/03/2008 11:56 AM ----­

Elizabeth ProtoMatro/HBUS/HSBC
10/03/2008 11:56 AM

To Lesley Midzain/HBUS/HSBC, Thomas Kaiser/HBUS/HSBC, Emily Ritz/HBUS/HSBC, Mary A Laskin/HBUS/HSBC

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
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)
• HBUS Banknotes - OFAC with HSBC Bank Plc ("HSBEU") & Iranian Embassy in UK (IRIS 6458): On 02FEB09, the HBUS Banknotes Vault Manager in London was informed by Travellex in the UK (a customer) that as requested by HSBEU, Travellex shipped cash from the HBUS inventory at the Travellex vault facility to the HSBEU Kensington branch to sell to the embassies of various countries, including Iran. HBUS Compliance worked with HSBEU Compliance and HBUS Banknotes in London to obtain information on accounts and transactions between HSBEU and the Iranian Embassy in UK. On 12FEB09, the Manager of the HSBEU 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 HSBEU 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.
Redacted 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 Bader
- Thomas Kaiser (S.Kos represented)
- David Dow
- Michael Gallagher
- Mark Herley (L.Gloo represented)
- James Kaniff (absent)
- Margaret Moog
- Tony Murphy
- Teresa Fonce
- Linda Rappaport
- Carolyn Wind
- Denise Kelly (Sec'y)

Guests:
- Sandy Davidson
- Cerriliz Hughes
- Larry Dell
- Stuart Tait
- John Hudson

Minutes of Prior Meeting

Status of Action Items:
- Wealth Management (A.Indell) 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

- 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.
- J. Ebersole will revert back to C. Wind with recommendations on identifying unusual levels of compensation under such incentive plans.

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 3407445
AML Status

- T. Pepe provided a status of regulatory examinations:
  - The OCC examination of CIB is complete and three Matters Requiring Attention (MRAs) 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 in October 2006.
  - The Fed first day letter for the examination of MIBI has been received.

- T. Pepe 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.

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03793093
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3407461
From: DENISE A REILLY/HBUS/HSBC
Sent: 6 Jan 2005 8:46:58
To: GRACE C SANTAGIO/DARVISH/HBUS/HSBC
~::~~@U~~~~~~MASTRO<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 HSBC Operations area on his correspondence.

From: Grace C Santago-Darvish on 07 Jan 2005 9:15
To: Anne Utley/HBUS/HSBC
Cc: Teresa Pesce <teresa.pesce@us.hsbc.com>
Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

Diwali,

Elizabeth will be talking with Pat Bae in Delaware so she can send a message to all HSBC branches reminding the effect of the underlying transaction. Other branches may want to do the same even if they are not affected.

For instance, we have been told today by PLC that the ultimate beneficiary is a Swiss Breguad Credit Suisse which deals with CIB entities under the control of HSBC.

Diwali is a festival in India the underlying beneficiary is a Hindu company.

We are open to any suggestions - thank you.

From: Denise A Reilly on 06 Jan 2005 18:15
To: Anne Utley/HBUS/HSBC
Cc: Teresa Pesce <teresa.pesce@us.hsbc.com>
Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)
Is there an opportunity for further training? Just a thought to try and

From: Anne Uddy
Sent: 06/10/2012 10:50 PM
To: Teresa Pesce
Cc: Elizabeth Protomaslro; Grace C Santlago-Darvish; Denise Reuliy
Subject: Fw: Wire Payments from HSBC Bank PLC suspended - USD 1,900,000 and JSD 160,000 (Iran)

Terry - I just forwarded you the attached correspondence as an FYI and to

From: Elizabeth Protomaslro
Sent: 05/06/2012 02:33 PM
To: Stephen COOPER; Jerry R WALKER
Cc: John AlUSON; Susan A WRJGHT; Graoe C Santlago-Darvish; Anthony 1 MARSDEN; Barbara Sherman; Patrick Byrne; Anne Uddy; Rod MOXLEY
Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and JSD 160,000 (Iran)

Rod advises 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 original and the ultimate

From: Rod MOXLEY
Sent: 06/06/2012 12:43 PM
To: 7991:1664
442079913654

41 20 7091 3844

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03793179
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3407537
Subject: Inquiry on recent transactions involving HSBC Bank PLC expatriate - USD 1,900,000 and USD 20,000.

We refer to your emails discussing the transactions that have already been quoted in your emails. However, due to them being authorized MT202 messages with references, we believe they are our transactions between the parties involved and satisfying our requirements.

If you remain uncertain about the information provided, please advise and we will submit a copy to the customer or the Group Relationship Manager for further review.

If you have any further questions, please feel free to contact me or Steve Cooper, who will assist with my absence.

Regards,

Elizabeth Protostroj@HSBC on 05 Jun 2005 16:31

From: Elizabeth Protostroj@HSBC
Mail ID: 15869

To: Elizabeth Protostroj@HSBC

Tel: 212-525-5652

HSB03793180

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

HSB03793180

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.
Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,00 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: 06JUN200511:15

From: Rod MOXLEY Tel: +44 2079913664
To: rod.moxley@hsbc.com

Mne liddy/HBUSIl1SBC@HSBC
stephen COOPERlHBEIJ/HSSC@HSBC
Jeremy R WALKER/HBEWHSBC@HSBC

Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,00 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: 06JUN200511:15

From: Rod MOXLEY Tel: +44 2079913664
To: rod.moxley@hsbc.com

Mne liddy/HBUSIl1SBC@HSBC
stephen COOPERlHBEIJ/HSSC@HSBC
Jeremy R WALKER/HBEWHSBC@HSBC

Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,00 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: 06JUN200511:15

From: Rod MOXLEY Tel: +44 2079913664
To: rod.moxley@hsbc.com

Mne liddy/HBUSIl1SBC@HSBC
stephen COOPERlHBEIJ/HSSC@HSBC
Jeremy R WALKER/HBEWHSBC@HSBC

Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,00 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?
Trust that Ifrig, answers your questions.

Replies.

Elizabeth Protomastro
HSUS/HSBC
Tel: 212-555-8892

Subject: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000

The following payments have been suspended while we requested 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 demanding inclusion of SWIFT, BIC code, and country of origin of the bank who initiated the payment.

You may also be able to expedite this process on your end.

As you are aware from prior discussions, payments cannot be fully disclosed as to originator and beneficiary parties in order to avoid these delays in processing.

Thank you.

3 June 2005

Debit: HSBC Bank PLC
Credit: Bank of New York

3rd party: Credit Suisse, Zurich
3rd party: HSBC Bank, London

3 June 2005

Debit: HSBC Bank PLC
Credit: Bank of New York

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3407540
From: ANNE LIODY/HBUS/HSBC
Sent: 06/07/2005 4:07:38 PM
To: TERESA PESCE
Subject: T.: FW; wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

From: Anthony T MARSDEN
Sent: 06/07/2005 10:37 AM
To: Roel MOXLEY
Cc: Jeremy R WALKER; John ALLISON; susan A WRIGHT; Barbara sherman; patrick Byrne; Anne Liddy; Elizabeth Protomastro; Grat:e C Sant;iago-Darvish; stephen COOPER
Subject: Re: wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

As you will see from the correspondence below I have now obtained the information required to release the payment for USD 160,000.00. 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 via Elizabeth Protomastro with the details outlined 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 ourselves in London...

To: Anthony T MARSDEN/HBEU/HSBC on 07 Jun 2005 15:24
From: Elizabeth Protomastro/HBUS/HSBC on 07 Jun 2005 14:54
Note 07 Jun 2005 14:54
From: Elizabeth Protomastro Tel: 212-525-6692
Mail size: 68262
To: Anthony T MARSDEN/HBEU/HSBC cc: Grace C sant.iago-Darvish/HBUS/HSBC
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, we need 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 30337
Title: Location:
Mail size: 50902
Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

I have contacted Bank Melli London again who are both the remitter and beneficiary of the payment.


Dear [Name],

I am writing to inform you about the status of the wire transfers from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran).

As instructed by the client, we have been advised by Bank Melli London that the ultimate beneficiary is a company name Credit Suisse which deals with credit entries under the ref: UTeva. In order to release the payment, we need to provide the answers requested.

Best regards,

[Your Name]

---

Subject: Re: Wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

We have been advised by Bank Melli London that on the payment for USD 160,000, the ultimate beneficiary is a company name Credit Suisse which deals with credit entries under the ref: UTeva. In order to release the payment, we need to provide the answers requested.

Best regards,

[Your Name]
From: Elizabeth Pmtomasvo/HBUS/HS6C
To: Stephen COOPER!H6EU/HSSC@HSBC
Jeremy R Walker/HS7U/HSSC@HSBC
Anthony T Moxley/HB7U/HSBC
Barbara Sherman/H8US/HSBC
Patrick K Syrme/HSUS/HS8C
Anne LiddY/HBUS/HSBC
Rod Moxley/H8EU/HSSC@HSBC
Susan A Wright/HG8Q/HSBC@HSBC
Grace C Santiago-Daryish/HSUS/HSBC@HSBC
Anthony T Marson/H8EU/HS8C
Barbara Sherman/H8US/HSBC@HSBC
Pat.rick K syrme/HSUS/HS8C
Anne LiddY/HBUS/HSBC
Rod MOXLEY/HS8U/HSBC@HSBC

subject: wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000

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 SNI, it would be prohibited.

Thank you for your co-operation in obtaining the required information.

Rod MOXLEY on 06 Jan 2005 12:43

NOTE: Tel: 212-525-6692

subject: wire payments from HSBC Bank PLC suspended - USD 1,900,000 and USD 160,000 (Iran)

E.lizabeth,

We have received your messages with reference to the transactions which have already been suspended. We believe that they are foreign exchange transactions between the banks named and also satisfying anti-money laundering requirements.

We are uncomfortable with the information supplied, please advise and we will revert promptly to the originator of the group relationship manager for further guidance. For your information, I am away from the office on business for the next couple of days, the group relationship manager is John Allison. If you have any queries to Jeremy Walker or Steve Cooper, we will deal with in my absence.

Yours,

Rod
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 13:15

From: Rod MOXLEY
Tel: 799 13904
Title: Location:
Workgroup: Mail size: 10418

Elizabeth,

Thanks for your email.

Information that you require is as follows:

i) Originator of first payment is Bank Tejarat, 130 Taleghani 15994 Majlis/IRAN, Teheran, Iran, Beneficiary Persia International Bank, 6 Lothbury, London.

ii) Originator of second payment is Melli Bank, 1 London Wall, London and beneficiary Credit Suisse Zurich, Switzerland.

We have set up case references MPAVO958-06Junt06 and MPAVO958-06Jun06 respectively for these payments and will be grateful if you could quote in future correspondence.

We understand that both payments were related to foreign exchange transactions.

Trust that this answers your queries.

Regards

Page 4
Note:

To: John ALLISON/HSHQ/HSBC
CC: Susan A WRIGHT /HSHQ/HSBC
Rod MOXLEY/HBU5/HSBC
Grace C Santiago-Darvish/HBU5/HSBC
Rod MOXLEY/HBU5/HSBC
Anthony T MAFTSOEN/HBU5/HSBC
Barbara Sherman/HSIJS/HSBC

Subject: Wire payments from HSBC Bank PLC suspended - USD 1,100,000 and USD 100,100 (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 department is sending a message via SWIFT, we are providing you with the most information as the payment is being delayed. Please log into SwiftNet and complete 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.

Debit: HSBC Bank PLC

Card: HSBC Bank PLC

3rd party: Credit Suisse Zurich

Page 5

attachment: U-Turn Conditions.doc.zip

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HSB03793189

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

HSBC OCC 3407547
From: ANNE LIDDY/HBUS/HSBC
Sent: 7/12/2005 12:32:26 PM
To: GRACE C SANTAGIO·DARVI5H6U5IH56C@HSBC
CC: TERESA PESCE/HBUS/HSBC
Subject: Re: Fw: OFAC GCL.

Grace, I am having my monthly meeting tomorrow with John Nilson and Susan Wright and intend to discuss the OFAC with them. I will hope he will state more in your email. Also want to get a better understanding from them on the new regulation for HSBC (and effective 2/15 for BBUS) to notice all external transactions to OFAC countries (ie. are they license in AML). I will also ask them which sectors are being reviewed e.g. from the people in HSBC is merely a high risk country, I will be you, Terry and Denis know what to get from them tomorrow.

Grace C Santago/Darvish on 26 Jul 2005 13:06

To: Anne Liddy/HBUS/HSBC@HSBC

Subject: Re: Fw: OFAC GCL

Date: 26 Jul 2005 13:06

From: Grace C Santiago/Darvish

To: Teresa Pesce/HBUS/HSBC
CC: Anne Liddy/HBUS/HSBC

Subject: Re: Fw: OFAC GCL

Terry,

I quickly read the attachments. I believe that the first Burmese attachment below may need to be clarified for the UBI buffer of OFAC transactions only blanks.

I few Burmese entities, the ones listed on the attached brochure, under Annex, Treasury and the Office of Foreign Assets Control (OFAC) date, these entities 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 this summary, nor are have any other OFAC besides the ones listed July 2003.

I also noted that all sanctioned programs were summarized. Liberia, North Korea, Syria and Zimbabwe were not covered under this summary, nor are there any other OFAC besides the ones listed July 2003.

Current Sanctioned Burmese entities:

- MYANMAR ECONOMIC BANK (a.k.a. MYANMAR ECONOMIC BANK)
- MYANMAR FOREIGN TRADE BANK (a.k.a. MYANMAR FOREIGN TRADE BANK SWIFT/BIC: MYAN\\\n
STATE PEACE AND DEVELOPMENT COUNCIL OF BURMA

Teresa Pesce on 30 Jul 2005 11:53

Note:}

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03793191
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3407549
From: Teresa Pe'Sce Tel: 212-625-6999
Title: Executive Vice President
Location: 452 S 5th Ave, Floor 07
Mail Stop: 13892

To: Denise A Rey /HSBC
Arline Uddy /HSBC
Gracie C. SanHago/HSBC
Subject: OFAC GCL

FYI - Forwarded by Teresa Pe'Sce on 07/26/2005 11:49 AM

From: James R. Kauffman@HSBC su
To: Anthony Gibbs <arglbbss@hrJusBhold.com>
Curt Cunningham <ccunningham@household.com
Lehleymidzain@hsbc.ca

Subject: OFAC GCL

FYI - Terry, would you please forward to Denise? Thanks.

From: Marion O ROACH
Sent: 07/26/2005 09:59 AM
To: Mansour A Al80SAILY/SABJHSBC@HSBC; Fernando BUSNELLO/HSBC; Paul Miller/HSBC; Fernando J SANCHEZ/HSBC; Terry VINUEVA/HSBC; James Kauffman; Warren G LEAMING/RA lGA; Carolyn McCULLOUGH/HSBC; Alan RAMSAYflBEU/HSBC; Brian Anwo/HSBC
Cc: John F ROOT/HGHQHSBC@HSBC

Subject: OFAC GCL

A GCL will be issued shortly by the US Department of the Treasury. A copy of the GCL will be distributed to all HSBC offices.

Recognising that there had been no significant consultation with Areas on this issue, the policy was determined in consultation with Group CRO 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 at Group Offices (including those Offices incorporated or operating within the US) each分行 is prohibited from engaging in any transactions, activities or make any payments, shipments or services, if (as determined by a US entity) the transaction or payments may involve a US person.

Please consult the Annex with CDV 25 on Sanctions. CDV CDO has summarised the US OFAC sanctions as they apply to four particularly sensitive jurisdictions: Cuba, Iran, Sudan, and Burma (Myanmar). The newly summarised

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are entered into. Also annexed hereto is a sample translation which would not be permitted under the revised Group policy.

All Iranian payments denominated in USD, including those made under the 'U-turn' exemption defined in the OFAC Iranian sanctions, must be referred to HSME DUB - Middle East Management Office, Dubai Internet City, P.O. Box 99, Dubai, UAE. Tel. No. +971 (4) 390 4122, who will establish a dedicated team to process prohibited Iranian payments.

Contravention with the Iranian sanctions. Once the team and related procedures are established, HSME DUB will issue more details to Group Offices as to how payments should be processed. Until these dates, Group Offices are required to refer all Iranian Payments as defined in the OCR to HSME DUB for screening by OFAC.

The OCR confirms the use of WOLF (the payments filter to identify payments potentially caught by the OFAC sanctions. WOLF is already available in major payment gateways and processors to the requirements of OCR, but where payments pass through local processing systems, or are paid in local currency, it may be necessary to implement WOLF to screen payments passing through such local payment systems. The OCR requires confirmation that local payments are being screened pursuant to the OCR. A related list of names will be added promptly to WOLF by Group Messaging. It should be noted that in such a case, the payment must be processed by OFAC for the requirements of the OCR only applies to transactions in USD. Further, where local regulations differ from those outside the US, Group Offices must ensure compliance with such local regulations.

Where compliance with the OCR would result in a breach of local law, regulation or local contractual arrangements (e.g. "blocking directives" such as the EEA) then the position must be considered in association with local Legal and Compliance teams. Group Offices must ensure that local laws or regulations with the OCR will require the sort of contracts or arrangements which will need to be entered into to enable a relevant bank, facility, and documentary credits where required to be established. In cases of doubt legal advice should be taken. It is important, this, to establish these criteria and to maintain them as appropriate, is affected by the sanctioned bank and/or the local law as well as the nature of the local legal and contractual arrangements. This policy will only apply to transactions which pass through HSME DUB. Where payments are cleared and allowed one country to the next, please refer any questions to me or John Roos in GHQ COmpliance.

Regards,

David Bailey

Attachment: Sample 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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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 3407551
DRAFT GCL – COMPLIANCE WITH SANCTIONS
Prepared by David Bagley – 21 July 2005

INTRODUCTION

GSM 5.6 requires all Group Offices comply with all anti-terrorism and crime legislation
designed to prevent or intercept terrorist funds and equipment to the extent applicable pursuant to local laws and
regulations.

In addition, however, Group Compliance (GHQ CMP) is required by the above mandate of
giving this 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, sanctioned
terrorists, drugs traffickers and those engaged in the proliferation of weapons of mass destruction.

The OFAC sanctions consist of both country-level sanctions (which includes sanctions against
Cuba, Iran, Syria, North Korea, Myanmar and Sudan) as well as sanctions against
individuals (Specially Designated Nationals (SDNs)). There are variations in each of the
sanctions affecting the country and the sanctions on the SDNs that is no uniform approach (e.g.
for Sanctions issues that are 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, provide or
require any payments to be transmitted to OFAC which if carried out by a US person would be
prohibited by OFAC sanctions. Bern for the specific “Illegible exception” relating to
remaining balances /dormant balances. When transferring remittances to a resident with
these sanctions, the transaction as a whole should be considered. This requires that when any
transactions involve the use of cover payments (MT202) 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:


In addition, further advice, instructions and guidance with regard to the principal provisions of
the OFAC sanctions is available to local Compliance functions to provide advice with regard to the practical application of the

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 31 C.F.R. The guidance in this GCL should be read in conjunction with other OFAC guidance, 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 law. Where compliance with this GCL would result in a breach of local law or regulation or existing binding contractual arrangements, the guidance should be considered in liaison with Legal and GHQ CMP. Any dispensation from the terms of this GCL requires GHQ CMP concurrence.

IRANIAN SANCTIONS

The OFAC sanctions applicable to Iran are unique in including the specific exempLion for payments which qualify as a "U-turn" payment as defined. U-turn payments can be summarised as being "cover payments involving a transaction by order of a third country bank for payment to another third country bank - provided that the payment does not directly credit or debit a United States or Iranian Account". Iranian Accounts are defined as "accounts of persons located in Iran or the Government of Iran or of a United States depository institution". In this context, a third country bank must be non-US and non-Iranian and the Iranian Account generally involves an account for a non-Iranian subsidiary in which an Iranian company has a 50% 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 government-owned entities) whether directly or indirectly.

In view, however, of the complexity of the relevant provisions governing the Iranian sanctions and the GCL, any person or entity not an expert in this area should consult with GHQ before proceeding with any Iranian payments. If a request is made for a payment in USD, the GHQ should contact the US Treasury Department to obtain any necessary guidance.

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 government-owned entities) whether directly or indirectly.

In view, however, of the complexity of the relevant provisions governing the Iranian sanctions and the GCL, any person or entity not an expert in this area should consult with GHQ before proceeding with any Iranian payments. If a request is made for a payment in USD, the GHQ should contact the US Treasury Department to obtain any necessary guidance.
OTHER SANCTIONS WITH EXTRA-TERITORIAL EFFECT

GHQ CMP maintains 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./igroup/compliance sanction名单

Although certain sanctions only apply locally, UN sanctions should be viewed as having Group-wide application. Sanctions carried by the European Union and EU persons (individuals who are nationals of member states or 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 system to load any additional names covered by local or other extra-territorial sanctions applicable to those offices.

IMPLEMENTATION

It is recognised that the use of automated payment screening systems is necessary for the effective identification of payments potentially subject to restraint sanctions, including OFAC sanctions. GCL 0400Z1 “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 stored centrally by Group Messaging Systems will be supplemented by 3 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 notify themselves that they are fully compliant with the requirements of GCL 0400Z1 and notify GHQ CMP immediately of any deviations.

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 the 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 bank transfers or 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.
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 or accept related instructions or requests.

When Group Offices are in doubt as to whether a transaction or payment is affected by any sanction, 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, except 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 transactions.
Subject: GCL00047 - 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.ghs.hsbc/inf/group/home.nsf/html/ByRef/uKcM6EOEM8114S06AM28072005?

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 widely distributed amongst your teams.

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 GQG OFAC sanctions is provided here to provide you with further detail on OFAC sanctions which are particular to individual countries:

https://compliance.ghs.hsbc/inf/group/partal.nsf/frame?previewform&Ref=UKAP-6E3CT27856

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 be treated as a breach of contract. Please let us know if you have any questions.

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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 our 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 overarching 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 prohibited. We have been seeking to close the accounts, and will continue to do so. For some time now we 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. Any breach, either actual or potential, will result in the Group being subject to the risk of criticism, due to its involvement in any transaction, even where no regulation has technically been breached.

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 Sept 05) and prior to that all Iranian payments must be referred to a HSBEU contact point. Details of both arrangements are provided in the GCl (see the GCl link above).
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, return exempt transactions) may continue to be conducted. Where the remaining USD business is uneconomic or where the client believes they will have to conduct their business with an alternative provider, the ultimate outcome may be the closure of certain relationships. In certain circumstances 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. GTE colleagues have been alerted to the impact of the revised policy and, wherever possible, will liaise with AM’s so as consistent a message as possible is being delivered to our client base. Please note that any deviation 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. Frontline 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 recent 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.
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 Kammelman

**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 Credit North America
- Janet Burak, Senior Executive Vice President, General Counsel & Secretary
- David Dow, Senior Executive Vice President & Chief Operating Officer
- Michael Forde, Associate General Counsel
- Mark Martinez, Audit Committee Secretary & Executive Vice President, Group Audit USA
- Gerard Matta, 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:
- Martyn Brush, Chief Operating Officer, CIBM
- John DeLuca, Executive Vice President and Deputy Chief Risk Officer, HUSB
- Mark Hershey, Senior Executive Vice President & Chief Credit Officer, CMB & PFS
- Marge 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 11, 2007.
Redacted by Permanent Subcommittee on Investigations

HSBC OCC 3516807
HSBC OCC 3516808
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.
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.
Redacted 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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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 3516812
From: LESLEY MIDZAIN@HSBC
Sent: 11/19/2009 6:36:12 PM
To: DENISE A REILLY@HSBC
CC: CAMILLUS P HUGHES@HSBC; DENIS E O'BRIEN@HSBC; RICHARD ANNICHARICO@HSBC
Subject: Re: Fw: HBMX Banknotes business ~

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: 212-525-8410
Fax: 212-525-5769
Mobile: 917-852-1567
Email: Lesley.Midzain@us.hsbc.com

---

Denise A Reilly@HSBC
01/19/2009 6:05 PM

To: Lesley Midzain@HSBC
cc: Camillus P Hughes@HSBC, Denis E O'Brien@HSBC, Richard Annicharico@HSBC
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
Camillus P Hughes/HBUS/HSBC@HSBC
Denis E O’Brien/HBUS/HSBC@HSBC
cc
denise.a.reilly@us.hsbc.com

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
Mobile 212-525-5789
Email Lesley.Midzain@us.hsbc.com

--- Forwarded by Lesley Midzain/HBUS/HSBC on 01/19/2009 04:40 PM ---

Janet L Burak/HBUS/HSBC
01/19/2009 05:46 PM
To:  
Chris P DAVIES@HSBC@HSBC02  
cc:  
Juanita Gutierrez@HSBC@HSBC02, J Denis O'Toole@HSBC@HSBC02, Lesley Midzain@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 Bonak
Cc: Juanita Gutierrez, J Denis O'Toole
Subject: Fw: HBMX Banknotes Business - HSBC Mexico Press Release and Q&A

Janet,

As disc'd at Exec, 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 it 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
212-525-3800

--- Forwarded by Chris P DAVIES@HSBC@HSBC on 01/16/2009 10:54 AM ---

Juanita Gutierrez@HSBC
01/13/2009 02:33 PM

To:  
Chris P DAVIES@HSBC@HSBC02  
cc:  
Christopher Lok@HSBC@HSBC02, Gyanen Kumar@HSBC@HSBC02, Michael B Gallagher@HSBC@HSBC02, Paul J Lawrence@HSBC@HSBC02, Diane Soucy  
Subject: Re: HBMX Banknotes Business - HSBC Mexico Press Release and Q&A

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.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 America 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 or our banknotes executives would like to have an additional conversation directly with Roy related to this matter. rgs,

[attachment "MexDolarUnofficialReleaseEnglish.doc.zip" deleted by Janet L Burak@HSBC]
[attachment "MexicoDollarRelease.doc.zip" deleted by Janet L Burak@HSBC]
[attachment "MexQ&AEnglish.doc.zip" deleted by Janet L Burak@HSBC]

Roy Caple
Director Ejecutivo de Asuntos Publicos
Head of Public Affairs
HSBC Mexico, Latin America and the Caribbean
Paseo de la Reforma 347 Of 21
Col. Cuauhtemoc
Mexico, D.F. 06600
Tél (52-55) 5721-6060

Regards,

Juanita Gutierrez
Dir, Public Relations | HSBC Bank USA, N.A.
432 Fifth Avenue, 13th Floor
New York, New York 10018

Phone: 212-525-6582
Fax: 212-525-6585
Mobile: __________________________
Email: juanita.gutierrez@us.hsbc.com

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Redacted by the Permanent Subcommittee on Investigations.
Thanks gyanen. Who is frozen?

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 wholesale business with any particular counterparties who happen to be in the...

Juanita - see me early tomorrow so we can work on this with the banknotes team and HBMX.

Gyanen chris - 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,
Gyanen Kumar
212 325 2833

Christopher Lok/HBUS/HSBC@HSBC02
01/07/2009 11:49 AM

To: Chris P DAVIES/HBUS/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 Langarica) on next steps.

We are to continue our PCM activities and I have discussed separately with Michael.

Regards,
Christopher P. Davies
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"
Previous BSA/AML Enforcement Action (APR03 - EED06)

- 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

HNAH Regulatory Environment

FRS Governance
Target Review
DOJ/AUSA Investigations
GTB Exam/I
FRS Examinations
OFAC Pre-Penalty Notice
OFAC Cautionary Letters

60+ MRAs Issued since '06, 3 Still Outstanding
Previous BSA/AML Enforcement Action (APR03 - EED06)
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
# AML Director’s Initial Observations

<table>
<thead>
<tr>
<th>General Concerns</th>
<th>Key Concerns</th>
</tr>
</thead>
<tbody>
<tr>
<td>▶ HNAH – High AML Risk profile</td>
<td>▶ Systems and Controls</td>
</tr>
<tr>
<td>▶ Risks for the Bank:</td>
<td>– Inconsistent with AML risk profile</td>
</tr>
<tr>
<td>– Reputational</td>
<td>▶ Resources</td>
</tr>
<tr>
<td>– Financial</td>
<td>– Insufficient vs current risks and volumes</td>
</tr>
<tr>
<td>– Compliance</td>
<td>– Temps performing permanent roles</td>
</tr>
<tr>
<td>– Legal</td>
<td>– Key-man risk</td>
</tr>
<tr>
<td>▶ Risk Assessment Process not driving risk-based AML program</td>
<td>▶ Backlogs in SAS, Retail, PCM &amp; GTB</td>
</tr>
<tr>
<td>– Systems and Controls</td>
<td>– Increasing regulatory scrutiny and actions</td>
</tr>
<tr>
<td>– Training</td>
<td></td>
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<tr>
<td>– Audit</td>
<td></td>
</tr>
<tr>
<td>▶ “Event” and regulatory-driven approach to issues management</td>
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</tbody>
</table>
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
From: SUSAN HOGGARTH@HSBC
Sent: 2/9/2006 4:30:08 PM
To: PHILIP MUSACCHIO@HSBC
CC: JEFF CLOUS@HSBC, TERAESA PESCE@HSBC, TERRY WESTREN@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@HSBC
02/09/06 04:07 PM
To: Susan Hoggarth@HSBC
cc: Jeff Clous@HSBC, Teresa Pesce@HSBC, Terry Westren@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
Susan Hoggarth/HBUS/HSBC
02/09/06 04:04 PM
To
Philip Musacchio/HBUS/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: 212-642-1805

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.
To: Terry Westren, Philip Musacchio

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:

1. 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
2. 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
IPS Operations
1441 Brickell Avenue, 16th Floor, Miami, Florida 33131
(305) 539-4810 (Phone) (305) 274-6466 (Fax)
From: TERESA PESCE/HSBC
Sent: 4/18/2006 10:27:50 AM
To: SUSAN A WRIGHT/HSBC@HSBC
CC:
Subject: Re: AI 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/HSBC
Sent by: Ana T NUNN
04/18/2006 10:32 AM
To
Teresa Pesce/HSBC, Alan T Ketley/HSBC
cc
Subject
AI 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 Wight
From: ANNE Liddy/HBUS/HSBC
Sent: 9/11/2006 4:02:57 PM
To: TERESE PESCE/HBUS/HSBC
Subject: Fw: HBME Wire payment USD 566.00 (IRAN-Bank Saderat) - Reject & Report to OFAC

Fyi - we received 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 01:16 PM
To: Lionel Payan
Cc: Dubai Special Payment TEAM; Ian EDEN; Gary BOON; Harsha ARUKGODA; Kerai PATIL; Siamak AL-KHAJA; Jane VITAL; Shahnaz ABDULHAQ; Anne Liddy; Grace C Santiago-Darvish; Donald McPherson; Nancy Hodges; Andrew Drolet; Jose Melen
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

[Redacted]

---Redacted by the Permanent Subcommittee on Investigations---
From: MICHAEL ELLIOTT@HSBC
Sent: 3/19/2007 2:08:53 PM
To: RICHARD ANNICARICO@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

From: FIG HBUS Tel: 
Title: 
Location: 
WorkGroup: 
Mail Size: 1273825
Sent by: Michael Ellis

To: Gordon BROWN@HSBC
cc: Susan SALAS@HSBC
Daniel Jack@HSBC
Alan T Ketley@HSBC
Andrew Rizkallal@HSBC
Gloria Strazzal@HSBC
Teresa Pesce/HBUS/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 alluded 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 banknote 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

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB07903340
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7519403
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

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

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 ARCEC 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
tentities.

Most Current List of Top Executives Found:
- Sulaiman Bin Adelazziz 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

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB07903341
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7519404
Rizwan Shakor, General Manager, Finance Group
Kahina Dauh, General Manager, Investments & Private Banking
Amaad Al-Amin, AGM, Treasurer, Treasury Department
Ismail Al-Osaimi, 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
Ahmed Bin Abdulaziz Al Rajhi, General Manager
Abdul Rahman Bin Abdulaziz Al Rajhi, General Manager
Saleh Bin Abdulaziz Al Rajhi, Manager
Abdulrahman Bin Oghail, Deputy General Manager
Saleh Ali Shaity, Branch Manager
Salah Bin Mohammed Al Subaiy, Deputy General Manager

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 Al Kaysi, Director
Salah Al-Obe Al-Khai, Director
Mohamed Abdul Aziz Al Rajhi, Director
Nasser Mohammed Al Sibai, Director
Mohammed Osman Al Bishir, Director
Salim Bin Abdul Aziz Al Rajhi, Director
Muhammad Ibrahim Al-Khale, Director
Mohamed Abdul Aziz Al Rajhi, Director
Ali Mohamed Al Rajhi, Director
Abdulrahman Al-Moallimi, 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,” 9/10/06).

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 defendants in six civil lawsuits accusing it of providing “enormous” 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.
Sułaiman Abdul Aziz Al Rajhi, the bank's Chairman and Managing Director, is listed under the "terrorism" category on World-Check. The report states that he, "financially supports terrorism and its main contributors" (World-Check, Date Accessed: 10/16/06). Details of Sułaiman Abdul Aziz 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

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB07903343
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7519406
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 an 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 ARAJ'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 leveled 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)
The attached document reflects the procedures that have been developed, with the advise and consent of legal counsel, to support bank Melli payments through HSBC. The procedure is designed to meet both regulatory and service requirements. All transactions sent to HSBC that meet the above qualifications, all transactions will be processed same-day of receipt.

On Thursday of next week (2 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, I would appreciate your reviewing the document and if possible, providing your opinion by 3 p.m. on 5 September. If you are unavailable please let me know and I will provide you with a conference call to discuss. Please confirm your availability and a number where you can be contacted.

Page 1

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Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB08071250

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7687346
U-TURN PAYMENT PROCESSING FOR BANK MELLI VIA HBEU

HBIUS will process payments for Bank Melli as the originator of transactions via HBIUS. 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 HBIUS 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.
- HBEU will be reimbursed for 3 FTE to be hired due to extra processing 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:

<table>
<thead>
<tr>
<th>Originator's Bank:</th>
<th>Bank Melli</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit Party:</td>
<td>Bank Melli's account with HBEU</td>
</tr>
<tr>
<td>Credit Party:</td>
<td>HBEU's nostro account with HBEUS</td>
</tr>
<tr>
<td>Intermediary Bank:</td>
<td>any U.S. bank via Fedwire / CHIPS</td>
</tr>
<tr>
<td>Beneficiary Bank:</td>
<td>any foreign bank which is not Iranian, not HBEU and not a foreign branch of a U.S. bank</td>
</tr>
<tr>
<td>Beneficiary:</td>
<td>party Bank Melli is remitting funds to (optional)</td>
</tr>
<tr>
<td>Reference:</td>
<td></td>
</tr>
</tbody>
</table>

**STEP 2:**

HBEU sends an MT202 to HBEUS to debit HBEU's account with HBUS:

<table>
<thead>
<tr>
<th>Originator's Bank:</th>
<th>Bank Melli</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit Party:</td>
<td>HBUS's nostro account with HBUS</td>
</tr>
<tr>
<td>Credit Party:</td>
<td>any U.S. bank via Fedwire / CHIPS</td>
</tr>
<tr>
<td>Intermediary Bank:</td>
<td>(not applicable)</td>
</tr>
<tr>
<td>Beneficiary Bank:</td>
<td>any foreign bank which is not Iranian, not HBEU and not a foreign branch of a U.S. bank</td>
</tr>
<tr>
<td>Beneficiary:</td>
<td>party Bank Melli is remitting funds to (optional)</td>
</tr>
<tr>
<td>Reference:</td>
<td></td>
</tr>
</tbody>
</table>
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 first 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 the 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.
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
Alan, please see below

Charlie, please confirm what have written below is correct

Michael A. Gallagher
Executive Vice President
Global Transaction Banking
452 5th Avenue
New York, NY 10018
Tel: 212-525-1680

Alan T Ketley/HSUS/HSBC
08/28/2007 04:38 PM

To
Michael A Gallagher/HSUS/HSBC
CC
"Alan williamson" <alan.p.williamson@us.hsbc.com>, Charles G DelBusto/HSUS/HSBC, Chris P Davies/HSBC, Christine B Joosten/HSUS/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
SVR AM, Compliance
452 Fifth Avenue, New York, NY10018
Phone. 212-525-6147
Fax. 212-383-7580
Email. alan.t.ketley@us.hsbc.com

Michael A Gallagher/HSUS/HSBC
08/28/2007 12:12 PM

To
Alan T Ketley/HSUS/HSBC
CC
"Alan williamson" <alan.p.williamson@us.hsbc.com>, Charles G DelBusto/HSUS/HSBC, Chris P Davies/HSBC, Christine B Joosten/HSUS/HSBC

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB00160252
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSB OCC 7888585
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 their industry peer contacts.

Questions would be:
1. how many correspondent accounts do you have? I wouldn't give this answer, see 2.
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/HSUS/HSBC
08/27/2007 09:13 PM

TO: Michael B Gallagher/HSUS/HSBC
CC: Charles G DelBusto/HSUS/HSBC, Chris P Davies/HSUS/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

Page 3

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7688586
be pleased to sit down and discuss this with you. The OCC examiner's
expectations were 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
HSBC
550 Fifth Avenue, New York, NY 10019
Phone: 212-382-7380
Fax: 212-382-7580
Email: alan.t.ketley@us.hsbc.com

Michael G Gallagher/HSB/HSB
08/27/2007 03:58 PM
To: Alan T Ketley/HSB/HSBC
cc: Charles G DelBustos/HSB/HSB, Chris P Davies/HSB/HSB, Denise A
Reilly/HSB/HSB
Subject: Re: 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
"off" issue in that we multiplies 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.

Michael G Gallagher/HSB/HSB
08/27/2007 03:58 PM
To: Alan T Ketley/HSB/HSB
cc: Charles G DelBustos/HSB/HSB, Chris P Davies/HSB/HSB, Denise A
Reilly/HSB/HSB
Subject: Re: Addressing negative information
Michael B. Gallagher  
Executive Vice President  
Global Transaction Banking  
432 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
cc: n/a
subject: 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 Katley/hbs/HBSC
08/27/2007 02:31 PM

To: PSRR@HSBC
cc: "George Tsugranes" <george.tsugra@hsbc.com>, Gillian E Bachstein/HBUS/HSBC, Charles G delBusto/HBUS/HSBC@HSBC, "Judy Stoilet" <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 EOD Ref contained a comment about seven of the bank’s staff being arrested and charged with fraud in 1986. The Ref went on to explain...
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 HSBC, 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, NY 10018
Phone: 212-525-6147
Fax: 212-382-7580
Email: alan.t.ketley@us.hsbc.com
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?

----- Forwarded by Alan T Ketley/HBUS/HSBC on 09/01/2006 03:15 PM ------

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.

Page 1
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 6347
Fax: 212 382 7180

Michael a Gallagher/HSUS/HSBC
07/28/2006 11:36 AM

To
Alan T Ketley/HSUS/HSBC

cc
Teresa Pesce/HSUS/HSBC, Charles G DelBusto/HSUS/HSBC, Sandra Peterson/HSUS/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 S. Gallagher
EVP, Head GTR Corporates, NAFTA
432 5th Avenue
New York, NY 10018
Tel: 212-525-5880

Alan T Ketley/HSUS/HSBC
07/24/2006 08:47 AM

To
Michael S Gallagher/HSUS/HSBC

cc

Subject
Fw: Additional monitoring resources

Michael
Have you had a chance to look at this?

Alan T. Ketley
To:
Michael B Gallagher/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 MTIDs. 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 GNO about the various dispensations that have been issued to Group members so we will know when the additional MTIDs 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
From: ROB MUTH/HGHQ/HSBC
Sent: 7/19/2007 1:01:37 AM
To: MICHAEL B GALLAGHER/HBUS/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 know we'd turn a "sales guy" into a first class executive those many years ago when you were hired!!!

Regards,
Rob

Michael B Gallagher/HSBC
29/07/2007 04:15
Mail Size: 9452
To: David Dew/HBUS/HSBC, Carolyn M Wind/HBUS/HSBC
Subject: Re: HBUS GPS Day 2 and 3 Update

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 feel without extension I both firsts for the week. We also seen 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.

Page 1

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7888676
Michael HSBC-NALE 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 et Talamo; John P Armstrong; Alan Swan; Anne Liddy; Janet Burak; William M Wong; David W J Bagley; Denise Reilly; John Armstrong
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/A 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 Di Lorenzo
Cc: Bandula Wijesinghe; Mike Ebbs; David Dew; James Burke; Michael Gallagher; Sandra Peterson; Rob Muth; Andrew P Long; Douglas Maclean; Deborah et Talamo; John P Armstrong; Alan Swan; Anne Liddy; Janet Burak; William M Wong; David W J Bagley; Denise Reilly; John Armstrong
Subject: HBUS GPS Day 2 and 3 Update

Summary of HBUS GPS Implementation update on Day 2 and 3 (27/18 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 16th 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 HSBC beneficiaries. The root cause has been identified by the vendor, Fintech, 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 20,000 payments of which approximately 12,000 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 traced back and a fix was carried forward. The interface was recovered once those 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 ‘refilled’ with the processing date of 18 July valued at

Page 2
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
pairs. 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 3,900 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,
From: MICHAEL B GALLAGHER/H8US/HSBC
Sent: 7/29/2007 3:14:34 PM
To: "BANDULA WIJESINGHE" <BANDULA.WIJESINGHE@US.HSBC.COM>, CHARLES G DELBUSTO/HBUS/HSBC; MIKE EBBS/HBUS/HSBC; STEPHEN A TEDDESCHE/HBUS/HSBC; "SANDRA PETERSON" <SANDRA.PETERSON@US.HSBC.COM>; DEBORAH E TALAMO/HBEU/HSBC
Subject: Request: Fw: draft strawman

Bandula,

The attached is a draft of an email 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 GMT
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 to 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 payment 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" into subsequent days and therefore the payments teams were required to cancel payments, re-print and re-enter them before the normal system flow could begin. This process is a significant consumer of people and time.
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 had 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
reconciliation. 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
enhancements 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 that 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 dates.

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
hoping 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 Gallagher
Executive Vice President
Global Transaction Banking
452 5th Avenue
New York, NY 10018

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Confidential - FOIA Requested by HSBC Bank, USA, N.A.  HSBC OCC 7688881
OpR - Key Risk Indicator (KRI) Details

1. AML Transaction Monitoring Alert Ageing

   - Threshold 1: 95% of alerts that exceed the threshold are resolved within 120 days. The second level of escalation is triggered when 3% of the alerts exceed the threshold.
   - Threshold 2: 100% of alerts are resolved within 240 days. The second level of escalation is triggered when 1% of the alerts exceed the threshold.

2. AML Transaction Monitoring Alert Severity

   - Severity 1: 75% of alerts are of high severity. The second level of escalation is triggered when 25% of the alerts are of high severity.
   - Severity 2: 100% of alerts are of high severity. The second level of escalation is triggered when 50% of the alerts are of high severity.

3. AML Transaction Monitoring Alert Frequency

   - Frequency 1: 100% of alerts are resolved within 240 days. The second level of escalation is triggered when 90% of the alerts are resolved within 240 days.
   - Frequency 2: 100% of alerts are resolved within 365 days. The second level of escalation is triggered when 80% of the alerts are resolved within 365 days.

4. AML Transaction Monitoring Alert Response Time

   - Response Time 1: 100% of alerts are resolved within 240 days. The second level of escalation is triggered when 90% of the alerts are resolved within 240 days.
   - Response Time 2: 100% of alerts are resolved within 365 days. The second level of escalation is triggered when 80% of the alerts are resolved within 365 days.

KRI Details ver#7
From: Gyanen Kumar
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
From: ALAN P WILLIAMSON/HRUS/HSBC
Sent: 11/12/2007 11:52:45 AM
To: LEOPOLDO R BARROSO/HBMX/HSBC
Cc: DANIEL JACK/HRUS/HSBC@HSBC02; GEORGE TSUGRANES/HRUS/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/HRUS/HSBC
Cc: Daniel Jack/HRUS/HSBC@HSBC02, George Tsugranes/HRUS/HSBC@HSBC
Subject: Re: HSBC & Casa de Cambio Puebla in Mexico - Negative Press

Alan,

I would prefer if EMP 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/HRUS/HSBC
12/11/2007 10:38 a.m.

To: Leopoldo R BARROSO/HBMX/HSBC
Cc: Daniel Jack/HRUS/HSBC@HSBC02, George Tsugranes/HRUS/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
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 "CP" 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]

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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 HBUS 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.

Page 2
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 Damy 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 Damy, who also used the alias Pepe Barraza Intusustegui, 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

Phone: 212-525-8686
Email: daniel.jack@us.hsbc.com
HSBC Bank plc

Memo

To
Denise Reilly
Geoff Armstrong

Date
14 November 2002

From
Malcolm Eastwood

Senders Reference

CC
Pat Connoy
Marilyn Sparring
Queen Aylward
Rod Moxley
Paul Proctor
Steve Webster
Nigel Weir
John Chappenden

Receiver's Reference

Subject
COMPLIANCE - OFAC ISSUES IN GENERAL AND
SPECIFIC TO IRAN

To Facsimile No. 020 7260 9796

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 HBEU’s 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 the 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 HBEU via the Serial Payment route. The HBEU filter identified the Cuban beneficiary 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.

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 HBUS that there was
no commercial transaction involved (this was for the Iranian Central Bank paying itself at
another European bank in 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 HBUS 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

HBUS's historical practice has been to send these types of payments where the U Turn
principal applies (ie funds are generally moving from one 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 HBUS/IBL hold accounts, some in USD for FIs domiciled in these
countries such as Cuba, Iran etc.

There is also evidence (the Ing Bank case being a case in point) that some other European
FIs are using HBUS to transact business with these banks, primarily because the banks
hold accounts with HBUS 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 moving 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 HBUS/IBL to
examine the accounts of these OFAC regulated customers to see if there are other
evidence of other banks with accounts in our books for this purpose.

My understanding is that OFAC's tolerance of the Cover Payment method is lessen 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 HBUS both from a payments processing and IBL relationship stand point.
We therefore need to seek clarification of HBUS/OFAC's 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.
Compliance - OFAC Issues In General And Specific To Iran

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 HBUS 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 sequestrated 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 HBUS 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
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 apologize 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 HSUS 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
From: Richard C. Boyle/HBUS/HSBC
Sent: 1/9/2006 12:09:42 PM
To: Michael B. Gallagher/HBUS/HSBC
CC:
Subject: Fw: OFAC- Compliance with Sanctions

Michael,

I sent this to her on Friday as she was desperate for a meeting she was having with compliance tomorrow. Per 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, N.A.
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/NBEU/HSBC
cc: Bob Shetty/HBUS/HSBC@HSBC
Subject: Re: OFAC- Compliance with Sanctions

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 with a recommendation that he send it to the CFO'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 million 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. (FINANCIAL 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
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 Dubuis 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 US 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. 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
Global payments and cash Management
HSBC Bank USA NA
Tel 212 525 6492
Fax 212 525 5099

Michèle CROS/HBUE/HSBC
01/06/2006 11:11 AM

To
Bob Shetty/HBUS/HSBCAMERICAS, Richard C Boyle/HBUS/HSBCAMERICAS, Michael B
gallagher/HSUS/HSBCAMERICAS

Cc
James J Y MADSEN/HBUE/HSBC, Gary ROOK/HSBCAMERICAS, John
ALLISON/HGHQ/HGDIR/HSBC, Dave W J SAGLEV/HGHQ/HGDIR/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 considering whether it is appropriate for us to use the serial payment methodology. Group compliance needs to give an opinion to Group CEO by next Friday. Appreciate your urgent reply.

Regards

Michèle
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
   (c) Update of Previous Reportable Events
   (d) Update of Previous Issues Arising

January 26, 2005 2005 Compliance Report Guidance

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB08075955
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7695260
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

4. Regulatory Reporting – See Attached Updated Regulatory Reporting Spreadsheet

5. Compliance Initiatives
   • HFBI (Miami):
     1. Complex Relationships – Officers have been requested to provide detailed memos regarding the largest relationships. There were a total of 44 relationships, totaling 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.
6. Compliance Test/Review Update

7. Significant Legislative Action

8. Customer Complaints
9. **AML Update**

Suspicious Activity Report ("SARs") Statistics February 2005:

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 DFB NY position.
     - Efforts continue to fill the open California compliance position.
   - **AML Compliance:** There are five open positions as follows:
     - There are currently three open positions for New York (two – IPB, one – DFB). It is anticipated that all positions will be filled by the end of Q3Q5.
     - There are two open positions for Miami. Management is actively recruiting for the first opening. Expect to fill position by early 2Q05.

---

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB08075958
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7695263
Dear Jeanne:

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.

I need to disagree on the extent to which my organization can withstand cost cuts and still maintain an effective compliance risk mitigation program. I also believe it is in my case with the Board and its committee, which may go against the desires of some in the organization.

In the case of my comments at the O&O Board of 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?
Sincerely,

Carolyn Wind
From: [Name]
To: [Name]
Subject: Re: HBMX - COMPLIANCE ISSUES

Hi,

Regarding your concern in hand,

Respectfully,

[Name]
There is a concern about HSBC, since there is a reasonably
Mexican Law to open accounts or participate in US side, but due to being
in the Mexican's branch, as an asymmetric former Spanish bank and the
degree of distance where clients accounts in Mexico could be opened in
1990. It is known that HSBC parent was never involved in any Mexican
abuse.

HSBC has responsibility for Panama. At the moment, the main
incorporation could not confirm. There is a possibility of incorporation
early to transaction for Panama and through the USA TP gateway.

The USA TP gateway is currently operated by Panama.

There appears to be a Premier International operations in Mexico.
You can check with Grupo, but this understanding of the Premier International
Counsel is to personal incorporation, a similar understanding could be
true, but through Panama in Mexico, but where there was a positive stated
association with Grupo (comparably moving around the bank that the
inquiries are in connection to an existing customer. There appears to be some suggestion that
Panama is to the prevention of sending with -inflows to Mexico

Premier Mexico is seeking the possibility for opening an account at HSBC
reserved from another country to the Mexican network. The recent news or
was not. One understand was that this project was going to be entered in an
additional device so HSBC knows HSBC customer's financial
relationship.

Richard was made aware of the fact that United (USID) might be uncooperative,
the account of a new, office in Mexico. Whereby this
will require a CMA and process for worth checking with Mark Tainter
privately who is handling this. When we get back to the office,

Andrea Winters was an e-mail to Fernando Brambilla and myself in which he
inquired me reasons for HSBC in opening a new, office in Brazil,
Argentina and Mexico, as an alternative to the entire process. He further
questions received

It appears the new HSBC to the draft introduction in a mix of NET or
cooperation and holding, to this, among other things, we are aware.
We have not received information from the regulator in this regard

 pourrait we have a Cross-border Marketing Code that was completed for
Mexico, and it is the request remains to be examined in the US. It will
be helpful if you could check and note down the date of this report.

The Cross-border Marketing is in place, we were concerned with some issues

Apropos, there are no significant issues with regards to the non-CAMM and
the reporting of exposure, business information on cross-border - in this particular
which is being discussed.
Daily communications from Humax is the main banking application for HGMX with a strong security focus. Humax is the security provider for HSBC and all applications accessed through it are secured by Humax. The next morning, the draft outlined.

David, I have a meeting at 10am. Let me know if anything should be on the agenda.

John F. RODENSHWIRK

Principal

To:

Ramon GARCIA@HSBC

Subject:

Memo - Humax - Security

John

Ramon

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8873263
John F. Root

13 Nov 2003 15:37

To: Richard Garcia

Subject: HSBC - COMPLIANCE ISSUES

Richard,

Could you provide me with answers to the issues below by tomorrow please?

Thank you.

John Root

--- Forwarded by John F. Root <HSBC@HSBC> on 16 Nov 2003 15:43 ---

David W. Bagley <HSBC> on 13 Nov 2003 15:27

To: John F. Root <HSBC>

Subject: HSBC - COMPLIANCE ISSUES

John,

As mentioned to you, Richard was made aware of a number of compliance issues during his tenure, but took action to handle them. It may be that a number of these were already known to you earlier in the process of being resolved, but it would be helpful to gain an understanding of the steps we are withholding.

Richard told me regarding CIBW, that he ensured, with the approval of the relevant

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I am aware that credit card transactions are still being approved in the UK, but I wonder whether we have a definite date by which this will cease.

There is apparently a Canadian channel from which we do not have an answer.

HSBC has responsibility for Panama. No explanation was given as to why this was a local corporation, which is unusual. Even if it is a locally incorporated entity, the responsibility for Panama lies through the USA TP office.

There appears to be a Panamanian corporate entity in Mexico. You can check with HSBC, but I understand that HSBC International Corporate Advisory (Mexico) may be the appropriate entity, but in the event of a potential relationship with HSBC, there was no indication of the benefits that the HSBC has in relation to an existing customer. There appear to be some issues that we have to overcome in order to process or return to Panama.

Richard was made aware of the fact that HSBC might be considering the acquisition of a new office in Mexico. While this will require a GCIG.1 process, it may be worth looking at whether there is an opportunity to process and return to Mexico in the near future.

It appears that we are more likely to be involved in the process of KYC for credit card holders, as I am not aware of any UK branch that the parties involved.

I imagine that we have a Cross-border Monitoring Guide that covers the requirements of HSBC, and this requires us to be referred to the ACC. It will be helpful if you could check and confirm that this is up-to-date.

There seems to be no significant issues with regard to the use of CCMS and the handling of money laundering information across borders. If something new is suggested, it will be discussed.

There seems to be some suggestion that I should either add to the list or in the next AMC, please, if you are aware of any new issues for which I am aware of.

An extensive list of issues with which I am sure you can help.

Request.
CORPORATE, INVESTMENT BANKING AND MARKET STRUCTURE

AGENDA ITEM:

1. ISSUES ARISING
   (a) NEW ISSUES
      PLEASE PROVIDE UPDATE
   (b) MATTERS REPORTED PREVIOUSLY
      (i) HSBC Mexico SA ("HSMM")

* CNBV Fine - failure to meet Mexican money laundering
detection requirements (MONO): On 8 December 2005, a
fine totaling MXN 841,464 (USD 76,010) was imposed by
CNBV for failure to meet Mexican money laundering
detection requirements following an inspection visit on
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 verification 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 establishing the Compliance 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 setting SAs to the CNBV through the
Compliance Officers and for ensuring money laundering
detection policies. All the recommendations contained
in the CNBV report have been implemented. HSMM’s Legal

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8873286
Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8873287
4. RESOURCING

PLEASE ALSO COMPLETE THE RESOURCING TABLE BELOW. NOTE THAT WE NOW REQUIRE THE FIGURES TO BE SPLIT BY BUSINESS LINE.

<table>
<thead>
<tr>
<th>Line/Location</th>
<th>Authorized</th>
<th>Actual</th>
<th>Comments</th>
</tr>
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<tbody>
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<tr>
<td>Insurance</td>
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PLEASE PROVIDE UPDATE

The business case submitted to increase the CIBM Compliance headcount by one FTE remains under review.

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.   HSBC OCC 8873289
From: John F. Root
Save: Mon Jan 26 02:31:00 2004
To: David W. Bailey
Subject: MLO REGULATORY REPORT
Importance: Normal
Attachments: none

David,

Below please find以下 the views of the two recent regulatory reports on HSBC's money-laundering
compliance programme (a translated version of which has been sent to you separately).

Reports:

John Root

...Forwarded by John F. ROOT<HSBC GEC> on 26 Jan 2004 02:15 ...

"Sven J. WRIGHT@hsbc.com" et al.
To: "Sven J. WRIGHT@hsbc.com" Geras & Valentin@hsbc.com
cc: "John Root@hsbc.com" John F. ROOT<HSBC GEC>John Root@hsbc.com

Subject: MLO REGULATORY REPORT

Dear,

Yesterday I received two reports from the Banking Commission regarding the two inspections of MLO controls, practiced in January and August 2003.

Both reports are being already in translation; I hope to have them ready by the end of January or beginning February. 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 some of the number of reservations we 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 existing MLO handbook.
and circulate. The files point is not a new one and I think it is being
addressed by the CNBV system implementation. The second one is being
attended since some months ago and it will be solved by submitting a
new NEC
handbook (which will be ready by the 4th deadline).

The second report (August) is a better one, although the CNBV relays in
the systems issue. They also found deficiencies in files integration
which are to be corrected ASAP (For example - for personal customers in
9 out of 11 files that were performed the CNBV detected that the
"professional" field is assigned for non-personal customers, in 11 out of
20, the CNBV did not found evidence of dismissary rates).

CNBV is also noting some points that we plan to correct, like training,
where they consider that some cases employed obtained negative results in
an ID appraoched to 1.2 out 19. In point of that employees lacked failed in
how to use those existing technical issues like the uniformity the CNBV
had to report unusual transactions which some employees is not
supposed to know. On the contrary, they answered correctly to all the
questions related to this topic.

I will keep you informed.

Dealing to answer reports is 4 and 19 of February:

Requests,

Reason.

*****************************************************
La información contenida en este correo electrónico es confidencial.

Puede también ser privilegio legalmente. Si usted no es el destinatario usted
no puede copiar, reenviar, abrir o usar cualquier parte de él. Si usted ha recibido
este mensaje

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1551

VerDate Nov 24 2008  09:24 Nov 27, 2012 Jkt 076646 PO 00000 Frm 00457 Fmt 6633 Sfmt 6633 P:\DOCS\76646.TXT SAFFAIRS PsN: PAT
From: Graham THOMSON
Date: Thu Oct 29 23:26:05 2000
To: Matthew J. KING

Subject: HSMMX Project Results

Matthew,

I am forwarding you the self-explanatory correspondence relating to the above, which outlines the results of the recent project audit completed by GAG.

The attachments that were included in the email to Emison are being removed, although they are part of an English translation of the meeting minutes.

Lewis will keep you advised of developments.

Please let me know if you require any clarification on the findings.

Regards

Graham Thomson
Head of Group Audit Latin America & the Caribbean
Tel. (02) 95121 8238

--- Forwarded by Graham THOMSON/HSBC/Argentina on Thu Oct 26 14:02:12

Emerson ALVAREZ/HBMMX/HSBC 23 Oct 2000 09:48 AM

To: Graham THOMSON/HSBC/Argentina

CC:

OCEANIC INVESTMENT BANK HSBC 21 Oct 2000 09:48 AM

Subject: HSMMX Project Results

Graham,

Thank you for the update. It is disappointing the result of the audit assessment.

I am more concerned as this is not what I was assured by HSMMX management in the last HSMMX EXCO when the matter was reviewed.

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8873463
Looking forward to seeing the final audit report.

RtS

Embassy

Graham THOMSON

--- Original Message ---

From: Graham THOMSON

Subject: HSBC - Customer KYC

Date: 20/2/2004 09:25 pm EST

To: Embassy AUSTRALIA

Cc: Lluke MURDOCH, John R RENDALL, Chris C BENTLEY, Lewis J F WILSON

The key issues that were identified in the audit and which are being addressed by management include slow progress with anonymizing PEPs/SCCs and other high-risk customers, with some 60% of the KYC records at HSBC/SCC customer segment via system/SCC (manual described) not yet anonymized. These accounts are now in the process of disclosure by HSBC Legal.

John Rendall in responding to the audit conclusion, expressed his frustration at the slow progress achieved by the Project team. He assured the audience that steps would be taken to improve on the slow progress that has been identified. This resource issue is one of the high-risk PIDs raised by the auditor.

Separately, it has been reported that steps were taken by CCP to ensure reports completed by branch staff, which are a key component in KYC procedures for PEPs and high-risk customers, were reviewed to ensure an unacceptable level of "manufactured" self-evaluations. The accuracy of these audit reports will be key in demonstrating Cl's level of risk to the auditor. This issue was discussed at a further meeting that I held with Luis Pinto and John Rendall on Monday, when it was confirmed that management would be applying a zero tolerance policy to this issue.

The scope of the audit did not extend to reviewing Cl customer KYC. The KYC for accounts opened by Cl customers will be reviewed separately and reviewed in Phase 2 of Project. At present we are uncertain when this will be done.

The audit conclusions are now in the process of discussion with the auditor. The auditor will review the business unit's responses to the audit recommendations. The results of the audit will be reported to the Board in the next few weeks.

Confidential - FOIA Treatment Requested by HSSC Bank, USA, N.A.
Currently the business owner and compliance are still discussing with GMO-CMP the product parameters that need to be adopted to fill the current embargo and replace the CI product. It is important that these discussions result in practical product parameters as the CI product is an important source of funds for HMMX and it is hoped the replacement product will be shortly submitted to the new products committee and then resubmitted.

I shall forward a copy of the following email with only a copy of the closing meeting minutes (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 Direct audits Latin America & the Caribbean
Tel:(52) 56-9721 4220

[attachment "Agenda del proyecto de restauración v4.doc" deleted by Entelcom ALONSO/HSBC/MX]
[attachment "Apéndice Lab" deleted by Entelcom ALONSO/HSBC/MX]
[attachment "PDF restauración 4 Toleau.doc" deleted by Emilson ALONSO/HSBC/MX]
[attachment "Minuta junta de claves v4.txt" deleted by Emilson ALONSO/HSBC/MX]

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8873465
From: Warren G. LAMMIEG
Date: Tue Dec 23 18:44:44 2008
To: Catherine BUSSERY
Cc: John P. ROOT; David W. LIASLEY; Richard E. BENNETT
Subject: Fw: RV Anti Money Laundering: Stock plan - Update 11/31

Dear Catherine,

After reviewing the response in blue, there are questions which I
will discuss with you. I have heard that Lawson has challenged our legal position.
However, the question is whether the legal position has been supported by the
facts. I have spoken to you about the facts which support your position and the
question is whether the facts have been properly analyzed and the safeguards
of compliance are in place. I am particularly concerned about the risk of
losing money due to inadequate systems and processes. I am also concerned
about the risk of losing money due to inadequate systems and processes.

When we lost money, we needed to support our position.

Warren Lanning
Deputy Head of Compliance/GMO
HSBC Holdings PLC
9 Canada Square, Canary Wharf, London E14 4HQ, United Kingdom

Phone: 020 7091 4357
Fax: 020 7091 4713
Email: warren.lamming@hsbc.com

--- Forwarded by Warren G. LAMMING <GMO@HSBC.COM> --
From: Warren G LAMMING <GMO@HSBC.COM>
Sent: Thu Dec 21 18:44:44 2008
Subject: Fw: RV Anti Money Laundering: Stock plan - Update 11/31

Warren,

Here is the update for your review. Regards, Warren

--- Message original ---

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8873474
1556

De: Warren (L.JAMING)
Enviado: 12/02/2008 11:11 AM QFT
Para: Warren GARCIA
CC: Stan A WHEAT
Assunto: Risk and Money Laundering: Struggle plan: Update 1/12/11

Thank you for your update. I know that fraud has increased on the SAR’s
analysis. My thoughts are

1. We should be comparing the same volumes in our
comparisons. If not, we should be raising the
attention to the volumes.

2. I understand that we have updated in Risk and Money our risk reports and
that alerts will be archived. The most important ones should be
in our

- List of the backlog and one of Legal to close accounts and
- If there is a backlog of SARs resulting in the closure of accounts on the
   list of accounts for SARs to be archived as part of the legal plan, we will
   need to ensure that SARs are only hedged once we have the appropriate
   supporting documentation.

All the cases reported are alerts of suspicious activity not supported. We are
working in the business segments in order to prevent them from

- If available, start the process of Compliance or from the business as
  your material is more

There are 3 members of the AML SARs who are currently in the process of

Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8873475
regarding the level of concern. However, the AML still is not something that can be fixed directly.

Also, in our understanding, the business segment is dealing with incidents in order to make significant changes in the management of accounts in this list phase of transaction.

Randy on dinner.

Regards

Walter

Ramon GARCIA@HSBC.COM
Dec 31 2008 10:13

Mail Sync: F44

To

Ramon GARCIA@HSBC.COM, GARCIA SALES A. WRIGHT@HSBC.COM, AML F

Cc

David J. BAILEY@HSBC.COM

Subject

AML Money Laundering: Check slip - Update 01/11/15

By 01/11/15

Below please find weekly report on the subject. Regards, Ramo

— Forwarded by Ramo GARCIA@HSBC.COM on 1/11/2008 01:43 p.m._—

Records ASP/AML/FRM/HSBC

5/12/2008 12:30 p.m.

To

Ramon GARCIA@HSBC.COM, Lorenzo RAMIREZ@HSBC.COM, Luis ALCATREZ

Vela@HSBC.COM, Candice VOGEL@HSBC.COM, ARLINGTON@HSBC.COM, John

VEGA@HSBC.COM, John R FENDALL@HSBC.COM, Luis SANCHEZ@HSBC.COM

RBS@HSBC.COM, RBS@HSBC.COM, Key CASPER@HSBC.COM, Lorenzo

ARRANZ@HSBC.COM, RBS@HSBC.COM

Subject

AML Money Laundering: Check slip - Update 01/11/15

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8873476
DECREES TO DATE

Starting January 1, HSBC branches in liaison will be "Dollar Free" as we will no longer have or will demand incoming ANT funds
transactions. This means that: We will no longer allow any
transactions of HSBC ATMs located in anyone opening a 1) or from
any ATM to be written with these debit cards.

- We will no longer accept deposits of cash dollars in any accounts or
any branch (dollars on deposit)

On January 31, 2009: All accounts of the operation project to be
properly documented, otherwise the closure process of some accounts
will begin.

Below January 1, 2009: All accounts will be closed as
disciplinary actions; to January, some branches will have all
the assets disposed based on disciplinary activity.

All accounts of Cane de Carden are similar; including employees of
Cane de Carden will be closed. They will adhere for the provided
Compliance to run the closing process. "Transactions" will be kept.

The net to be included in the BSC will be the number of accounts with
now or open SAR. The ultimate in the account of the 2500 SAR are
now suspended. Compliance will mark the information properly and
will provide the information to the BSC.

International clients of HSBC will be given the same treatment as
domestic clients, provided proper identification is present.

Waste transactions will also be off site.

Starting January 2009 the group will also focus on WAP transactions.

<End following are directions for>

All staff should be made aware that if there are problems branches
of HSBC in a particular branch, the branch will be closed and all staff
dismissed regardless of how much business we may lose on these.

Everybody (this is separate advice to the Executive Team Card) do
not use or implement CAMP or the maximum including the checking of all
accounts. Fail to have more than one suspicious transaction highlighted.

<Directions for BS>

Bankwide HSBC against HSBC_EQUITOXCO and HSBC in terms of review of
suspicious transactions - branches. BSC.

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8873477
TO DO ITEMS TO IMPLEMENT THE PROGRAM

For the December 15 deadline:
- Monitoring process re USD held by the branches - Lori, Al\\n- Monitor credit requests in USD - December 15 - Letters
- Close USD accounts and USD transactions - December 15 - Letters
- Check of branches 22 and 24 of documents required managing
- Audits

For the January 1 deadline (closure of improperly documented accounts):
- Prepare logs of accounts for CHM - Canada - TRD
- Audit of CHM files - January 1
- Forms of accounts improperly documented to comply with regulations

TO DO ITEMS TO TRACK THE PROGRAM:
- Weekly tracking report on the adherence to instructions - General - Weekly by Friday
- Weekly tracking report of USD record - Lori, Al\\n- Weekly by Friday

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8573478
From: David W. BAGLEY
Date: Tue Jan 27 05:35:07 2000
To: Susan A. WRIGHT
Cc: David W. BAGLEY; Warren LEEAU
Subject: Re: Fw: Pless Release

To: Susan,

I think virtually we should say something along the following lines:

HSBC as a Group is committed to maintaining the highest standards of AML controls with both Group Minimum standards, but also adherence to the letter and spirit of all rules and regulations. It is clear that Mexico is bringing 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, HSBC is in dialogue with Mexican authorities on consistently enhancing AML controls to reflect the risks of doing business in Mexico, whilst remaining able to support its legitimate client base. Recognising the additional risks posed by transactions in Mexico, particularly USD, a decision has been taken to restrict transactions by non-customers and that the amount of cash that the bank will accept from existing clients.

We will continue to monitor the position and adjust policy as required to reflect the risks and to do all we can to ensure our advice being used appropriately.

I do think though that HSBC have to be advised to be thoughtful about the fact that there is clearly concern from the North. I am surprised that HSBC will have contact clients.

Regards

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.   HSBC OCC 8873485
From: Warren G. LEEMING
To: David W. J. BAILEY
Subject: FYI re: HMEX - CAYMAN ACCOUNTS

Dear David,

FYI, as discussed...

Regards,

Warren Leeming

---

Warren G. LEEMING
Head of Corporate GPA - HSBC Holdings PLC
12th Floor
HSBC House
Park Street
London SW1A 2DA

Phone 020 7991 4107
Fax 020 7991 4179
Email warren.g.leeming@hsbc.com

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8873500
From the attached it appears that
1. the revitalization is not progressing as plan
2. the new product details are still with the business to determine the final form that it will take

We will forward 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,

Adrian

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.   HSBC OCC 8873501
VerDate Nov 24 2008 09:24 Nov 27, 2012 Jkt 076646 PO 00000 Frm 00469 Fmt 6633 Sfmt 6633 P:\DOCS\76646.TXT SAFFAIRS PsN: PAT
to do very badly on the visit reports. I am not optimistic about the quality of work going forward as our PUD regime becomes better zoned up. We need to be careful about the skill of facilitators and facilitation processes leading to "good" customers getting classified as high risk, prompting closures etc.

Lucas and Ramon 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 in 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 sell as well. I have asked CSP to work with product on something we can make stricter on a "PUP"/SGO basis - enforced KYC to create a more processable and specific process for this product category.

Finally, with 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 41% (53%) was reviewed as low risk. We have also de-layered this category using the pre-existing processes - it involves doing the same processes over.

If we want to achieve the best balance between customer service and risk-based PUD, I believe that we need to change the plan as follows:

- Implement an agreed set of new product parameters and apply the transactionally rules at the visit stock level - we will be working on these.
- Implement a more streamlined "enhanced KYC", leave it as streamlined, checked in Operations and tested by sample 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 focussed proposal.

If you believe this is a viable solution to the concerns expressed earlier, I would suggest that we work with GMO and with LAM and to get further feedback and input before formally proposing as a written plan. As we still have a month and a half to get before our deadline, I think that it is an opportunity 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 issues mentioned above. Also please be measured that as far as everyone knows I am not concerned today, the plan is unchanged. Please welcome your thoughts.

John

--- Forwarded by John R Roberts, HSBC USA, 01/01/09 09:00 pm ---

Lucy Kiegel, HSBC USA

To: Emi Lee, Preseas MS, HSBC USA

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8873503
These type of DDA Cayman accounts were being spread, offered and advertised in Mexico (the bank was there for this reason). Mexican law� exempts Mexican banks to offer higher denomination accounts in board, with the exception of resident in Mexico.

Starting this last Monday, we have cancelled this service. We will establish a process of enhanced due diligence KYC for the 25,000 customers holding USD$400 million in DDA deposits in Cayman. We will close these accounts at the 3 December's Closing. The KYC process will be coordinated by Compliance and will end by December 1st according. After this date we will cancel all the accounts that we were not able to come into contact with and will direct our clients 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 monitored and opened by the bank's staff in a proper offshore bank 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 billion (or 33.540 million). We will follow the same enhanced KYC procedures, with the same December 1st deadline.

Unfortunately we will likely face some defaults as we do not expect the KYC process to succeed 100%, but we will offer a significant control and regulatory risk.

Regrettably,
Luis Perna

David W. J. Bagley 3-15/0/2008 10:34:15 a.m. — Richard We have been in discussions with HSMA CMI with regard to certain potentially suspicious transactions identified by you.

From: David W. J. Bagley
To: Richard F. Bennett
Cc: Matthew T. Roach, Edward A. Alevizos

Subject: HSMA - CAYMAN ACCOUNTS

Date: 11/17/2008 10:34 a.m.

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David W. J. Bagley 3-15/0/2008 10:34:15 a.m. — Richard We have been in discussions with HSMA CMI with regard to certain potentially suspicious transactions identified by you.
Richard

We have been in discussions with HSBC C&I with regard to certain potentially suspicious transactions identified by routine transaction monitoring. This initial report is written with a more general set-up as detailed below. While we continue to follow up with HSBC, I think it is appropriate to provide an initial report as follows.

I will avoid further details of the suspicious activity identified, but to briefly report that our C&I monitoring system identified a few (US$) transactions being made by a number of customers in a US company. In total, the total value of these transactions is US$(5 million). The AML/BOC policies at HSBC customer communications were not involved in these transactions, but the suspicious nature of the transactions has been raised through other banks. This led to a review of the way in which HSBC operates US$(denominated dev Faucets) through its Cayman branch.

HSBC holds a Category B banking licence in Cayman which allows them to provide banking services anywhere other than in Cayman residents. The licencing, obtained from BM, allows HSBC to provide US$(denominated services to persons domiciled in Mexico. Mexican regulation apparently prohibits individual services (i.e. non-corporate) to hold US$(denominated deposits accounts in Mexico. The branch currently holds US$(400m) and (50m) products. There is no physical presence in Cayman and effectively none in the USA which services are provided on the ground in Mexico. Although HSBC were initially fined US$(500,000) for the inappropriate promotion of these services in Mexico, I am advised that the Board is aware of the existence of the accounts and services and have asked no concerns. HSBC are therefore looking into the position.

I have also asked C&I to review whether there are any similar operations in LATAM. There continues to be a near focus on the level of US$(denominated activity in Mexico by C&I and此外巴西, and the extent of HSBC’s activity in this area. This account base has to therefore be seen as high risk from an AML and reputational perspective.

Applying to each country where in 2006 the Cayman branch activities was reconsidere higher standard and report significant RTC weaknesses, it will be important to ensure that these accounts will be covered by the anti-money laundering processes remaining to HSBC, and as a priority area. As a precaution HSBC have no further restrictions that no new accounts be opened pending a review of these activities.

I will report further in due course, but thought it important to provide preliminary reports.

Regards

David Singley

<table>
<thead>
<tr>
<th>Name</th>
<th>Email</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adrian Croissant, Head of Wealth Management</td>
<td><a href="mailto:adrian.croissant@hsbc.com">adrian.croissant@hsbc.com</a></td>
</tr>
</tbody>
</table>

Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.

HSBC OCC 8873505
From: Mary Johnson  
To: Karen Garcia  
Subject: Re: BC/CSC Strategy 

Dear Karen,

I hope this finds you well. I wanted to follow up on our discussion last night regarding the updated strategy (which will be discussed in more detail in the meeting on Monday). It appears that the proposed strategy will allow individuals to deposit cash up to $10,000 and for corporations up to $100,000, as well as to provide a summary of existing policies and procedures which would be included in the OFAC files and WorldCheck if the customer is a US citizen. 

Would you please clarify if all existing customers will be validated against a blacklist which would include all OFAC lists and WorldCheck if you use this to in the future.

Thank you.

Best,
Mary Johnson
You will recall that Susan would like to receive the enhanced KYC questionnaire.

For Corporate customers we should complete KYC on the underlying beneficiaries and accounts should also be screened against PEPs.

In respect of the remediation exercise we would expect that all related and senior accounts are frozen to prevent any transactions on these accounts until the enhanced KYC is completed.

I am happy to discuss if you have any questions.

Regards,

Walter

Ramon García — 01/09/2008 — 15:17— Please find attached English translation to a document with our Cayman Strategy. I hope this information gives you more light on were are we on this topic. Regards, Walter

Please find attached English translation to a document with our Cayman Strategy. I hope this information gives you more light on were are we on this topic. Regards, Walter

(Attachment: "Cayman Strategy Update 2.0", created by Adrian CRISTIANI)
Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8873508
1570

Maria, In response to your request we note:

Not only should the information from the HBMX accounts and Cayman Branch accounts be requested but in addition it should be made clear that the account opening KYC documentation should also be submitted.

You could consider whether there is any Cayman legal requirement for it to host a Cayman or arrangement made for it to be made available to the Cayman authorities. Understand that John Ruth has been giving advice in this area but if you have not received any advice from Cayman may be able to assist.

It would be helpful to include the enhanced KYC for all accounts.

We assure that the submission of prospective customers against blacklists would include all OFAC lists. Could you please advise which the blacklists include.

It is our recommendation that no cash deposits should be accepted in such accounts.

We agree that accounts should only be opened for existing HBMX customers who have held accounts for 12 months.

I would be happy to discuss further.

Regards.

Warren

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8873509
In order to continue looking USD Cayman accounts as requested by product area, we would be grateful if you could give us an overview on the action plan implemented to monitor regarding these accounts.

The main issues regarding these accounts are the following:

Mexican regulations set out that USD accounts can be opened only in local zones. In order to offer USD accounts outside the country, HSBC opened a branch located in Man Cayman in 1980.

So, HSBC CAMF monitoring teams identified alleged illegal USD accounts, possibly by a number of customers for a USD company allegedly involved in supplying drugs to drug cartels. SARS have been opened since.

On 28.10.09 the opening of USD SDDs and CDA located in Cayman unit suggested and a review of the process by HSBC to operate in USD accounts through the Cayman branch was commenced.

On 28.10.09 HSBC CEO instructed that all customers with USD accounts located in Cayman branch should have a complete identification file and an enhanced KYC by 10.12.09. The customers were classified in order to establish profiles to complete these files containing customer’s transactional activity as follows:

**CAYMAN ACCOUNTS**

Customers were classified according to staf data considering their transactional activity as follows:

RED : SDD status. Identified people and customers with one or more reports to the authority.

AMBER : Customers claimed by CAMF system without SDD.

WHITE : Customers who are not included in the two above categories.

Legal and Compliance areas have also been instructed to conduct reviews of

The following criteria for USD SDDs reporting purposes which were agreed in a working group will:

**Redacted Material**

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HSBC OCC 8873510
In order to continue offering these accounts, they will be implemented in two stages:

- All new account should fill in a modified KYC Questionnaire; in case the RM does not complete the KYC timely, the account will be cancelled.
- Validation of prospect customers against standards.
- Creation of accounts can only be opened by customers with a minimum of USD 100,000 Account.
- Individuals can open only one account in USD other in Cayman branch or in HSBC.
- Maximum total amount is limited to USD 100,000
- USD 1,000,000 for individuals
- USD 1,000,000 for companies
- A commission for cash deposits will be paid by customers.

We expect to receive information to help you in closing an account, so that product area can continue offering these accounts.

Thank you in advance and regards,

Maria del Consuelo Salazar
Sudadera/Compliance (HSBC) Wts. S.A.
Paseo de la Reforma 319, Paseo de la Reforma, Mexico D.F., C.P. 06500

Phone: 52555322751
Fax: 52555322753
Email: maria.salazar@hsbc.com

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8573511
From: Luis ALVAREZ  
To: John F ROOT  
Cc: Ramon GARCIA  
Subject: Major Issues Outstanding  

Importance: High  

Please find the cover outstanding below.  
Best Regards,  
Luis  

USD payees — what are the results of our investigation into the high volumes from Venezuela and, increasingly, Colombia? Please address the David Trujillo note (it has been left on the agenda) and include the branch in the breakdown. Your report should include an analysis of the CNY-related accounts (including the Yanke SARs) and also discuss the CNBV and UFIR  

Large USD deposits — In order to investigate this issue, ERM has put in place new controls to monitor accounts which make USD cash deposits exceeding USD 100K per month.  

Large USD deposits — In order to investigate this issue, ERM has put in place new controls to monitor accounts which make USD cash deposits exceeding USD 100K per month. It has been identified that 914 customers made cash deposits in a total amount of USD 308 Million from January to May. These customers are included in our monitoring systems at high-risk customers and are referred to in the analysis. This decision will be performed for 60 days. If any customers do not meet requirements, accounts are closed.  

Account actions being taken in the Money Exchange (DE) have been reviewed with LIMEX and the new procedures are being monitored by Product. It is decided whether to continue the relationship with the bank. This decision will be confirmed at the next MLI Committee meeting to be held on 7/11/08.  

All accounts identified in these investigations have been reported to the authorities and relevant banks have closed accounts.  

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HSBC OCC 8873598
Regarding CHBV and UF issue, it is related to an enquiry made to the
institution referring that an investigation was agreed in relation to
different transactions. This investigation is underway. Therefore, different
data are now being provided to respond these enquiries.
From: Mason 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 21/1/05 where I gave initial notification of the serious allegations received via the Disclosure Line. The disclosures 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 Potharst 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 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) to sight the relevant minutes and attendance sheets.
- Two junior employees admitted involvement and knowledge of the fabrication and acting under instructions from Carlos Robles (CR) the former head of Money Laundering Detection within HBMX.
- CR admitted giving the relevant instructions and 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.
- Rami 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 GAC at the next meeting.

David Bigney
From: John T. Nunn
To: Karl BANGMAT, Derek WLE<
Cc: David W; Bagley; John Allison: Alison N Hill
Subject: RMII - Country Risk

Dear Karl,

I just wanted to call you re your RMII query and hopefully we can discuss later.

I believe you have sight of our Country Risk list but, as previously discussed, unless there are any local 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 RMII’s attention on the off chance you are using:

Venezuela - the Chavez regime and political/commercial environment in Venezuela, together with the level of corruption, present us with a significant reputational risk when adopting/entering new/continuing existing relationships with current Venezuelan government/state owned entities and/or similar.

Telecommunications companies who are known to be associated with and/or to have benefited from the Chavez regime. This is further complicated by the prior relationship between Venezuela and the US and Chavez’s stance and support of oil-rich entities to be considered as such. It is believed that the Group must now consider a specific policy framework in doing business with these countries to manage these risks.

These risks have already been flagged, and have been discussed in GRMC 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 illegal entities. HSBC/HSI have a number of customers who are cross-border service businesses (MBs) who are subject to the US and consequently payments from HSBC/HSI made through HSUS (who are subject to due diligence and transaction monitoring) is being increasingly applied to other HSBC/HSI/MBs at a number of branches in Mexico. HSBC/HSI are making efforts to influence HSUS to understand the difficulties involved in being approved as a branch of a Mexican bank in Mexico, which operates through a number of branches and with which a managed by HSBC’s local offices. A specific review of this situation is in due course.

While regard to Mexico, there is also HS to learn with regard to the amount of HSUs cash deposit and transactions between the US and Mexico and HSBC’s local offices may be involved in this area. A review of our involvement in this area is currently underway with HSBC/HSI and it is proposed that we deal directly with regard to HSUs and bank notes business.

Regards
Susan Wright

P.S. We have subsequently discussed.
From: Michael F. GEORGEWIAN
Sent: Wed Jul 21 18:19:34 2010
To: "David V. BRAYLEY"
Subject: Reo NORTH AMERICA
Importance: Normal
Attachments: Image_2.gif, Doc Link.htm Banker CPM objectives 2009.doc

Hi

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HSBC Holdings plc
whose registered address is 9 Canada Square, London E14 5DS, United Kingdom

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David V. BRAYLEY

--- Original Message ---
From: DAVE ELLIS<BR>
To: Michael F. Georgewian<BR>
Cc: Joesph Ellis<BR>
Subject: Reo NORTH AMERICA

Hi

I attach a series of e-mails as requested in which I outlined reservations with regard to various changes made within the Compliance function in North America, both in relation to the most recent hire (where Janet assumed a combined role, but also previously where a decision was made to combine the role under Dave Coburn during Bobbi Warburton’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 Louise Fabbrini assumed the role on the recent end of Jim Knapton.

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, as described in one of the attached.

I fully appreciate that Brendan, Paul and Richard had the right to move this call, although as I told you in your message I had been a little exasperated, and in the current way my line manager at the time had stated that I would have a far stronger voice.

I have raised my reservations at the first board part of the role of 17th May, which gave where we stand now clearly, succinctly. All I would say is that if that stage compliance risk management was refered to as condition of an OCC and Bank of America and in terms of supervision and interaction with OCC CPM, Janet had acted appropriately.

Dave Brayley

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8873871
Richard

Richard, 

I have given this some thought and wonder if there is in fact the need to either decide right now or make it a decision next week. If this will not happen until Q3, I do not think that there are objections in principle to this. It is a well-established model for us as a Group but think there are number of issues on which we would

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1579

need to be controllable before going ahead. These include:

I have a real concern that this is a very big job and Janet is stepping up to take over LGA. It is taking a lot of time and effort to see the level of management of all of CMP, it is hard enough being an RCO in any jurisdiction but the regulatory hurdles in the US are greater than anywhere else in the world and the mix of both private and regulatory bodies is extremely complex. The size of the combined LGA and CMP teams would be on a big team anywhere else in the local and compliance. In previous discussions the key architects for the RCO role was seen as being strong management skills as much as technical skills. I have no feel for how good a manager Janet is, sceptical about the skill and experience as a lawyer.

I am concerned that this may be seen as a potentialocsaving exercise at a senior level. I would have thought that at very least Janet would want someone with considerable experience whom she knew to run the compliance function in this something that has been discussed with Simon and Paul. I feel it is crucial to see how one person will be able to take on both sides of the issues in terms of RCO and Audit Commission. I think, mean that an RCO equivalent is needed under the VCA.

There are some issues between LGA and CMP and we would need to make sure that we manage these tactically ahead of the day-to-day. The key point is that we need to find the right person for the RCO role, but would have to do this anyway, and if TB was not in charge, we do know we are still managing these matters.

There are some issues between LGA and CMP and we would need to make sure that we manage these.

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judge her performance against the same criteria as the other RCOs. A copy of our standard generic RCO
deck/policies are attached.
Overall, I was a little troubled by the absence of any form of measure or of an objective evidence in the RCOs.
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 revised 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 "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 remain concerned that something was not quite right in North America in a single portion
for much regardless of the fact that we are striving our activities within North America as a whole.
Having said this, I can only accept the standards they have set and not make alternatives. Specific areas of
concern have been highlighted by the OCC and we have made a number of recommendations in relation to OFAC
compliance. It appeared that OFAC policies within the RCOs have not been well-enough and I can assure that I think the
Compliance function are mostly the best shown from the matters dealt. This, however, may be justified and
as we have core standards and

Overall, however, the function is responsive, meets standards, and I recognize that it is sensible for me to

Decide on a number of cases in which the core samples have been treated as if they were what are expected
in respect to the role of Janet's help. The core samples are

Without reference to the key members of the Compliance function, explaining the changes to them and seeing to it that some
measures are put in place. The team has been treated as if it were an active force in the background, but also from the
discussions in the RCOs. In this latter case, I think Janet has been with to take you but steps to

David Bagley

--- Forwarded by: Vanessa O'TOOLE<354580.961@hsbc.com> on 27/12/05 17:40 ----

To: Richard E.T. WINN@hsbc.com
Cc: North America Compliance

Richard

As I have seen, I have listened closely with Janet who has been extremely active in contacting the key
members of the Compliance function, explaining the changes to them and seeing to it that some
measures are put in place. The team has been treated as if it were an active force in the background, but also from the
discussions in the RCOs. In this latter case, I think Janet has been with to take you but steps to

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8873874
I appreciate you speaking to both Carolyn and Lesley Midland. I have to say that the expressions given to me were perhaps less favourable, partly because I will not be their new manager but also because I think they have had a little more time to think through the implications. It is also fair to say that their overall reaction is probably also impacted by the general levels of change and uncertainty in North America and the whole business, not just Compliance.

The essence of the core points made to me are however as follows:

They are not happy with the significant changes and the uncertainties that come with this. They do not particularly enjoy working as being as a Head of Risk but cannot understand why a new HSBC CEO is not being appointed. They point to the model elsewhere across the Group accepting that there is a coach in the legal but otherwise (with the exception of Middle Desk) there is a lawyer who was with the RCO with a Compliance speciality underneath them. Arguably even in the Major Risk Unit (MRU) you have a similar situation. This is nothing to do with what they cannot see nor is it justified. I think a consistent Compliance Officer is required and worry the capability of one person to manage a very large legal function and a Compliance function. I think certainly is that Compliance will be pushed down below Legal and they also insist that authority sits upon them as individuals in that there were not tests as being fit to discharge the role of an RCO. It is done what I can in the regard, but as you know these are one of my key concerns and increase, and I could not say it specifically hard to extend as compared across the rest of the Group, particularly with the complexity of the regulatory environment in the US. Having said that, Carolyn and Lesley are very experienced.

There are undoubtedly some personality issues between certainly, Carolyn and Janet and some maintain within HSBC UK and in a way they are treated and supported by LCA. LCA however made the point that the single management of both functions will hopefully seek to address some of these issues 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 comprised in import and influence.

There was a rejection concern on the past of leaders as to whether the top would be put under Annette, I see no reason for this, I have been for expecting that this to be intended but I think this would be very unwise. We are aware of my suggestions that, say, within HEC Carolyn would report to Christians, HSBC, Citi to Susan George and Centralgal to Lesley. I pointed out that say, within Hong Kong, James Paul Keen's position to the sum to 18HRM before not does. You Romsey report to Andrew Friend. Further Bank. Rand is liked by Lago. I think that Centralgal to HSBC does not report to anyone, I speak with about us that that may be something we are able to regulate the situation. Subsequently confirmed that this is not arranged.

I have not copied this note to Janet as I do not want to be any way to reference what have been generally positive fixed interactions. It is not surprising that at this stage people are not widely on board and I know we are committed in giving it a try. I would not want anybody to think that this is in any way going to be straight forward or without risks or challenges. 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.

Yours,

[Signature]

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8873875
From: ANN LOOD/HSBC
Sent: 12/30/2002 9:49 AM
To: DAVID W J SMALLEY/HSBC
LCC: CAROLYN M WOOD/HSBCAMERICA
Subject: OFAC: PLC wire on behalf of M/lib Bank PLC

David, fl.

----- Forwarded by Anne Liddy/HSBC on 12/30/2002 10:16 PM -----

Elizabeth Provenzano on 30 Dec 2002 14:49

Note:
30 Dec 2002 14:49

From: Elizabeth Provenzano  Tel: 212-525-6662
Title: Vice President Location: 452 5th Ave, Floor 07
WorkGroup: Compliance  Mail Code: 49656
To: Carolyn M Wood/HSBC/HSBCAMERICA
Anne Liddy/HSBC/HSBCAMERICA
Denise A Boyd/HSBC/HSBCAMERICA
Subject: OFAC: PLC wire on behalf of M/lib Bank PLC

FYI, the attached payment from PLC was rejected on Friday, December 27. The
originator is "Mark M/pdf PLC" and the 884 field reads "Do not mention our name
in NYC." I have advised Nancy's group to continue to reject such (U/min) payments
cointaining that message.

-------- Forwarded by Elizabeth Provenzano/HSBC on 12/30/2002 03:10 PM -------

HSBC Fax 12/30/2002 12:16 PM

E-Spied: Distribution: Fax from "002 536 2003"

Status: Received
Time: December 30 2002 12:16:32
Pages:
Receiver's Name: BSA Fax
Receiver's ID: 
Calling Fax Machine ID: 002 536 2003

Attachment: c0039178.pdf

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8873909
From: David W. Bagley
To: Aay Bhandogola
Cc: Gary Eason

Subject: Memo: Rev. PLAN - STRATEGY DISCUSSION PAPER

Could you step with Gary on your initial conclusions on the transactions and the assessment of the
services we are currently providing to a number of OIC banks.

Thanks,

Aay Bhandogola

Memo

From: Aay Bhandogola

To: David W. Bagley

Subject: PLAN - STRATEGY DISCUSSION PAPER

David,

As discussed on the phone there is a lot of work that Gary has already done on the
understanding OIC4 regulations and possible payment services. Can I suggest that we
meet with him as a starting point to pick his brains. Gary is travelling on business at the
due date and will be back on Thu 25th.

Thanks.

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8873958
To: David W. | MAGL2055H06750B0C@HSBC
cc: | DRO3326260250B0C@HSBC

Subject: Iraq - Strategy Discussion Paper

David,

Thank you for copying me on your note addressed to David.

HSBC was one of the first banks to lend to Iran in a year when its credit was high, and we believe there is significant long-term potential for growth. As we discussed at the meeting on Thursday, we are very keen to ensure that we are prepared to support the growth of our business in the US. The new initiative was discussed with Paul Lee and I wish to suggest that we continue to support his efforts.

We very much appreciate your comments, and those of Paul Lee, and are happy to have some expense to investigate the latest developments. I would like to discuss this in the fullest way.

Regards,

David

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8873959
The process of issuing payments that are subject to OFAC sanctions has been a major concern for HSBC Bank USA, N.A. for several reasons. These concerns stem from the risk of violations that could arise from violating OFAC sanctions. The bank has taken steps to ensure compliance with OFAC regulations, including the implementation of a new process for handling transactions that may be subject to OFAC sanctions. This process involves careful review and analysis of transactions to ensure that they are not in violation of OFAC regulations. The bank has also worked with its partners to ensure that they are also compliant with OFAC regulations. The bank's approach has been successful in minimizing the risk of violating OFAC sanctions. However, the bank continues to monitor its compliance with OFAC regulations and will take appropriate action if any violations are detected.
If customer instruction are to be offered by MT202, the customer must input P=6 to specify that MPS processes the payment through the serial method. It is possible that if P=6 is left blank, MPS will send our 2 x MT202s by the serial method.

USBS will have customers be required to sign the "Terms and Conditions" indicating that HSBC will not be liable for any payments we process using an MT202 serial payment method. What stance will be taken with those customers who don't wish to sign?

MPS cannot leave specific payment types for a specific customer base that need them to be rejected. If the only option would be to not processed on all the relevant accounts and particularly which each customer's account is processed due to the fact that there is no way to test all potential payment types by sending the on the US. If MPS cannot be prohibited, what will the user of specifying each payment fail when used departmental to the bank, then would be required for bookings plan to be investigated to discuss future staffing levels and costs.

As it is illegal to amend a payment instruction as it may be deemed an "false-stepping" current sanctions, legal action will be taken by law enforcement when an illegally entered MT202 fails to match due to an illegal move or any other than the payment being in TOFU it will also be necessary to educate not to "false step" when entering the MT202. There is also the legal implication concerning interest claims. If HSBC holds a valid MT202, payment for further investigation. Who will pay these costs when both the customer and HSBC believe the payment complies with OFAC sanctions?

For serial method to have any chance of success, it will require our correct interpretation of a MT202 translation for every single payment, a full business proposal to include staffing levels in HSBC and HSBC plus economy and the agreement at the customer due to many banks closing their hierarchies. I would expect our departmental to increase significantly what they realize that HSBC is trying to process MT202 payments. The also causes concern.

In conclusion, this method will require us to develop and specify means within which makes us one step back in our fight to STP. Group Compliance have advised that "Due to the current regulatory climate, all permission must be obtained" which increases the likelihood of HSBC being ordered to send them. In addition, the "false stepping" may be required for investigation where a payment fails due to an illegal move or any other than the payment being in TOFU it will also be necessary to educate not to "false step" when entering the MT202. There is also the legal implication concerning interest claims. If HSBC holds a valid MT202, payment for further investigation. Who will pay these costs when both the customer and HSBC believe the payment complies with OFAC sanctions?

Regards

Tony

Susan A WRIGHT/DEPUTY CEO 31 Dec 2001 11:30

Subject: Re: Iran - U-Turn Payments

Further to my recent email 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 scheduling another conference call and if you would like us to arrange this please let me know.

Regards

Susan Wind

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8873976
From: Nigel UMPSTEY  
Date: Oct 5 2007  10:41  AM  
To: STEWART  
CC: Mandy U DREW; Alan BIRKETT; Mike GEDNEY; Geoff ARMSTRONG; Phil BATES;  
David M DBAL; John J ALLISON; Nigel J WEB; Rob MOSLEY; Ajay BHANOOOL  
Subject: ISLAM U Turn Payments  

Importance: High  

Attachments: Image 1.gif; Image 2.gif; Image 3.gif  

Subject: ISLAM U Turn Payments  

Discussion on the question of ISLAM U turn payments have now been completed, and the attached  


The proposal has been reviewed by GHQ Compliance, which will make a number of comments. These  


In summary, all involved parties have signed off on the proposal, and the next step is for GHQ  

Next: 

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

HSBC OCC 8874023
HSBC BANK PLC

IRANIAN PAYMENT

PROCESSING PROPOSALS

JULY 2004

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  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 sponsored OFAC sanctions against Iran that are not honored by US, UK, or EU sanctions and therefore not binding in respect of payments made by HSBC. There is however an impact if these payments are made in USD or under US jurisdiction.

A number of years ago a procedure was devised whereby Iranian Financial Institutions put a customary note on their payments in Field 72 saying typically “Do not honor this”. The previous fell to a trap quarter where HSBC operators receive references to how to prevent possibility of re-shipment by the US authorities in New York. Other warning messages included “Iran sanctioned country”, “do not route via the USA” and “take no responsibility for this payment.” It should be stressed that the vast majority of payments are valid, falling within the terms of exceptions 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 direct routing effectively removes any mention of Iran from the majority of these payments when they leave HSBC. Many of these payments are in favor of customers of the HSBC Group or HSBC Group entities themselves.

The Iranian banks who have used this practice are Bank Meli Iran, Bank Markazi, Bank Tajvor, Bank Keshavarz and Export Development Bank of Iran.

The vast majority of payments have been successfully effected, although there have been legitimate filtering in US by the US banks and, driven by the Fed, has meant that more payments were being frozen or unquestioned particularly following 9/11. This culminated in a Bank Markazi payment for USD7.5m in October 2008 which would have been sequenced in HSBU but for the personal intervention of HSBU Senior Manager Payments.

**Iranian Payments**

This payment had been seen by the serial tuples and is still uncertain as to whether the freezing had been precipitated by OFAC or a Chinese telecoms - HSBU. This incident brought into focus the risk associated with making these payments and the need for a greater understanding of valid or invalid payments versus those which could be avoided.

HSBU had already been actively pursuing an alternative processing solution after being prompted by a Compliance Officer visit in June 2002, when the above procedure was challenged. In the knowledge of a tightening of the Fed’s approach to sanctions regulations, 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 (Loggins) and HBEU have been communicating to confirm there is a definite appetite for this business and obtain suitable sign-off. We have no new evidence of the outcomes of these discussions although we note the supportive email received from Robert Gey dated 23 June 2004 and the most recent email to our CEO.

- HBEU CMF 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 sanctioned by some front line managers 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 assisting in the processing of these payments to avoid OFAC legislation, rather than simply supporting valid payment transactions.

- HBEUS are uncomfortable with the existing practice and with the involvement of US legal Counsel have proposed a solution incorporating amendments to MT202 cover payments ensuring that they contain disclosure of the underlying payment details in Field 71. This is discussed in more detail below.

- An MT202 performs a dual role within payments: it can be used as 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 MT203 and it is in these instances that the remitter and ultimate beneficiary is not disclosed.

- Payment Services Compliance certificate in Dec 03 was caveated to highlight the fact that the present practice is continuing, warning notes 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 close 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 15 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 in the USD 10 million value level.

Additional Risks

- Revocational risk if an Iranian payment is reflected by HSBC when it contravenes US sanctions.

- Personal responsibility attaching to HSBC staff who are involved in assisting and subsequently processing these payments.
Financial risk from operational losses resulting from HSBC having to refuse a customer whilst frozen at an US 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 fees if we withdraw from the processing of these payments.

Possible solutions

1. SWIFT MT202 core payments with full disclosure, although we have the undetected problems with risk exposure:

   i) It is at variance with normal market practice and could result in duplicated payments. Most banks will only accept 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.

   ii) From HSBC’s 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 core and cannot be accessed (何况了) by operators. It may be possible to have this changed but that would be a substantial piece of work and we may still have implications across the Bank. It would not be desirable to open this field for manipulation as it could introduce new areas of risk to fraud. Additionally it would have implications for our WOF filtering, as we would have to ensure that we are filtering MT202 series messages. These are currently excluded from filtering on the basis that the traffic represents some bank to bank payment traffic.

   iii) Unless the MPS enhancements in ii) above were implemented, MT202 with full disclosure would become a completely manual process carrying the disadvantages of that being prone to human error and delay. Additionally, we would not be able to filter the protection offered by filtering, as MT202 wire core payments are currently filtered by WOF.

   iv) Some of other US banks. Even if we could perform perfectly from US, there is still a diversity of opinion and methodology 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” area in the US laws legislation or at least the interpretation of it by the major US banks.

2. SWIFT MT103 wire payment option.

This is the preferred US option but suffers from a couple of significant disadvantages. This would involve a request to the branch remitters to remove their special instruction in field 72. HSBC would treat the payment as a remote payment.
The two challenges HSBEU would have to meet were:

i) Allowing Iranian FI payments to STP without intervention by HSBEU represents a significant shift in approach. There could be some operational issues with the financial FIs unless this change is clearly communicated. The financial risks associated with funds potentially being sequenced would need to be assessed.

ii) Payment through HBEU would need to be confirmed by HSBEU before the final payment is affected. This issue would arise for payments diverted to other US banks and where one would not be of any issuer processing arrangements/interpretation of OFAC legislation.

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 customary phrases such as “Do not mention Iran” in their instructions, but we do not fully automate these payments, we will rely upon the operators of the HBEU repair queue or Wolf operators to act as judge and jury as to whether the payment should be processed.

Each payment would be allowed to authenticate through HBEU’s payment system but remitters of Iran would request referral to the WOLF queue. The role of the WOLF queue would then be to scrutinize the item against set US criteria and release it. It would then be for the US bank in the chain to validate the item. This would include HSBEU who would need to satisfy themselves on its validity within OFAC legislation. Both of these activities occur once and we would rely on our internal HBUS who would need to undertake this work on the basis that all liability for sequenced items remains the responsibility of the issuing remitting bank. This is a conscious and specific change from the current approach where the issuing bank relies upon us to “clear” payments for them. There would be a need to ensure that robust checking mechanisms are in place within HSBEU to ensure that all Iranian payments are sequenced and meet the relevant legislation.

Our preference would be to follow the solution offered in II. This is because the nature of U-rum 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, a payment must not feature in the US system and that the US authorities could potentially seize or scrutinize each item. Any operational risk would be captured by the Iranian customer (a financial institution) taking responsibility for submitting only bona fide U-rum payments and HSBEU would then detect potential terrorist-linked payments.

HSBEU will continue to adopt its internal best practice whereby it views and releases remittances taking an overview of this traffic using the WOLF and Country Validation backup systems but this will merely be as an internal suspicious payments. The overall approach is that if the Iranian FI will continue to use their own payments linkage and to ensure that only valid U-rum payments or payments which are permissible under the terms of US legislation are submitted to HSBEU. Effectively the risks associated with sequencing 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 MT40 series format.
- Full disclosure to be evident and any references to "Iran" in customer payment instructions to remain without material alteration.
- HSBC Payment Services to undertake their normal interrogation, particularly those highlighted by WOLF Note.
- HSUS have opportunity to validate all Iranian payments using existing filtering techniques (e.g. review, if appropriate).
- Sanctions 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 HSUS/HSUS would need to be agreed.

Scenarios using the fully automated MT103 solution

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Bank Code</th>
<th>Payment Type</th>
<th>HSBU</th>
<th>HSUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario 1</td>
<td>Europe/US</td>
<td>USD Bank-to-Bank</td>
<td>Pay</td>
<td>Pay</td>
</tr>
<tr>
<td>Scenario 2</td>
<td>HSAP for US resident</td>
<td>USD Local</td>
<td>Pay</td>
<td>Pay</td>
</tr>
<tr>
<td>Scenario 3</td>
<td>US FI as US resident</td>
<td>USD Bank-to-Bank</td>
<td>Pay</td>
<td>Pay</td>
</tr>
</tbody>
</table>

The way forward

HSUS’s view is that if we are to continue to support our Iranian payment business solutions need to be centered 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 of Senders Office" and "Do not route via US". Additionally field 58 should be populated to assist sorting. Their risks and responsibilities would be outlined, particularly if payments are frozen in the US and the possibility of increased costs would need to be considered due to potentially increased costs in MURS. Acceptance of re-routing risk by the Iranian bank would also need to be incorporated into any proposal.

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HSBC to agree to this solution. The MT202 cover payment proposed is unaccept able to HBEU and MT107 serial payment route is in our opinion the only viable and transparent solution. Action to be taken if such payments are identified require to be agreed. An appropriate fire structure would need to be agreed to reflect costs associated with the interception of such payments traffic in JESUS. 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 subject to checks through the Wolf Sheik Canary Validation Backstop in HBEU (BMS) and, in crucial, HBEU 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 payment business to continue without compromising the position of the Bank. In order to expedite this solution a draft template letter (below) is to be sent to the Iranian management team advising them of the changes that has been developed for consideration. At this stage there has been no Group legal input into this draft.
Dear Sirs,

US DOLLAR PAYMENTS

I am writing to inform you of the necessary steps that HSBC will take as your agent for US dollar payments and how we propose to continue to handle the USD payments business 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 listed OFAC countries. Over the last few years we have been able to source your US dollar payments business by ensuring that our attention is drawn to the fact that each payment remitted by Iranian Shells is a US dollar payment and that take appropriate action.

In the light of the changing regulatory environment the inclusion of additional text examples of which are covered in item (i) below is no longer acceptable practice. In order to meet with our requirements we now propose the following changes.

1) All USD MT103 series payment instructions should be sent to HSBC Bank, plc via SWIFT MT 103 message. These will be processed using the cable payment method. Your MT200 series messages to Bank to Bank transfers are unaffected.

2) Field 72 should contain any special customary instructions. These include but are not restricted to phrases like “Do not exercise fees”, “Care instructed 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 area.

3) Field 54 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.

Fulfilment of the above requirements will enable us to continue to effect US dollar payments efficiently on your behalf. We urge you, however, due to the complex and varied nature of these types of payments, the risk and responsibility in the event that payments are sequesed by the US regulatory authorities remain your responsibility. Any interest, foreign exchange or consequential costs associated with a delay in the processing of such payments, whilst accruing to the beneficiary will be borne by yourselves.

Yours sincerely,

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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 cost will charged to yourselves.

We would ask you to ensure that payment instructions incorporate the above 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 we 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,

In order to ensure that we do not agree a viable 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 Italian IT customer base.
From: Marvin O ROACH
Sent: Wed 01 11 10 32 06 2014
To: Marilyn
Cc: David L HODGKINSON
Subject: RAM - OPAC

Marilyn

At the Group (CIT's request) I have kept him informed as to progress made in relation to the above matter. Consequently, upon the timely advice that a compliant solution had been agreed in principle with HSBC he indicates 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 not being able to address this issue of payment through the US in terms of the potential commercial value to the organization plus in terms of existing business. But perhaps more importantly as terms of future business. I would not suggest that we seek to try and influence the debate at this stage. Indeed I don't think it would be prudent to start looking at this stage but it might be helpful if I was armed with the likely value to the Group and we are in effect making a recommendation for proper reimbursement to agent.

I think it will probably be sensible for us to continue however to proceed assuming that we may get guidance.

Regards

David Bodley
From: Amy BROWN
Sent: Sun Apr 10 14:27 2005
To: David W J BRAGLEY
Cc: David M KOCKENHON, Michael M HUBBARD, Alan KERR, Christopher GLOVER
Subject: Re: IRANIAN BUSINESS - OFAC

Dear Sir,

I am enclosing this paper on payments alternatives for Iran for you to include any positions you feel appropriate in your own paper.

Re: the other paper on the identity and nature of the Iranian business that you had requested from the Iran office, I believe Hassan is on leave. Density is visiting the UAE tomorrow and he will call you on the 1st.

Regards

David E. HODGKINSON

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  
HSBC OCC 8574051
David

HSBC Bank plc
Registered Office: 6 Canada Square, London E14 5HQ, United Kingdom
Registered in England - Number: 14259
Authorised and Regulated by the Financial Services Authority

David W. J. BAILEY

From: David W. J. BAILEY
Date: 14/04/2010 10:10:21
To: Richard COTTER
Cc: Verica HANJOUK

In your absence I have drafted various for what I understand to be the FSIF of the policy in order
namely an assessment of the options and risks of our current business. This is indeed partly as part of
the risk analysis process and also in order to have a clear understanding of different types of
business and assess how we will deal with legacy issues.

Having spoken to Richard, prompted by discussions relating to a specific transaction for NPC, I have
recommem to you a paper by the end of next week for consideration by the Chairman setting out
an outline of the options and with recommendations. This brief note makes it very urgent that I review a
draft of the above business summary at quality as possible, even if it is part completed as per Monday
note at the meet. We will also receive have an opportunity to discuss this further on Wednesday.

It is not all as good as it seems as the conversation today gave some time possible alternative approaches
to an outright sale.

Richard Cole has kindly offered to provide a summary of the FSIF business to HSBCU.

Happy to speak over the weekend, although Saturday and I will be in the car on the way up North. My
mobile is 07803 034652, text or call evening I will be at home from about 9pm on 01749 500143.

I am anxious to avoid missing this meeting, although this is not inevitable, and if there is anything that
I can do to expedite the above work I would be grateful.

Regards

--- Marked by David W. J. BAILEY at 14/04/2010 10:21 ---
Dear Nasser,

My understanding is that you are in the process of documenting the extent of the Group’s interests in the... and 20th Century Fox, which might be affected even if there is no change in the Group’s policy towards transactions that might be affected by OFAC related concerns even if concluded through U.S. incorporated Group entities.

I recognize the obvious concerns that these unprecise words mean to you, but we are certainly in something of an ambiguous position, where I am being required to give a compliance view on a case by case basis that I believe is clearly desirable for us to resolve our fiduciary and corporate prime as soon as possible.

I would be grateful if you would consider 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 Bigley
A number of alternatives have been evaluated with details provided in the annexures wherever there were to be justifiable alternatives that are explained below.

1. Use an alternative 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 delay to HSBC or in real (current) business. This does not mean that USMS will disappear, but that the London physical bank, HSBC USA, will be used in compliance with the existing procedures that are being done with Finnish bank accounts with the Group. Alternatively, an advance fee (EURO to USD) forwarded to HSBC USA. Full transparency of the purpose of the advance will be expected with the correspondent, hence a correspondence will be agreed to ensure the transfer for Payment when made, and will have to be given a proper date. All USD accounts of Finnish banks will be subject to liberal terms and volumes across the Group which could be moved to HSBC USA without any intelligence in the other leads like ESP, and we are following existing procedures.

Pros:
- Avoids FX risk
- Easy or even existing systems can be used without any manual processes etc.
- Is the best alternative in terms of type of instructions including commercial payments
- There is no change of the group risk through MNP or which can be mitigated through transparency and full disclosure
- Loss of automatic for Group USD (if any) is unlikely (USD, EUR business is moved)
- With the current infrastructure it may be difficult to find a willing US correspondent
- Evaluation of the best business practice in place at HSBC
- Issues discussions with HSBC USA. Case is required since this announces our intentions in a small market place.

2. Emergency Deferrals

This alternative would support the existing Trade, Project & Export Finance and Structured Finance businesses, as well as would support general USD commercial payment. There would be some estimated representations since the payment is concluded however, attempts would need to be made to reduce the exposure as a primary one with frontruns.

Rationale:
1. All new USD accounts of foreign banks and companies operating in the program current USD accounts can continue to be local rate, but can be used only for the purposes specified below.
2. HSBC has the capability to tailor their processing (exchange)
3. Foreign currency (non-USD) payments
4. Foreign currency payments to local accounts (in USD) to US Bank (Bank of America, HSBC USA, HSBC UK, HSBC Switzerland): These payments would beTreasury deferring transactions and non-commercial payments.

Clarifications required:
- A Treasury deferring transaction would be paid to the customer bank rather than a third party. These transactions would be by way of a similar IFM through HSBC USA to provide high exposure over all payments are fully supported by the underlying transactions. However, since these are Treasury deferring transactions, there is no underlying transaction and would comply with CFTC regulations. Clarification would need to be provided as to whether Treasury deferring transaction can be made through HSBC USA.

Pros:
- Maintains IBANS
- Prevents the move business of Trade and Project finance
- There is a significant change to the terms of the account, which would be market representations
- US correspondent payments cannot be made, then expired to be used less for business.

Anteius:
- Bank clarification as to whether Treasury deferring transaction can be made through HSBC USA.
1606

- Evaluate the loss of financial turnover of this option as usual.

**Summary**

In the UK/USD clearing system, HSBC uses its own system to clear payments. The payments would be made to HSBC's correspondent bank. The correspondent bank would then make the payment in USD to the final beneficiary.

**Process**

1. **UK/USD clearing system**
   - **Process**
     - **Overview**
       - HSBC uses its own system to clear payments in USD to the final beneficiary. The correspondent bank would then make the payment in USD to the final beneficiary.
   - **Correspondent Bank**
     - HSBC's correspondent bank is HSBC Bank USA, N.A.
   - **Routing Number**
     - 021000021 (New York)

2. **Use of HSBC Clearing Interface**
   - **Process**
     - **Overview**
       - HSBC uses its own system to clear payments in USD to the final beneficiary. The correspondent bank would then make the payment in USD to the final beneficiary.
   - **Correspondent Bank**
     - HSBC's correspondent bank is HSBC Bank USA, N.A.
   - **Routing Number**
     - 021000021 (New York)

3. **Use of HSBC Clearing Interface**
   - **Process**
     - **Overview**
       - HSBC uses its own system to clear payments in USD to the final beneficiary. The correspondent bank would then make the payment in USD to the final beneficiary.
   - **Correspondent Bank**
     - HSBC's correspondent bank is HSBC Bank USA, N.A.
   - **Routing Number**
     - 021000021 (New York)

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A specific distribution is required to make the payment to the lessee as the lessee does not own 100% of the equipment. The payment alternative would be specific and limited to certain terms with prior approval. It would not be applicable to a general payment arrangement.

- Payment: For equipment, e.g., Project & Finance, would like to make payment as $\text{Project & Finance} \times \text{Percentage owned by lessor. These may be similar terms to other options where possible. can be made in base rate.}

- Proc.: Simple and effective
- Form.: Voting to edit through INDM
- Action.: Developed feasibility of this arrangement
- Treatment of tax disclosure would involve OFAC Review

Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8874057
HSBC OFAC Compliance Program

9 September 2009
<table>
<thead>
<tr>
<th>HSBC Profile</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>&gt; HSBC Holdings plc</strong></td>
</tr>
<tr>
<td>• Incorporated in England and Wales and headquartered in London.</td>
</tr>
<tr>
<td>• Lead regulator is Financial Services Authority (FSA) U.K.</td>
</tr>
<tr>
<td><strong>&gt; HSBC Group Companies</strong></td>
</tr>
<tr>
<td>• Located throughout Europe, Asia Pacific, the Americas, the Middle East, and Africa.</td>
</tr>
<tr>
<td>• Approximately 9,500 offices in 86 countries and territories with 300,000 employees.</td>
</tr>
<tr>
<td>• Serving over 100 million personal customers and approximately 3 million commercial customers.</td>
</tr>
<tr>
<td>• Supervised by approximately 540 central banks and regulatory authorities.</td>
</tr>
<tr>
<td><strong>&gt; HSBC's Business</strong></td>
</tr>
<tr>
<td>• Major lines of business are Personal Financial Services, Consumer Finance, Commercial Banking, Global Banking &amp; Markets, Private Banking and Insurance.</td>
</tr>
<tr>
<td>• HSBC Group companies execute approximately 1/2 million cross-border payments (in all currencies) monthly, 2/3 million of which are in USD.</td>
</tr>
<tr>
<td><strong>&gt; HSBC Bank USA, N.A. (HBUS)</strong></td>
</tr>
<tr>
<td>• Primary business operations include Personal Financial Services, Commercial Banking, Correspondent Banking, Trade Services, Banknotes, Global Banking &amp; Markets, Private Banking.</td>
</tr>
<tr>
<td>• HSBC Group affiliates clear virtually all USD payments through accounts held at HBUS, representing 63% of all USD payments processed by HBUS.</td>
</tr>
</tbody>
</table>
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 dealer exemption.
  - Payments are subject to review against OFAC sanctions and sanctions imposed by multiple jurisdictions (EU and UN).
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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 (1Q09).
  - 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.
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.
The Compliance Function:

- Assists line management in exercising 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.
The HSBC AML Policy is well defined, consistent with industry standards and HSBC requirements. The Policy is updated, as necessary, and approved annually by the HSBC AML Director and the Head of Compliance. The Policy includes OFAC requirements, covering:

- Roles and Responsibilities
- Scanning New and Existing Customers
- Scanning Transactions
- Scanning Employees and Service Providers
- Sanctions and Related Customers
- Blocking and Reporting
- Escalated OFAC Items

All procedures are updated in conjunction with the AML Policy and approved annually by the BSA/AML Officer and the relevant business head.

HSBC OFAC Compliance has developed approved deskbooks manual detailing OFAC-related tasks, including the handling of:

- Escalated OFAC Items
- OFAC Communications

Business units implement the AML Policy and include OFAC requirements, covering.

- Roles and Responsibilities
- Scanning New and Existing Customers
- Scanning Transactions
- Scanning Employees and Service Providers
- Sanctions and Related Customers
- Blocking and Reporting
- Escalated OFAC Items
- OFAC Communications
**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 HSBC 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, Backnotes, 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.
HBUS OFAC Compliance Program – Testing

- Annual Independent Audit
  - HSBC deems OFAC requirements as “High Risk” and therefore the program is subject to an annual independent audit conducted by the HSBC 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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HSBC OCC 8874208
Filter Management - Overview

HSBC utilizes a vendor product, FireSoft, for automated client and transaction scanning.

- Nativel Alert Intelligence
- Maritime Attachments
- AML Compliance Targeted Names
- HSBC Comp List (UN, EU, HQ)
- HSBC also scans against: Artifical Intelligence
- Fraud Prevention
- False Positives

In addition to OFAC, HBBS also scans entries against:

- 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.
**USD Payment Statistics – Fact Sheet**

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Daily Average Payment Volume</strong></td>
<td>58,515</td>
<td>115,000</td>
</tr>
<tr>
<td><strong>Daily Average USD Processed</strong></td>
<td>$183 Billion</td>
<td>$377 Billion</td>
</tr>
<tr>
<td><strong>CHIPS Ranking</strong></td>
<td>3rd largest USD processor</td>
<td>3rd largest USD processor</td>
</tr>
<tr>
<td><strong>Volume Breakdown</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15% Corporations &amp; NBFIs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25% Banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>44% HSBC Group Accounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18% Internal Branch/Deposits</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong># of Payment Messages Snapped by the Filter for Review</strong></td>
<td>Daily Average: 1,580</td>
<td>Daily Average: 7,820</td>
</tr>
<tr>
<td><strong>Number of Staff Assigned to OFAC Support</strong></td>
<td>Payment Ops/Central Services: 5</td>
<td>Payment Ops/Central Services: 15</td>
</tr>
<tr>
<td></td>
<td>Compliance: 1</td>
<td>Compliance: 3</td>
</tr>
<tr>
<td><strong>OFAC Blocked Items</strong></td>
<td>Number of Items: 218</td>
<td>Number of Items: 425</td>
</tr>
<tr>
<td></td>
<td>Value of Items: $10,470,200.40</td>
<td>Value of Items: $15,562,618.19</td>
</tr>
</tbody>
</table>

*Note: Figures are as of June 30, 2009*
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 HSUS 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.
Hit Review Processes – Review and Disposition

Operations/Business
- Client Scanning Output
- Transaction Scanning Output

Research
- Client Information
- Transaction Information
- Conduct Internet Searches
- Search External Databases

Analysis
- Review transaction activity and results of research

Decision
- Approve
- Hold for more information
- Block Account or Funds
- Reject Transaction
- Escalate to Compliance

OFAC Compliance Team

SAR Validation & Approval
- Validate SAR filing is required
- Record No SAR decision
- Review/approve draft SAR
- Liaise with Law Enforcement, as appropriate

File SAR (FIU)
- File SAR
- Update internal tracking database
- Confirm filing to Compliance

Report
- Quarterly SAR reporting to the Board
- Key Risk Indicator (KRI) Reporting
- SAR and Multi-SAR analysis

Chief Investigator/FIU

Recommendation
- SAR/NoSAR (liaise with Chief Investigator/FIU)

Monitoring/Review
- Client Review Output
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 letter 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.
### Procedures
**What is our position on Iranian entities?**

**Answer:** We take a hard stand against Iranian entities, to the point that we have added over 3,000 non-sanctioned Iranian businesses and companies known to trade with Iran into our filters.

- **Training**
  - Page 12
  - Specialized training conducted for PCM, Private Banking, Compliance officers conducting monitoring, particular Group entities, Operations staff.
  - On-going meetings with the Operations team to discuss recent issues and remediation, as well as items appropriately stopped.

- **Testing**
  - Page 14
  - Note the comment regarding CRMP above.
  - In higher risk businesses there are specialized risk based transaction monitoring in place to detect violations and suspicious patterns.

**Example:** 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 violations with customer’s attorney, notified the correspondent bank of the originator (Chinese company) and filed a report with OFAC.

### Filter Management
**Overview**

**Non-sanctioned entities include:** Trading companies operating out of Dubai which were identified by HSUS or a peer bank as trading with Iran, vessel name changes, businesses identified in transacting with Iran etc.
Hit refinement current efforts - since mid July we have identified and implemented 63 exclusion hits (good guys from list of individuals and financial institutions) reducing false positives by ~25 hits in a 2 day period. 40 additional exclusions identified and our in process (should be implemented within the next 2-3 wks).

On the Hit Refinement Hit Rate chart (next page) note that we saw a slight drop in the filter hit percentage in September 2007 as a result of a Hit Refinement Task Force meeting that was held in late August 2007.
### Initiatives

<table>
<thead>
<tr>
<th>On-going Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spécialized training for Operations staff reviewing mixed items and discussions on potential remediation of protocols</td>
</tr>
<tr>
<td>Client education: EPW has routed letters to distribute to clients involved in Trade, clarifying our position related to trading with entities in sanctioned countries and the use of sanctioned vessels.</td>
</tr>
<tr>
<td>Middle Market worked with Group affiliates to draft a position paper on declining relationships with European entities with known Iranian operations.</td>
</tr>
<tr>
<td>Initial policy related to SARs for rejects and blocks involving US entities was established in Nov. 2008.</td>
</tr>
</tbody>
</table>

### Industry Challenges

- OFAC may ask how we are handling incoming covers (not fully disclosed from non-Group affiliates). Answer: 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). |
- OFAC may ask how we are handling Iranian shipping entities. Answer: We have a staff in the UK who reviews 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 a lawsuit which authorized us to reject the documents and return them to the exporter, our customer. Since then we have had two similar incidents. |
- May ask about Sudan... In Jan 2009 we implemented a specialized review process in Payment Ops for hits involving OFAC countries, including Sudan.
<table>
<thead>
<tr>
<th>Issue</th>
<th>Background</th>
<th>Action taken</th>
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</thead>
<tbody>
<tr>
<td>Systems</td>
<td>- Installed new payment system (GPS) and filter (Firesoft) in July 2007.</td>
<td>Filter refinement current issues:</td>
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<tr>
<td></td>
<td>- Went from a token based filter to fuzzy logic.</td>
<td>Continue to work with Firesoft to remediate issues through ongoing dialogue as well as structured weekly team meetings. Firesoft Compliance and IT staff are 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.</td>
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<tr>
<td></td>
<td>- Identified issues related to:</td>
<td>In addition, recently met with Firesoft in their NYC office with \nYOC senior test 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). Firesoft indicated in one meeting that another U.S. customer recently had an issue with an embedded word. Firesoft 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 Firesoft account manager put together a business proposal to come onsite with their developers to work with HSBC to brainstorm on filtering issues fixed by HSBS and the industry — and in particular the embedded word issue. We do not currently have a date on proposal timing.</td>
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<tr>
<td></td>
<td>- HCIs - GPS issue - HCIs not expanding into text - expansion issue fixed in 4Q08.</td>
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<td></td>
<td>- Line splits - GPS issue (i.e. 1 Run) which resulted in the filter not identifying the line because of the inserted space, which was inserted to avoid a text wrapping issue. Working with IT teams for solutions.</td>
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<td>- Embedded words - Filter issue (i.e.: 12mm, 16mm) Industry challenge.</td>
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In conclusion, ongoing issues need a business plan.
Human Increase in Filler

The following activities have been implemented or are currently in
progress:

- Specialized review of count
  sall(s) hit review processes and
  implementation:
  - Hit workflow enhancements (delineated by various teams) -
    including creation of a new process flow; much currently
    in use. The following: OFAC country list for political
    review (Sanctions, Restricted Party and Child) System
    enhancements which will also include
    SUD/SDN.
    - Ongoing effort.

- Hit refinement to create better quality hits and manage the "false
  positive". Project team established.
  - Exclusions input since July 2009 have resulted in 825 false
    positives in a 2-day period. Ongoing effort.

- OFAC support staffing analysis underway:
  - Financial risk analysis of OFAC country list for political
    review. Due for release in Q4 2009.

- Ongoing effort.

- Effectiveness of current policy and procedures. Feedback
  generated by a number of initiatives and enhancements.

- System enhancements.

- System enhancements to improve the presentation of the list and
  related information. For more details, refer to the OFAC
  country list review process.

- Ongoing effort.

- Core system enhancements for OFAC country list for political
  review. Due for release in Q4 2009.

- Ongoing effort.

- System enhancements to improve the presentation of the list and
  related information. For more details, refer to the OFAC
  country list review process.

- Ongoing effort.
<table>
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<tr>
<th>Date</th>
<th>NOV08</th>
<th>DEC08</th>
<th>JAN09</th>
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<th>MAR09</th>
<th>APR09</th>
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<tr>
<td>DEC08</td>
<td>5</td>
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<tr>
<td>JAN09</td>
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<td>FEB09</td>
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<td>MAR09</td>
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<td>APR09</td>
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<td>JUN09</td>
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</tbody>
</table>

Total of 43.

Group policy to adopt HIBUS 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.

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 lists and training of Group entities who process USD payments through HIBUS.

In the process of enhancing individual employees' performance accountability program to human error and MIS to track "repeat offenders".

**Human Error Stack** since receipt of Cautionary Letter in OCT08:

OCT08 - 14
NOV08 - 11
DEC08 - 5
JAN09 - 2
FEB09 - 4
MAR09 - 2
APR09 - 3
MAY09 - 0
JUN09 - 2

Total of 43.
Note that the change in review process for country sanction lists was implemented in mid 2009. Specialized training has also been implemented.

<table>
<thead>
<tr>
<th>Non-Sanctioned</th>
<th></th>
<th>Inclusion of HBUS identified “Non-Sanctioned Interest Entities” (aka Grey List) in Group-wide USD payments scanning – implemented effective HUA2009. These are mainly Iranian entities, which is in keeping with Group policy in terms of not processing USD payments involving Iranian entities.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vessel names are changing: US Fls are independently identifying Iranian businesses operating out of Dubai and the Far East. These result in requests 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 links related to these names.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Removal of Payment Information</th>
<th>Exiting the relationship (ref. Redacted by the Permanent Subcommittee on Investigations)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Originating party removed reference to Iranian ship after HBUS rejected the same payment earlier the same day.</td>
<td>Created and implemented a reject surveillance process to identify/prevent similar situations from occurring.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Parameters input into GPS to detect re-executed wire include:</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Value range (+/- S 000)</td>
</tr>
<tr>
<td>- Date range (2 weeks)</td>
</tr>
<tr>
<td>- Debit party account number</td>
</tr>
<tr>
<td>- Program in early phases, will modify based on learnings.</td>
</tr>
<tr>
<td>- Comfort Level</td>
</tr>
<tr>
<td>- Transparency - Group has implemented leading edge policies re sanctions compliance (i.e.: fully serial method for USD payments, stopped processing U items prior to OFAC revoking the U turn exemption).</td>
</tr>
<tr>
<td>Time Frame of the Ter:</td>
</tr>
<tr>
<td>-----------------------</td>
</tr>
<tr>
<td>Cover Payments - within ISSUS, 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, goods/services involved, if goods involved we require vendor 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).</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

1. Background

HSBC offers their clients the option to open USD current and investment accounts in Grand Cayman so that clients profit the advantages of those accounts, such as tax-free investment under confidentiality terms.

At NOVUS HSBC reported a 1,500 current accounts located in Grand Cayman. The relevant branches hold responsibilities for the opening, management, and control of such accounts.

The audit was conducted by Kroll Audience and will review the Group Audit Mexico from 2009-2010 through HSAMX. This is the first audit of the KYC process of USD current accounts based in Grand Cayman conducted by HSAMX USA.

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 controls;
- the accuracy of the information input to the CIF-Hymn 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 consisted, inter alia, a review of the KYC of 68 USD accounts located in Grand Cayman:

- Accounts with names 7-letters, 4-letters with balance above MXN 100 and 99 (Active):
  - The account files that were reviewed covered a total of 26 HSAMX branches corresponding to 5 District Offices in the PEN Metro region, as follows:
    - Z01V2 - Branches 19, 41, 123; 2009
    - Z01A3 - Branches 19, 56, 16, 50; 2010
    - Z01A4 - Branches 93, 23, 64; 2010
    - Z01A5 - Branches 97, 209
    - Z01A6 - Branches 85, 39, 101
  - Adequate safeguards and existence of account files as per internal and external policies (Art 115 Banking Law and internal letter Deposit018);
  - Adequate custody of account files as per Bank’s regulations (internal letter Account013);
  - Relevancy and consistency of the information captured in CIF and Hymn against the documentation entrusted in the file.

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1645

General Audit Report
HSBC - KYC of US$ Current and Investment Accounts in Grand Cayman

Ist 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 role of the Branch as Below Standard, mainly due to the issues highlighted below:

More than 30% of account files that were reviewed lacked the relevant KYC report, which was completed in terms of the KYC process for three types of accounts (Grand Cayman), particularly those accounts opened by foreigners. In addition, at 13% of files reviewed the Visit reports failed to include essential information enabling to have adequate KYC.

Weaknesses were noted in the supervision over the account opening process, which also failed to detect promptly any information missing in account files or inconsistencies between the information provided by the client and the data captured in Convera.

Omissions were noted in the referencing that should be captured at the DOOR screen, which impacted the system to detect any duplicated references. In addition, the auditors identified foreign clients who were not input to the system as non-residents.

In addition to the foregoing, e. 13%(19) of account files were not found at the Branches. No actions had appeared to be taken to instruct EMS to complete client's file again.

In particular, the auditors identified that for accounts opened by foreign clients, these had produced expired consular letters and that Branch staff did not maintain a copy of all the pages composing such documents. This situation was due, at least, to the fact that circular letter Depsign/045 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 FWS Branch staff for their assistance and cooperation during the course of the audit.

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## Appendix 1

### COMPLIANCE RELATED RECOMMENDATIONS

The auditors considered the following recommendations were compliance related.

<table>
<thead>
<tr>
<th>REPORT</th>
<th>RECOMMENDATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 &amp; 1.3</td>
<td>Branch should ensure that KYC and account opening documentation is complete and in compliance with regulations</td>
</tr>
</tbody>
</table>

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8874310
From: Sandy Fockhart
To: Graham Thomson, Matthew J. King
Cc: Uz A. Teshneh, Paul A. Thurston

Subject: Re: Group Audit Committee

Importance: Normal
Attachments: Doc.

Dear Graham,

The recent events in the Middle East and shifts in the region have impacted the operations of HSBC in the region significantly. The situation has provided us with unprecedented challenges and opportunities. It is crucial that we adapt our strategies to these new circumstances.

Best,
Sandy
The number of times we override the regulations are invaluable ones -
 e.g. testing to open health openings, or other management appointments.

discussions about and procedures.

Improvement in the area by Pharma, the OSHA and CPM which has been reduced
and distributed to personnel as well as in subsequent decision making.

Regarding operating issues and the review found I joined the following
committee.

Geoff and...the addition of Management and a new
and planning to replace these. A review group has been established and
understanding of the complex nature and status of these important recommendations.

Lastly, I am able to provide you with a new document which is
the first...by all those interested. It is a report. I have reviewed this SOQ and the
suggestions corresponding to the report. The report includes all of our
questions and recommendations as well as guidance and place various
steps to improve the quality of our findings and present them.

The report will be discussed with Paul Thorne. These comments will be
included in my report to the next OSA, audit committee.

 Regards

George K. Hannon
Head of Group Audit - Americas & Mexico
111 Wacker Drive, 6100, Chicago, IL 60606

Matthew W. Read OGM 19A (192232) HSBC
Text by Lu A. Frisbie
EH083 24045 65 2.3.0

To:
Georges THOMAS HSBC - Group Audit Committee

Subject:
Re: GROUP AUDIT COMMITTEE - KFR07

May I have your opinion on the matters today as I need to finalise my
GAC report for today tomorrow.

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8874329
Re: HSBC OCC 8874330

To: [Redacted]

Subject: [Redacted]

On behalf of [Redacted],

[Redacted]

Please find attached the following.

[Redacted]

[Redacted]

[Redacted]

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8874330
From: John F ROOT  
Sent: Wed May 17 11:08:33 2006  
To: Susan A WRIGHT  
Cc: David T J BAILEY  
Subject: From; John F ROOT  
Attachments: image_0.gif, image_1.gif, image_2.gif  
RESPUESTA CONSU-DAQ050518 v.1.doc; DAQ Compliance 050618.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 recommendations, the audit was not strictly followed by HBMX or AML. As a result, the various points noted in the audit, e.g., audit findings that were documented in the final report, but not in the audit interview. Many, if not most, of the recommendations were “revised” or downgraded in importance by AML, which in turn is CAMP, but rather unique in their handling of the audit. Most of us just accept audit recommendations, whether perceived to be ‘terrible’ or not, and proceed to implement them.

I have the last letter a bit, as AML management clearly feel aggrieved, but closer monitoring is warranted on the specific audit recommendations.

I would glad to explain the Mexican wrinkles. For example, a RAP is a permission account, where the account holder is the employer. AML seems to be arguing that monitoring is done at the employee level through the business, rather than at the employee level.

A number of recommendations brook me, but the one that most sticks out, it apparent lack of monitoring of the relatively low AML cash in the field. This means a “red flag” in a place like Mexico, where the drug cartels are very powerful and influential. As you say, Brazil, although usually ruled by the Federal government, local state and local authorities, is therefore that the central rule, both from the Federal government and with NINH AML. To put, as the audit diaries, that “we do not really know what our main in the field is doing.” A warning signal, if true, AML of course vigorously deny this.

The translation is a valid attempt, but a bit choppy. The original Spanish document reads better.

Wegsels,

John Root

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  
HSBC OCC 8874383
John,

Please find enclosed a copy of the Internal Audit Report made by HBMX-CBP, and the responses sent to INA. Both documents are in Spanish since a translated version was not available at the time. However, I am also enclosing a summarized version of the INA’s findings with our responses.

Additionally, the supervision was carried out by the Mexican financial authorities (CNBV) and concluded the MLO department. Our next meeting will take place May 8, 2006. Deriving from the talks and the feedback from the audit 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 understanding process to comply with Mexican ‘UBA’ recent requirements; that we had initiated throughout the evaluation that verifies the process, and secondly, it is a requirement of the CNBV that when opening a GDF account by a customer is no longer an obligation to contact a tool by domestic regulation. “Kosher” must be considered for NML purposes as well as “Mexico”.

A number of recommendations were also issued, however, as in name implies they are not enforceable. We think that the final results of the audit 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 test of the function in the Mexican Financial sector. I will confirm if the “Exit meeting” with the CNBV was as expected from the above comments.

Best Regards

Leopoldo

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8874384
### Internal Audit Main Findings to MLD

MLD 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 NA:

<table>
<thead>
<tr>
<th>Ref.</th>
<th>NA Finding</th>
<th>MLD Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.3.5</td>
<td>The MLD Department does not use CAMP at all to ensure functionality. We do not show at any internal requirement. Not regulatory that ensures an area to use an application to ensure functionality, even if it is not totally applicable to the specific section. Additionally, the users not used are mostly unavailable, and not operative. The finding was not accepted.</td>
<td></td>
</tr>
<tr>
<td>4.3.7</td>
<td>MLD does not have a proper control over the users and privileges of CAMP. We do not ensure that users from staff not working in the area, etc. Additionally, MLD must implement a procedure to monitor such users management periodically. MLD Reply: The finding was accepted but it was not rejected.</td>
<td></td>
</tr>
<tr>
<td>4.3.10</td>
<td>Two months ago, a change to CTR (Currency Transaction Report) report was issued by MLD as a consequence of regulatory changes. The transaction date of birth, the Mexican CAMP was issued, where it has implemented a semiautomatic process. The finding has been accepted. We do not concur with the finding.</td>
<td></td>
</tr>
<tr>
<td>4.3.11</td>
<td>MLD has IT final user developed applications that do not comply with Group Standards. We will document our IT measures, in order to hand them to IT, which is a process that is undertaken, it is important to manage that new IT measures are at the same level, conforming to standards.</td>
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<tr>
<td>4.3.12</td>
<td>There has not been carried out a review of all of CAMP's observation parameters by the MLD staff, for a tutorial procedure to modify, remove, or fine-tune maintenance of such parameters. We recognize the need to periodically review, modify as needed or maintain the parameters, which are inappropriate. We recommend that this should not be a high-risk finding but only a comment/issue.</td>
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<tr>
<td>Stat.</td>
<td>Medium Risk Findings</td>
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</tr>
<tr>
<td>------</td>
<td>----------------------</td>
<td></td>
</tr>
<tr>
<td>4.1.1</td>
<td>MLD does not have a training programme in place to assist staff over CAMP, and MLO staff. MLD staff is properly trained in compliance with Article 115 of the Turkish Regulations Act, and the profiling process of alerts and risk analysis is supervised. MLD staff was trained by MLO staff last May, and their analysis and supervision use the CAMP as an alert management approach, any limited training is required. The finding was not accepted.</td>
<td></td>
</tr>
<tr>
<td>4.1.3</td>
<td>There are not segregated agreements with other clients whom supply data to MLD. MLD has formalised an agreement with CTR for &quot;final&quot; customers who are reported through the MLD Committee. MLD basically receives information from PTA and USA under non-permanent basis, and operators upon particular cases. As for CTR Report to be prepared to be submitted to the authorities. The finding was not included in the Exit Meeting nor in the individual discussion of finding with our staff, therefore, it was not known until the date of release of the Final Report.</td>
<td></td>
</tr>
<tr>
<td>4.1.4</td>
<td>MLD upcountry staff does not have a proper working plan, and as well the adequate supervision. Upcountry staff is located in High Risk areas or settle of MLD, additionally, their functions are responsibility designed and supervised especially directed to important Urine Activity reports and special cases given their experience and position. The finding was not accepted.</td>
<td></td>
</tr>
<tr>
<td>4.1.7</td>
<td>Even that the MLD head did stated that globally had been OK, there is no evidence of change from the analysis. The new MLD, since the alert analysis have not changed. Lack of supervision by leaders and managers. No communication from Supervisors and the Director. Lack of access to systems (Core, Jays, Cranes, log files, etc.) Work overload. Perception of change in an abstract concept. The new MLD process of alerts and risk analysis has changed dramatically, simplifying the product, but requiring workloads, and not allowing to have related processes in the line of command. Inadequate communication among the staff of the MLD. This perception is wrong. The finding was not accepted.</td>
<td></td>
</tr>
<tr>
<td>4.2.1</td>
<td>There is no evidence for closed risk. We have 3 stages of our workflow to</td>
<td></td>
</tr>
</tbody>
</table>
4.2.1 Even though strategies have been put in place to help make more efficient the MLD analysis, problems, like incorrect reasons, continue to happen. Such alerts are reviewed.

4.2.2 This finding was not included in the last 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. We have established strategies that help to manage properly our staff, so we do not have similar workloads in our staff for the next meetings in order to ensure that the finding is evaluated.

4.2.3 There is not an adequate follow up to the MLD Committee resolution.

4.2.4 OFAC and World-check listings are not verified by managers, and supervisors.

4.2.5 Lack of communication between UCID and subsidiaries related to MLD tools.

4.2.6 CAMF does not allow the monitoring of some products such as SAP accounts. Concentrating Accounts, Credit Cards, and transactions of remittances. Remittances and MLD does not have a plan to cover such products.

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4.2.7 Despite the fact that "KYC" has not been implemented yet in HSBC, we are currently exploring a system to monitor local and international remittances to prevent ML violations, but no clear evidence has been established.

4.2.8 To establish throughout the ML Committee agreements and protocols to have a central database of SCOS.

4.2.9 We have modified the current processes to keep a central database with all customers under the company with the business throughout. We have agreed that follow-up must be maintained with the business to enhance this process, and a new database has been purchased to also enhance our current data.

4.2.10 The MID department does not intervene in the discussion and analysis of ML violations for some subsidiaries. We have decided that acquiring and adopting such databases that allow a better risk of control regarding policies that should be followed by other areas, specifically in terms of Circulars Bournet 91 and Serres 99.

4.3 There are no letters signed by HSBC with the exception of responsibilities when less violations are issued within CAMP. There is a need to adequately control the volume of letters, users that know about the risks.

4.3.1 There are not letters signed by HSBC with the exception of responsibilities when less violations are issued within CAMP. There is a need to adequately control the volume of letters, users that know about the risks.

4.3.2 There are not letters signed by HSBC with the exception of responsibilities when less violations are issued within CAMP. There is a need to adequately control the volume of letters, users that know about the risks.

4.3.3 There are not letters signed by HSBC with the exception of responsibilities when less violations are issued within CAMP. There is a need to adequately control the volume of letters, users that know about the risks.
While there are strategies to make the analysis of CAMI more efficient, those strategies are not yet sufficiently coherent to make the analysis workable acceptable.

To evaluate the system parameters to identify anomalies by consistently and to verify that the staff required is proportionate to the mass required.

4.3.3

It was identified that an odd in CAMI had System, and Business administration roles, as well as Money laundering Reporting Officer (MLRO) privileges.

We have developed automated strategies and methods to make the analysis of CAMI more efficient. The deployment of this tool is not correlated with the requirement of this tool.

The finding was not accepted.

4.3.4

To ensure an alternate person to the funders assigned to CAMI's System Administrator and the Business Administrator.

Eduardo Alvarez, who is the AML Compliance Officer, will be instructed and trained to fulfill such tasks as an administrator.

The finding was not accepted.

4.3.5

It was identified that the VNote Access, DOC 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.

COMMITTEE. The MS1 user has been eliminated and a read-only view has been assigned in context. As for the System Administrator function, the Business Administrator function, there are different functions that guarantee proper segregation.

The finding was not accepted.

4.3.6

It was found that some users have two or more accounts, and no user is currently assigned to the failed user.

CAMF's roles are given by default. MS1 did not create those profiles, whereas, we do not think it is relevant to eliminate them since a probable profile might be requested in the future.

The finding was not accepted.

4.3.7

It was found that some users have two or more accounts, and no user is currently assigned to the failed user.

CAMF's roles are given by default. MS1 did not create those profiles, whereas, we do not think it is relevant to eliminate them since a probable profile might be requested in the future.

The finding was not accepted.

4.3.8

UJO is not properly using access profiles as established by the application's manual, especially related to Business Investigation Unit (BIU) access.

We explained that the BUU user does not have capacity to close daily alerts, which is a BUU specific need due to regulation. We also explained that this issue was reported to HSUS, that we were not using the BIU users, and only the MLRO for the lack of functionality of the tool.

The finding was not accepted.

4.3.9

There are some limitations to the extent of the analysis of the MDG alerts, since tools used for the alerts are not standardized for all analysts.

There was a limitation to the extent of the analysis of the MDG alerts, since tools used for the alerts are not standardized for all analysts.
<table>
<thead>
<tr>
<th>4.3.12</th>
<th>MLD has not attended project review log that were generated during AUSIS.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The finding was not accepted.</td>
</tr>
</tbody>
</table>

### 4.3.14

It was determined that the MLD Department has semi-automatic processes to generate comprehensive annual reports that are presented below the MLD Committee. As well, the MLD Department also generates “MILS” but only for the purpose of compliance.

Ref. Low Risk Findings.

#### 4.3.1

**Low Risk Findings**

- Insufficient determination of Operational Risk associated with the MLD area.
- Lack of evidence of the review of all files of customers reported to the Department.
- Review the risk assessed with IT regarding inputs and outputs.
- CAMP implementation documentation is insufficient.
- Coordinate with IT the information of the implemented process of cases presented before the MLD Committee.

VerDate Nov 24 2008 09:24 Nov 27, 2012 Jkt 076646 PO 00000 Frm 00564 Fmt 6633 Sfmt 6633 P:\DOCS\76646.TXT SAFFAIRS PsN: PAT
Key Issues:

- The report was contested by NLD excluding most of the arguments depicted above (last November 14, 2005), whereas the Final report was issued by NIA on December 2005, not expressing our arguments in their final report.

- The GASA "Generic Audit Standard Manual" states on its "EXIT MEETINGS" section the following:

  "Exit Meetings"

  It is audit policy that all internal audits are held with senior management as per the conclusion 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 Summaries of Concerns and Recommendations (SCRs) in Interim Progress 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 spanning of the progress of the audit work and of any significant issues as and when they arise.

- NIA’s report should be submitted to the CNBV as required by this government entity. We recently made the CNBV a presentation of our new procedures and the intent of our capacity to utilize them, and it is hoped to manage appropriately AML-related issues, which is currently an area of high concern for the authorities. The recent ed., this is written might generate misleading acceptations by the CNBV, and might also create misleading perceptions from our presentation, which we think was made in view of all enhanced procedures in the department.
From: Graham THOMSON
Sent: Thu Oct 23 23:20 2008
To: Matthew J W Krong
Graham T; Emilio ALONSO@hsbc.com; JPV Wilson;
Alfredo BOLANOS@hsbc.com.mx
Subject: Fw' HBMX ~ Projecto Restauracion
Importance: Normal
Attachment: image_0.jpg; Dec Link: stream progReas - 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 GAO.

The attachments included in my email to Emilio have been removed as they are in Spanish, although in their place is an English translation of the closing meeting minutes.

Please let me know if you require any clarification on the foregoing.

Graham

Graham THOMSON
Head of Group Audit Latin America & the Caribbean
Tel: 52) 55 572 1 6236

----- Forwarded by Graham THOMSON/HBMX@HSBC en 28 Oct 2008 04:52 pm -----

Followed by: Graham THOMSON/HBMX@HSBC en 28 Oct 2008 04:52 pm

To: Graham THOMSON/HBMX@HSBC
  Emilio ALONSO@hsbc.com; JPV Wilson;
  Alfredo BOLANOS@hsbc.com.mx
Subject: Re: H&MX - Projecto Restauracion

Graham,

Thank you for the up to date. It is disappointing the result of the audit assessment.
I am most concerned as this is not what I was assured by HBMX management in the last HBMX EXCO when the matter was reviewed.

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8874595
Looking forward to see the final audit report.

Emil

Graham THOMSON

--- Original Message ---

From: Graham THOMSON

Date: 21/22/2012 04:19 PM EST

To: Emilian ALA'SCO

CC: iain ROSA PEDRO; John B BECK; Chris D HULL; Lewis J F WILSON

Subject: KINX - Projects Postaudios

Emilian

As requested I attended the recent closing meeting of the OAS part of the above project.

The auditors in completing their review of Phase 1 of the project, graded the control risk as AMBER for reasons stated in the attached agenda. The detailed PDs, which are also attached and will form the core of the audit report, have been reviewed and signed off by the project sponsor, John Rendell. 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 remediation of PEPs/SDRs and other high risk customers, with some WAs of the KYC records, PEP/SDR tasks not yet completed. These accounts are now in the process of closure by AMX Legal.

John Rendell in responding to the audit conclusions, expressed his frustration at the slow progress achieved by this Project. He asked 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 Issues raised by the auditors.

Separately it has been recorded that checks done by CUP on void reports collated 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” void reports. The accuracy of these void reports will be key in determining if CUPs positions on the CBNK CEO have changed but all CUPs accounts should be regarded as high risk. This situation was discussed at a further meeting that I held with Luis Perez and John Rendell 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 these clarifications prior to the CBNK’s emergence as risk businesses, being able to substantiate account opening at the branch level and being subject to the same CBNK requirements as other customers, it is anticipated that the KYC for approximatively 3,500 customer clients is in the “rest” segment for which Risks are being
Currently the business owner and compliance are still discussing with GMO CMP the product parameters that are to be applied to all the current exchange and influence on 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 HSBC and it is hoped that the replacement product will be shortly submitted to the new product committee and then relaunched.

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

 Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8874597
Closing Meeting – Review of Reestrucción Project

Date of meeting: 23OCT08
Time of meeting: 11:00 hrs
Venue: Room AV1 – Audit department
Subject: Closing meeting

Attendees:
- Chris Bradley – BNA
- John Randall – COO
- Graham Thompson – INA
- Carlos Ramirez – Channels
- Gerardo Viguera – OPSCO
- Juan Carlos Valverde – OPSCO
- Laura Ordonez – ITA INA
- Guadalupe Rusia – OPN
- Ramon Galeta – OPA
- Joel Rios – OPA
- Ricardo Zamora – IT INA
- Sergio Pint – BR INA
- Enrique Camacho – BR INA

The result of the audit conducted of the Reestrucción project was discussed and agreed.

The auditors have assessed the total risk grade of the Reestrucción 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 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 1,941 SCD files and the cancellation of accounts for which there was no data integrated after 15 days of opening. In this respect, 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 data identification and monitoring processes, since the identification of customers performing high risk activities is primarily based on the controls applied by the network, without there being monitoring activities in place to support the identification. CMP indicated PEPs and blacklisted customers were being detected, that Phase II of the project will include other high risk customers, and that the need to have monitoring activities in place whilst system changes were implemented.

c. It was considered little progress has been made on file integration for customers with unreported levels above USD 100K, being necessary to take actions to accelerate the process.

d. The impact of account cancellation on the business, customers and COS’s should be analysed against the risk 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 mentioned that despite there were strategies in place for historical file integration, these had not been formally approved and, more importantly, no actions had been taken to follow up the issue. CMP expect such situation was due in the fact that regulatory provisions will change shortly. They acknowledged, however, that an approach oriented to comply with new regulations may be implemented.

f. One value added issue that was not included in the scope of the Reinstatement 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.

2. In regards to the project, it discusses several major issues were budgeting for Phase II of the project and resourcing.

b. Since USD overseas investment accounts located in Grand Cayman were not considered for the Reinstatement project, they were not included in the scope of audit fieldwork. However, it was mentioned such accounts would be considered in Phase III of the project.

INA presented a summary including the assessment of each of the 7 sub-project, with particular emphasis on sub-projects 2 and 4, corresponding to Special Categories of Clients, were 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 process that were implemented.

JR mentioned significant efforts have been made to immediate resubmit files information, that it was necessary to take quick decisions and actions, and that program, last two weeks, considering this started from sending 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 also be included.
David Bagley

Mar 17 2004 02:32

To: David W / BAGLEY@HSBC
Cc: Marion O ROUGH@HSBC
W: 020-8 999 38 10

Subjects: Re: IRAN - CORRESPONDENT BANKING SERVICES

David

I have been in regular contact with Nekhtar Hussain and his team on this topic which is still open. The closure (as per our call last week) was that we have not yet found a way to handle major USD clearing house, and am anticipating having to explain this to the Central Bank on my visit to Tehran in early May. I have asked our people to put forward the cases 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
From: David W J BAGLEY
Sent: Tue May 04 07:40:01 2004
To: John ALISON
Subject: Re: IRAN • CORRESPONDENT BANKING SERVICES

John,

I am reluctant to extend until 30-6 unless there is a clear and agreed solution with a definite and
agreed 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 rolling approach
is not work.

Thanks

--- Forwarded by David W J BAGLEY@HSBC on 04 May 2004 07:46 ---

---

From: Miguel J PERKIN@HSBC
To: Miguel J PERKIN@HSBC
Date: Wed May 05 11:47
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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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 in a position to inform you by the end of next week whether I can 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 transatlantic 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 Regard and I hope you are well

Nigel

--- Forwarded by David H HODGKINSONOCH MEMBERSBC on 04/22/2004 08:55 AM ---

David W J BARKLEY HODGSON To: DAVID H HODGKINSONOCH MEMBERSBC at War
18 April 1994 18:43 2981.683.H4 MEMBERSBC@HSBC Subject: IRAN - CORRESPONDENT BANKING IMPACT re: request from head of team

David,

Thank you for prompt response of 17APR94.

I note the position, and of course appreciate the sensitivities within Iran. 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 consider the continuation of these services. I would like to be able to go to HBUS with a viable proposal with regard to a way forward.

In the circumstances, I feel that there is little option other than for me to recommend to HBUC 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 CRM as soon as possible?

Kind regards

Nigel

--- Forwarded by David H HODGKINSONOCH MEMBERSBC on 04/22/2004 08:55 AM ---
From: Ian STEWART
Sent: Fri, Aug 14, 2004 2:03 PM
To: Michel P. GEOOGHEGAN, David H. HODGKINSON
Subject: Re: IRANIAN PAYMENT PROCESSING PROPOSALS

Please find attached the following:

- IRANIAN PAYMENT PROCESSING PROPOSAL.doc
- IRANIAN PAYMENT PROCESSING PROPOSAL.pdf

Please review this material and provide your feedback.

Thanks,

Ian.
We will also need to make a fresh approach to US lawyers for OFAC purposes. The proposed approach would be OFAC compliant (as TALIS will look for this context) and in order to do so, I suggest that we will need to take to John to work through the practical issues and technical issues before they will feel sufficiently able to confirm their legal grounds.

Unfortunately John is currently on leave, and does not return to the office until AUG 04. I will ask him to take some steps forward immediately on his return.

Please let me know if the above is going to cause a problem.

Regards

David

Nigel WEADE@HSBC on 08 Aug 2004 17:05

Memo

08 Aug 2004 17:05

From: Nigel WEADE@HSBC

To: David W BAGLEY@HSBC

Cc: Iain STEWART@HSBC

Marilyn H SPEARING@HSBC

Alan RAMSAY@HSBC

Nick J WARD@MEMBERS@HSBC

Gary E HAINES@MEMBERS@HSBC

Joanne ARMSTRONG@MEMBERS@HSBC

Brian W RICHARDS@MEMBERS@HSBC

Rod Moxley@MEMBERS@HSBC

Tony P COLLINS@MEMBERS@HSBC

Aja, EHA..""..DOOLAN@MEMBERS@HSBC

Gary BOOTH@MEMBERS@HSBC

Jenifer R WALKER@MEMBERS@HSBC

Michele CROSS@MEMBERS@HSBC

Subject: Re: IRANIAN PAYMENT PROCESSING PROPOSALS

David

Further to our email dated yesterday re the above, please see the attached message from Paul Klein.

This is in opposition, and thus we will need to make a change to the proposed letter to the Iranian retailers' banks - as defined below.

With kind regards

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8874704
Nigel

--- Forwarded by Nigel WHITE@HSBC on 05 Aug 2004 07:04 ---
Nigel BAINES@HSBC on 04 Aug 2004 14:05

From: Nigel BAINES@HSBC
To: Nigel WHITE@HSBC

Phil BAINES@HSBC on 04 Aug 2011 14:05

Subject: Re: IRANIAN - PAYMENT PROCESSING PROPOSALS

Nigel

I have spoken with Malcolm and specifically the proposal that we cannot pay payments that channal a captive in Field 72. While the payment system on HSBC is very secure, we have a number of customers who use Field 72 as an option to make payments. We have decided to request that customers who use Field 72 to make payments that potentially could be sent to an account to which we will not send payments. This is because of the potential security risk that these payments could be used to fund terrorist activity.

We would appreciate you letting Compliance accordingly. The only issue that we have is that we are unable to process payments that are sent to this account. However, we will continue to support payments that are made to this account if they are approved by Compliance.

Many thanks,

Phil

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8874705
Subject: BRANES - PAYMENT PROCESSING PROPOSALS

Malcolm

I have spoken to Valerie this morning as a few minor amendments to the discussions.

More importantly, I want to be absolutely clear that we are entirely comfortable with the proposal that we will cancel and re-open any payment instructions that have "Special machinery instructions" in Field 71 for some reason.

I will say once and only once: "We understand that the WOLF data will not only pick-up references to bills, but references to "sent to signed country". For us it is critical that OFAC regulations are being followed and that all references to bills are interpreted as "sent to signed country".

The cross should be on the receiving bank, not ourselves as we state in page 5 of our Financing Proposal Paper (as even paragraph 9.3 states "a bill to be paid through our system will be crossed on us")

The receiving bank should claim on us for not stopping and remitting the payment.

Our position would be to follow the solution offered in 2). This is because the nature of US payments, payments involving items, which are by nature of a third country bank the payment to another third country bank. We are of the view that the US bank is entitled to credit in the US, so the US will cross a payment made for a bank not in the US. The US bank will not stop the payment. Any responsibility would be waivered by the foreign customer (a financial institution) taking responsibility for submitting only bona fide US payments and HSBC WOLF.
HSBC will continue to adopt an internal best practice whereby it views and analyses payment data, in some cases, for the purposes of enhancing the UK’s anti-money laundering and CASS validation initiatives. This internal approach to the validation process will enable HSBC to adopt its own procedures to tailor and confirm that only valid clearance payments are processed and any that are not are flagged or blocked.

In order to do this, HSBC has decided to work with the UK clearing banks to implement a new approach to the validation of clearance payments. This approach will be rolled out with the support of the banks involved.

Specifically, HSBC will continue to engage in a close working relationship with the banks involved to ensure that all efforts to prevent potential issues linked to payments are addressed.

In summary, HSBC would like to express its gratitude for the cooperation and support provided by the banks involved.

Regards,

Phil

Valerie ROLLE/HB/HBSC, on 04 Aug 2004 00:15

Memo

04 Aug 2004 00:15

From: Valerie ROLLE/HB/HBSC Tel: 704 2301

To: Nigel J WHITE/HS/HSBC cc: Geoff ARMSTRONG/HS/HBSC, Phil BAINES/HSBC, Bryan RICHARDS/HSBC, Rod MOXLEY/HS/HSBC, TONY P COLLINS/HS/HBSC, Ajay BHANOOL/PC/MEM/HBSC@HSBC

Subject: "IRANIAN - PAYMENT PROCESSING PROPOSALS"

Nigel,

For your information:

Regards,

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HSBC OCC 8874707
From: David H Hodgkinson
Sent: Fri May 20 14:54:53 2005
To: Nasser Homapour; Matthew M Hussain; Jeremy H Bevan; Alya Bhardwaj; John Blanthorne; Richard J Cole; Michael J Hodges; David WJ Bagley; Alya Bhardwaj; \Catherine R Lenis
Subject: Iran
Importance: Normal

The subject of the 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 HSBC to ING and using a third party correspondent in the US for some other services. It is agreed to allow the existing business and permissions within the transaction, respecting of new restrictions and limitations. The correspondent will be closed. The correspondent should be suspended for the time being until the external political situation with Iran improves.

It is appreciated that maintaining this position will present challenges, but the potential impact of a worsening situation with the international community on the business in the US and elsewhere cannot be ignored. We believe that this approach protects our ability to respond appropriately as the situation evolves, enhancing our commitment as and when circumstances ease.

With best regards

David
From: Vivian CLARKE
Sent: Mon Oct 15; 41,.45 2G06
To: Michael F GOGHEGAN
SubjQ¢ SKG 'NOULD LIKE TO DISCUSS THIS E-MAIL PLEASE - "IRAN- U-TURN PAYMENTS" -
Importance: Normal

Resent. Sat 12000

VC

FORWARDED MAIL

Where

26 Nov 2006 15 17

From: David W J SAQLEVERHOL/HSSC
Tel: 7031 8645
(207) 801 8645
Sent by: 207

To: Stephen K GREEN et al

Sent by: 207

To: Stephen K GREEN et al

From: David W J SAQLEVERHOL/HSSC
Tel: 7031 8645
(207) 801 8645
Sent by: 207

Subject: IRAN- U-TURN PAYMENTS

Pursuant to GCLO00047 Compliance with Sanctions Group Offices are permitted to initiate transactions in USD when are compliant with the so-called U-Turn exceptions under the OFAC country restrictions relating to this. Given the complexity of the relevant exemptions all such payments are routed via HSUS EUR where a specialist unit has been established. This unit carefully scrutinises all such payments and satisfies itself of the OFAC country restrictions relating to such payments. It follows that the significant regulatory and operational risks associated with any potential breaches of the OFAC country restrictions, particularly relating to Iran, these payments are also subject to a subsequent check by HSUS CMF.

These are weekly conversations between HSUS CMF and HSUS EUR so as to ensure no an ongoing basis that a consistent and accurate approach is taken to judging whether the exemptions are being properly applied and HSUS CMF 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 Washington meeting I was discreetly advised of the following by a reliable source—

Under Secretary Levy (who David Hodge 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 is the view that, whilst having first evidence against Bank Saderat particularly in relation to the alleged funding of Hezbollah, they suspected all major Iranian state owned banks of involvement in illegal funding and Viatix procurement.

It appeared that the absence of specific 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 Viatix related transactions are impossible to detect (and even when evidence is available), and regulatory risk were they to continue to process U-Turn transactions. The essence of the statement appears to be that an Viatix related transaction would be heavily disguised (where even a trade transaction document would be difficult to falsify) there is no safe way for a US bank to be involved in an U-Turn related transaction. The clear implication made was that being found to be involved in a Viatix 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 then continuing in this market would likely involve an enhanced 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 significant risk tightening 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 Sugley

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.
From: Matthew J W RIMS
Sent: Fri Apr 20 10:21:51 2007
To: Michael F GEOHEGAN
Cc: David W J BAGLEY

Subject: Re: Management Letter: MHR

Mike,

I am told the Malaysian authorities are taking a relatively benign attitude to our involvement with this customer, which is fortunate because the media has accused a number of unacceptable, serious and possibly fraudulent, illicit activities to have been funded by the business which related to the reporting of suspicious activity. 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 the Moneylaundering Committee to ensure they are robust. We did file a report with the authorities in 2004 which may have 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

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GENERAL & TRANSACTIONAL BANKING AUDIT
HMSX - MONEY LAUNDERING DETERRENCE
GROUP AUDIT MEXICO
DECEMBER 2007
## INDEX

<table>
<thead>
<tr>
<th>CONTENTS</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXECUTIVE SUMMARY</td>
<td>2</td>
</tr>
<tr>
<td>1.1 Background</td>
<td>2</td>
</tr>
<tr>
<td>1.2 Audit Objective</td>
<td>2</td>
</tr>
<tr>
<td>1.3 Audit Scope</td>
<td>2</td>
</tr>
<tr>
<td>1.4 Conclusions</td>
<td>4</td>
</tr>
</tbody>
</table>
GENERAL & TRANSACTIONS AUDIT REPORT
HBMX - MONEY LAUNDERING DETERRENCE
DECEMBER 2007

EXECUTIVE SUMMARY

1.1 Background

In Mexico, financial institutions are required to comply with fiscal authority (SCFR) provisions to detect, analyze, and report international transactions. Likewise, HBMX is required to comply with Group regulations defined in the Compliance Officer Handbook (COH), containing supplementary guidelines to local regulations.

The Director of Money Laundering Detection (DPLD) reports to Ramón García Gibson, Head of HBMX Compliance, who in turn, reports to John Rendell, HBMX COO. The DPLD is under the responsibility of Leopoldo Rodríguez Barrera.

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 thereof

Due to the foregoing, the review was intended to review DPLD operations, yet it covered a number of areas involved in the detection of ML activities and compliance with supervising laws and regulations. Therefore, this was a thorough audit on Money Laundering Detection (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 report 141. S/867804/2007. The major issues derived from said review are described in section 4 thereof.

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 fraud/failure in internal controls or breaches in authority
- the reliability, integrity, and timeliness of financial and other operating metrics
- 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, programs, and activities
- the evaluation and presentation of events

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 (true and false alarms)
- the efficiency of the media monitoring process (articles in the papers) and the process to keep the list updated
- monitoring of transactional volumes of customer credit receivables

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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, selection capacity and analysis of CAMP alerts, as well as other alerts.
- Locally managed information back-up.
- Controls in place over consumer fraud integration.
- Notice taken for Group staff training and guidance 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 CASA.
- Review of a sample of alerts to assess quality of analysis and justification for the cases that were decided not to be reported.
- Follow-up of issues and recommendations made in the previous audit conducted of Compliance (only AML related issues).
- Configuration of access security to ensure adequate approval, segregation of duties and data confidentiality.

The ML&A audit was conducted by Francisco Baraga (Team Leader), Carlos Magona, Silvia S. Comor (AC), Luis E. Padilla, Eloy Ceja, of Group Audit Mexico (GAQ), as well as Ricardo Zavala, Jorge E. Guevara and Blanca Melaiz of Group IT Audit Mexico from 03SEP01 through 08OCT07.

Previous audits related to this theme are listed below:
- Report reference GAQ 200118 dated 03SEP01 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 report No. 141/2000/2007 relative to the review conducted of DPLD in JUL07.
- Report GAQ 201100 Special Review of EDA and CDA Account dated 201100. The objective of this special review was to conduct a comprehensive assessment of the process of serious (USA and CDA) opening a compromise of account file documentation, application of ITC procedures and related controls in order to comply with Group and local regulations.
- Special review of the case (report reference GAQ 070085 Special Review of EDA and CDA) dated 201100.
- Report GAQ 201100 FFS Strategic Control Unit.

Even though the audit report reference GAQ 201100 corresponding to the audit conducted of the Executive Direction of Compliance assessed that 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 Conclusions
The analysts have assessed the overall Control risk of the Money Laundering Deterrence theme as Below Standard.
Even though progress has been made to resolve existing high risk issues, there 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 Consulta de Comisión y Control (Anti-money laundering committees) in line with Group policies. Further, the auditors identified areas of opportunity to improve the structures, roles and responsibilities of the various CCOs, 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 the review, the auditors concluded that despite the action taken to remediate the non-compliance with minimum regulatory requirements for the integration, it has not been possible to fully rectify the delays in regulatory file errors already identified as per CNBV USA regulatory item (1.3.1) and to make necessary amendments in procedures and controls in order to prevent this issue from reoccurring. In MAY07 it was sought as extension to the CNBV to rectify the backlog of customer files. However, the regulator was advised an 80% progress had been made in terms of file integration and completion, which may be questionable as such figure was obtained from an independent source of information (ACDO).

2. Know your customer - KYC. Breaches 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 4,490 accounts that reported unusual transactions that took place between APR and AUG07, thereby breaching the regulations. The triggering was delay due to the failure to properly 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 that this situation was advised verbally to the CNBV in June 2007 and was notified in writing to the authority on the CNBV in June 2007. The CCOs was informed about the proposed amendments to the rules and the timelines needed for their implementation. In addition, the auditors noted inadequacies in the information held at the CCO, in terms of the number of staff in the payroll, which exceeds by 10% those reported by HBMX. The above situation may evidence the existing coverage does not necessarily reach the totality of employees.

HBMX CCC. The auditors noted Senior Management’s little attendance in 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.

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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: Payerzentration, CAMP and WOLF systems user administration, administration of the MLD module in the SECR 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 in the institution.

To date, partial monitoring is applied over transfers by way of using WOLF. During RJ:07 and AUG07, WOLF generated 1,217 warnings, of which 108 cases (9%) 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 commentary from not reviewing the totality of cases warned, as a result of insufficient operational 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 management during fieldwork for implementation and, therefore, no response thereto 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.
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8874810
Dear Luis,

Following the Group CEO's visit to Guillermo Salazar, 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 XFLN 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 of the volumes and the type of clientes that is currently using XFLN branch network to make cash USD deposits to international accounts in USA.
- Immediate elimination of the third of services in our branches. Customers clients that require such service should be approached by you on a very exceptional basis.
- Identify the branches where this kind of activity is more frequent/higher volumes in order to take the necessary administrative actions to a threshold potential money laundering problems (exclude 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 distressed contracts on a more favorable terms with our clients (restructuring).

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HSBC OCC 8874846
I kindly ask you a report with the actions to be taken and a weekly tracking report on the achievements.

Emilie

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8874847
From: Luis PENA VECIL
Sent: Thu Nov 27 20:41:10 2008
To: Emilson ALONSO
Cc: Michael F GEOGHEGAN
Subject: Re: For Money Laundering

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 checks 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 in 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 accepting dollar bills. This should take care of the problem.

Regards,
Luis

Emilson ALONSO--26/11/2008 9:14:45 p.m. --FYI ------ Original Message -------

From: Emilson ALONSO
To: Luis PENA VECIL
Sent: 26/11/2008 09:34:00 a.m.
Subject: Money Laundering

FYI

Michael F GEOGHEGAN

------ Original Message ------
From: Michael F GEOGHEGAN
date: 11/24/2008 11:50:19 PM EST
To: Emilson ALONSO
Subject: Money Laundering

It occurs to me:
We should stop any Dollar remittances or accept any Dollar payments unless they are done via e

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customer's account

We should stop shipping checks

We should benchmark HBMX CAMP and other search engine systems with HSBC (they have some very sensitive behavior vectors) and see whether we are finding as many suspicious transactions as we should be.

Look forward to hearing your ideas in due course.

HSBC Holdings plc
Registered Office: 8 Canada Square, London E14 5HJ, United Kingdom
Registered in England number 617987.
From: Luis Alonso
Sent: Nov 28 17:04:19 2008
To: Michael Faoghegan
Cc: Luis Pena, Matthew King, David W Bailey
Subject: Re: Final draft for Mike's illiter

Luis,

Please find below the reply to your comments.

I just want to assure you that I will properly consult with the ADO reps concern in order to manage it within the limits.

Regards,

Luis

--- Original Message ---
From: Luis Pena
Sent: Nov 28 01:32:17 CST
To: Luis Alonso

Subject: Final draft for Mike's illiter

Some response and next steps:
1. Regarding the issue of dollar note amounts we only have some residual amounts from before, for example, it is going to be minimal but not eliminated.
2. The zero tolerance policy is now being enacted and word is spreading fast.
3. In January 1, we will 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 armunl or typo.
4. The next challenge is communication. We are formulating a plan with several stakeholders, stuff, authorities, media and spin doctors to communicate this message to staff and authorized the internal communication. To media and customers, however, we must make sure that the marketing and control are NOT the base even though strategically important. The fire staff and exemplary measures must be framed in ATMs, modern and electronic means are opposed to dollar notes (Traveler's checks, Visa Travel money which we will put together with ATMs).
5. Last but not least, we will address the issue of funding. After all, Cochrane and Mexican dollar accounts are the main source of our funding. We are likely to see a big portion of this if we ask customers we no longer receive dollar notes. We have to provide an alternative to our customers for this: basic accounts may be an alternative but we will have to ask to HSBC if we want to move funding back to branches to lend. Otherwise, there will be a massive negative impact to our ADO ratio.

Regards,
Luis

--- Forwarded ---
From: Luis Pena
Sent: Nov 28 01:32:17 CST
To: Luis Alonso

--- Original Message ---
From: Luis Alonso
Sent: Nov 28 01:32:17 CST
To: Luis Pena

Subject: Final draft for Mike's illiter

 Hey Luis,

1. Regarding the issue of dollar note amounts we only have some residual amounts from before, for example, it is going to be minimal but not eliminated.
2. The zero tolerance policy is now being enacted and word is spreading fast.
3. In January 1, we will 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 armunl or typo.
4. The next challenge is communication. We are formulating a plan with several stakeholders, stuff, authorities, media and spin doctors to communicate this message to staff and authorized the internal communication. To media and customers, however, we must make sure that the marketing and control are NOT the base even though strategically important. The fire staff and exemplary measures must be framed in ATMs, modern and electronic means are opposed to dollar notes (Traveler's checks, Visa Travel money which we will put together with ATMs).
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Regards,
Luis
To: Michael.T.GOODEY@HSBC
Cc: "David W.SAULET"<david.saul@hsbc.com>, "Aerin.VICENTE-SELIGER@HSBC.com>, "George.P.QUINONES@hsbc.com>, "Matthew.J.JONK"<mathew.jonk@hsbc.com>, "Yvonne.I.KIRK"<yvonne.kirk@hsbc.com>

Date: 28/11/2006 03:30 a.m.
Subject: Re: Fax Final draft for kids's letter

Dear Edwin,

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 HSBC, that as we did in HSBC, 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.

I fully assume everybody (that is required) has to do that Balanced Score Card for the need to implement CAMM 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 past experiences in Brazil are a measure of our demonstrable zero tolerance of lapses in implementing KYC then the operations standards of the whole business improve at the same time.

What we are doing in Mexico needs to be copied everywhere else in the region.

Many thanks.

Mike

HSBC Holdings plc
Registered Office: 8 Canada Square, London E14 5HQ, United Kingdom
Registered in England number 917967

HSBC Holdings plc
Registered Office: 8 Canada Square, London E14 5HQ, United Kingdom
Registered in England number 917967

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David,

Thank you for your report - this is very helpful and constructive.

We will be developing an action plan to address the points raised, including other options and initiatives that are already under way, and we will keep you informed as we work through them.

I agree with your conclusions that we need to review the role and remuneration of my Competence Taskforce. If that means the team loses its current authority and the quality of the compliance team is not maintained as the new term begins, then that is a problem. If that means the team continues to do what it is doing now, then that is a problem as well. We need to address this issue as soon as possible, and I think that we need to meet with the team as soon as possible to discuss this.

Thank you for your support and for the progress you are providing in the meantime.

Regards

Tom
From: John F ROOT
To: Matthew J Y KING
Subject: Fw; Visit Report

Attachment: SUMMARY OF COMPLIANCE ISSUES - Memo.doc

As discussed.

--- Forwarded by John F ROOT HSBC on 4/17/2007 to be ---

David W TRACE HSBC HQ

Sent by: Nancy C KOCH
21/04/2007 14:22

Paya (Tel.): 708-364-6442
Fax (Tel.): 708-364-6445
Mall (Fax): 708-364-6445

To

Paul A THURSTON HSBC HQ

John & RENDELL HSBC HQ

Subject: Visit Report

Resubmit Visit Report

Paul

I reach a summary of the key issues and my interpretation or recommendations following the visit to Illinois. I would stress that while this summary is not exhaustive, it is biased in the sense that it is highly selective.

Having said this, there are too many areas of concern to be addressed, partially due to the limited scope of the visit and the need to ensure that all the key concerns are fully addressed.

There also needs to be a focus on allowing the contact in a number of areas, both through meetings with CTFS, and to ensure that our contact is fully justifiable and supported by the facts. This clearly requires that we get CTFS in a good position to provide the status of the investigation.

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problems, where there is also appropriate steps are being taken to address these issues.

Finally, I do think that we will need an accounting basis to quantify the nature and effects of the resources currently available in CMP. The need to review these resources versus in net to be properly made an estimate to the regional support that will clearly need to be given by Ramon's team to

Mexico to ensure that all is coordinated to both volume and complexity.

With regard to the regional office will clearly need to have a meeting with the various steps that were discussed and clarified in the preparation of the ACOs' financial statements to be provided as part of the various discussions. What this was a very positive meeting, it is now

that there is significant ongoing work for Remedial steps to be taken to ensure the OICG produces in this area efforts will be

formed in line with German security requirements.

I will of course be very happy to discuss any of my concerns or thoughts with you at any of our talks. We will continue to liaise with Ramon to

provide or assist support and help from ACOs CMP is provided. I would suggest that it would be useful to allow more time as important to us, as OICG/MPS, to undertake the IACG Compliance review that is required by the Compliance Officers Bangladesh and EMME, perhaps allowing the suggested 2010 or 2011 to allow the further support to be utilized, and the ACO to process being

altered to consider when necessary levels are inappropriate and required and

can be special.

Regards David Bugley
SUMMARY OF COMPLIANCE ISSUES - MEXICO

1. Anti-Money Laundering (AML)

CNBV regulation requires the HSBC to carry out comprehensive identification and verification procedures so as to ensure that all KYC records for all customers accord with the stated requirements. These measures anticipate that this should be implemented on a risk-based basis. HSBC have already recognized that they will not be able to meet the deadlines stipulated by CNBV and have sought an extension of time. Even if this extension is granted this issue remains a number of weeks which in itself may cause regulatory and customer decision at senior business level.

• There appeared to be differing opinions as to how many accounts were affected. How many accounts were validated and therefore no risk involved or not validated to the point of being blocked. Issues being raised by CNBV about their choices of accounts and how many had been cancelled 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 Board of Directors of HuCA and in the initial committee and the establishment of a project team to monitor and rectify the type of issues that appear to be a major undertaking.

• I was concerned that there appeared to be some weaknesses in relation to the opening of new accounts. HSBC currently reports a failure rate of 7%. When this exceeds the Group allowed level of 2%, given the nature of the jurisdiction a 7% failure rate would be seen as a cause for real concern. There is however more doubt as to whether this figure is accurate as it appeared that account opening staff are able to produce reports showing any account opening is held where this may not be the case. This needs to be investigated as I am not convinced that this level of activity can be placed in the 7% figure. If so we are not opening new accounts that will only add to the remediation exercise required by CNBV, and the 7% is not substantially in excess of 20% standard. There are several cases where this level may be required where it is not. Account and complete account opening is a key AML control, particularly in emerging markets. Serious consideration should be given as to whether either the transaction exercise and account opening should be handled separately by a central function.

• Both the remediation exercise and new account opening appear to largely take place at branch level. If one of the reasons this may be the case then it is expected that these activities would be able to address these activities given their focus on sales and customer service. Processes like account opening are often conducted across the Group.

• There appeared to be some confusion as to the stated aim and purpose of the MLD Committee. From a regulatory position I believe that the Committee reviews potential SARs pre-filing and confirms decisions as to whether accounts

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should be deleted. If the Committee is to undertake a wider role than the Terms of Reference and the list of authorities any aced 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 common understanding of its constrained’s role. Further it did not appear that all of the changes recommended as required consequent to the United States had been acted upon. This should be seen as a priority given the significant issues raised.

* Leopoldo Dancer appeared to indicate that he sees his role in his current role as finite. If this is to be the case then a clear successor plan will be required.

* As has been the experience elsewhere in the Group the CAMP monitoring system produces significant numbers of artefacts. This is a feature of all AML monitoring systems. Having said this, steps are being taken across the Group to seek to minimize this. I suggest that Kevin and his team liaise with GDFC 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 did however have some observations, where the points made can be considered as part of the ongoing development of the function.

* Overall I think the team is slightly understaffed, particularly given that Ramirez 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 now 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 well be a dedicated 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 two based at CIBM matters by Jorge Enriquez, which is of our auditors and the increasing complexity of the instructions being undertaken means this is insufficient. There is already an intention for large to spend more time in London to consider these issues. I think this should be examined by at least a further week to allow Jorge to move to the CIBM CAMP specialty. It was clear that CIBM are already supporting two innovative intermediaries 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 business needs, this would also allow Disaster Compliance Officers and language issues I will explore whether we can support local delivery of one-off courses perhaps using John Ross.

Careful consideration will need to be given to the financial implications of the regional role that has been created by Ramon. This should take account of any required headcount, but also the need for travel to complete reviews and conduct the activities of the regional ACOs. I would suggest that the TOB AOP provides an obvious opportunity.

Meeting with CNBV

I met with Eduardo Alcala and Angelica Pesto of CNBV. This was an extremely cordial meeting and CNBV were overall extremely positive about the bank and the improvements they had seen since HSBC joined the Group. Having said that 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 term this approach as outsourcing but rather was concerned to ensure that every process was outsourced to other parts of the Group. HSBC would be able to continue to function properly (there adequate contingency arrangements either within HSBC or the service provider may be key). Customer confidentiality and data privacy is protocol and 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. While CNBV have been able to identify a significant number of relevant services I think that there may need to be involvement of business and operational staff to make sure all relevant issues are considered.

Base II - CNBV expressed a willingness to consider Group owned credit models, but also appeared sceptical that such models could be sufficiently flexible in address local conditions.

AML - CNBV specifically mentioned the need to re-identify existing customers, acknowledging that HSBC had requested an extension of time.

Fraud - CNBV raised concerns with regard to report fraud experience in relation to one particular packaged product. CNBV acknowledged that these concerns also covered the impact that high fraud losses might have on customer satisfaction and the bank’s reputation.
Branch Security – CNBV mentioned the physical security of branches was something which they were interested in.

System failure – CNBV described HBMX as having caused a yellow card in relation to a recent failure of their banking system, which they believe related to a failure by systems we had set-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 prudent and a responsible lending perspective.

RISK Management – CNBV were very complimentary about their interaction with Raman’s team. They did however indicate that on occasions there was an unacceptable delay on providing requested information. When I discussed this with Raman it appeared that this sometimes took a little while to provide information as CNBV had requested. The fact that CNBV raised this specifically suggests that a reminder should go to business and support areas, but that CNBV should also relay any delay to the relevant business or functional head.

Complaints/compliance – CNBV expressed a concern that HBMX’s complaint levels were high. What was unclear was whether this was in relation to recent issues or perhaps reflected what appeared to be a general concern that our rapid growth had put pressure on fraud, credit and operational controls.

4. GENERAL COMPLIANCE ISSUES

Fines – There are some areas of activity with differing regulations that appear to impact significant numbers of fines for both technical and on the face of it severe procedural breaches. Whilst individual fines are small the sums net significant in aggregate. It does 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 FSA/FSB appear to focus their efforts on procedures rather than on absence of procedures the underlying causes seem to reside in operational integrity. Those reviewing operational issues generally find it helpful to have these issues reported regularly so that where justified root causes can be addressed.

It appeared that Raman was finding the regular contact with the reconfigured area a UBS CFP helpful. I would encourage Raman to continue to look for support, but to ensure informal, from CRS/CFP.

KPMG assessed the strength of our compliance (generally not part of the function) as on a par with our peers both behind Societe Bank and CIB.
Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8874974
From: Warren GLEAMING
Sent: Thu May 24 16:59:25 2007
To: Dam WB JWBAGLEY
Subject: He advises that his own Compliance team are advising him that such cross-border activities should cease

I met with Paul Thornton briefly yesterday morning. He had two significant compliance issues that he wanted to discuss. He mentioned which he believes is now being managed through 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 offshore products. The local regulatory requires you cannot solicit or 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/ideas that are in place to manage this cross-border activity and to what extent is there compliance with such rules.

He advises 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 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 in the main why he has appointed John as a new CIO to assist with becoming more aligned. In his view Graham is rightly concerned that there are not appropriate controls with the AML function itself as evidenced by a

Redacted Material
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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.

Let’s discuss tomorrow if you get time, have a good flight back.

Regards,

Warren
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 Custom 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 Risk Identification and Mitigation
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 personnel and Operations procedures.
2. We have compiled 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 off SIMARIS

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E.CNBV letter

1. All UIF (and similar high priority) issues are being dealt with completely in house.
2. We have established a team of four experienced Compliance officers to manage these cases to support improvements in both speed and quality of responses.
3. We have investigated all of the 35 case noted in NSF on 22FEB08. Updated responses on these cases were delivered via Compliance. 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 and priority cases. First meeting took place Thu28FEB08.
5. We have opened a direct channel between UIF and our Security team to support existing processes.

F Tracking CNBV 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 site visits
   - Remediation of old files, in risk priority
   - Transaction profile rectification, storage and monitoring

2. PEPs
   - Centralised review of all PEP files
   - Re-engineer branch transaction processing and records
   - New process for control of site visits
   - Remediation of old files, in risk priority

3. Alerts Process
   - Re-engineer and strengthen the Alert reporting processes
   - Centralised review of all PEP files
   - Formal annual PEP review process
   - New process for control of site visits
   - Remediation of old files, in risk priority

4. Information Requests
   - 6 Sigma end to end review of processes
   - Review of all information requests
   - Analysis of transaction patterns through branches

5. USD Banknotes
   - Review of high-intensive customers
   - Re-engineer branch transaction processing and records
   - New process for control of site visits
   - Remediation of old files, in risk priority

6. Transaction process
   - Re-engineer branch transaction processing and records
   - New process for control of site visits
   - Remediation of old files, in risk priority
From: John ALLISON
Sent: Wed, Jun 13 11:36:00 2007
To: Clive BISSETT
Subject: Fw: GROUP MESSAGING GATEWAY FOR LAM - CLEAR CHOICE REPORT

Any thoughts on how to deal with these countries?

Regards

John

--- Forwarded by John ALLISON@HSBC@HSBC on 13/06/2007 11:35 ---

Clive

John, BISSETT@HSBC@HSBC

I 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, or as end hosts, whatever.

Regards

--- Forwarded by Neel Patel@HSBC@HSBC on 13/06/2007 09:59 ---

Clive BISSETT@HSBC@HSBC

John, Allison@HSBC@HSBC

Neel Patel@HSBC@HSBC

John, BISSETT@HSBC@HSBC

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8875063
Subject: Group Messaging Gateway for Law - GLSAR

As this is the most cost effective solution you have my approval to proceed as proposed.

Regards,

Sonds

Alexander A. Rockhart
President & Group Managing Director
Latin America and the Caribbean
HSBC Headquarters
20th Floor, 0913
Obrera 22 Piso 32
Col. Cuauhtemoc
06500 Mexico, D.F.
Tel: 52-55-5721

Neelsh HEREDIA/HSBC
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, HSINT and GFT (for 100% 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 team. 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 HSIEU IT the need for Spanish speaking support during LAM's working hours at the SYBGC. Action: Heredia with Phillips.

Identity and agree PIR site. Action: Heredia with Morales.

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 SYBGC, formalisation of the migration of Keys and Access rights, demise of SWIFT Alliance etc.

Please address any queries arising to me.

Regards,

Nelash

[attachment "Clear Choice - Non-US SWIFT Address OMIS Migration - FINAL.doc" deleted by Nelash HSBC OCC 8875065]
The contact should be Nereida Heredia but Graham Macnaughton Head of International and Eduardo Palacios Head of PCM should be copied in all correspondence.

 Regards,

Sandy

Alexander A. Pitchford
President & Group Managing Director
Latin America and the Caribbean
Paseo de la Reforma 367
Doking 23 Piso 32
Col. Condesa
06050 Mexico, D.F.
Tel: 52-55-5121-3914

David M. BAILEY HSBC

David M. BAILEY HSBC Sent by: March 29, 2007 11:51 a.m.

To: Sandy Pitchford@HSBC

Cc: GROUP MESS, 4 GII'gOIG

Subject: GROUP MESS, 4 GII'gOIG

Sandy,

I refer to your e-mail of 14th March.

Clive Besco, Global Project Manager, GTS 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 this most critical issue.

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 decided to proceed with payment messaging pending any migration. I will however advise further if this proves to be the case.

At my end I will ask one of my team, John Allison, to support Clive. I look forward to receiving details of your nominated contact whenupon I will ask Clive to make appropriate contact and commence the necessary work.

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8875066
I am grateful for your assistance.

Regards

David Bagley

Sandy Flockhart

From: Sandy Flockhart

To: David Bagley

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 and the most stringent requirements, possibly by controlling 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 aforementioned evaluation.

Clearly a decision will need to be taken soon as we are in the process of defining the migration of which your communication was received and 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 disproporionate 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 or details prior to reaching a final decision, and with who we could work with afterwards to convert such talk to the way forward.

I look forward to receiving your thoughts on the above.

Regards,

Sandy

Alexander A. Flockhart

Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8875057
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 that 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 of OFAC on the part of both OFAC itself but also our banking regulators.

As present, cross-border payments, regardless of currency, initiated by, or processed through our operations in Latin America pass through the payment gateway operated by HSUS 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. In a few cases and for practical but in no way commercial reasons, they were operated by US companies.
This clause 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 related core services, and made a conscious decision to develop a standalone WARR 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 clause is that where payments are processed through the New York gateway on behalf of Latin American operations from the US, 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 envision the problem 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 winners proposal. Any such proposal would need to take account of likely impacts upon operational support, anti-money laundering and cost. We have informally explored the possibility of relocating Latin American flows to the UK GMG, but the centre has experienced some GMG707S issues.

While 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 make a plan 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 involve one of your team to take matters forward. Similarly, we will provide as much assistance as we can here in GRIQ CMP, having developed some understanding and knowledge of the issues posed by OFAC, and possible solutions and approaches to resolve these challenges.

Regards

David Eagles
MINUTES OF THE HSBC LATIN AMERICA & THE CARIBBEAN REGIONAL AUDIT COMMITTEE MEETING.

JULY 2007

The Audit Committee meeting was held in Mexico City on 27th 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)
- Emilio Alonso (EA)
- Graham Thomson (GT)
- Mark Gunton (MG) (part of the meeting only)
- Ramon Garcia (RG) (part of the meeting only)
- Jee Park (JP)
- Osvaldo Grossi (OG)
- Victor Jimenez (VJ)
- Rae Scanton (RS) – KPMG

Secretary:
- Octavio Contreras (OC)

1. MINUTES OF THE PREVIOUS MEETING

The minutes of the previous meeting held on 27th 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

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...
MINUTES OF LAM REGIONAL AUDIT COMMITTEE JULY 17TH 2007

quarter. This increase is due to the inclusion of high risk open recommendations 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:

1. Customer Account documentation. Notwithstanding that OAO reported 55% 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 GAO audit findings. This would require a large rectification effort to be completed if the Bank was to meet the regulatory deadline for compliance of MAYO. GT also stated that the branch staff were not sufficiently knowledgeable about classification and identification of SFC (Special Customers categories) and further the failures by HBMX Anti-Money Laundering Committee to follow up instructions about customer accounts that should be cancelled. GT amended 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 HBM 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.

6. INTERVIEW WITH THE REGIONAL CHIEF RISK OFFICER

MG presented his report.
MINUTES OF LAM REGIONAL AUDIT COMMITTEE 5th 12th 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 (credit at a time).

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 COMPLIANCE

a. 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 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 bas granted a 1-year extension to MAY04 for HBMX to regularise customer identification files for accounts opened or contacts signed before MAY04

Weaknesses were found in exchange integration in the Central America region, Panama, Costa Rica, Nicaragua and Honduras and mentioned that remediation plans have been implemented.
MINUTE OF LAW REGIONAL AUDIT COMMITTEE JULY 27TH 2007

J.P. presented his report and commented on the following:

- a) the effort to solve documentation problems with CBM customers and PFS payroll accounts continues;
- b) Some errors detected in the AML database to the regulator will be fixed by July 87.
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.   HSBC OCC 8875171
From: Tamara KHAN
Sent: Jan 18 15:08:19 2000
To: Susan A WRIGHT
Subject: Re: Memo: Significant Exception 2000-04
Importance: Normal
Attachments: Image_5.gif, Image_1.gif

Sue:

I agree.

I do not believe this position is defendable against, 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 such a risk to the Board. In my practice, management is not allowed to drop the practice, and we need to advise our representatives on the Board so they can raise it at a Board Meeting. We do need of course control, and we have to be sensitive to this in how we pursue the point.

Regards,

Matthew J Ng

Sue A WRIGHT@HSBC

1400599004-14:30
To: Matthew King

Subject: Memo: Significant Exception 2000-04

Sue

Matt, cut

Sue

Some weeks ago Bob Cooper advised me that when processing wire transfers
The procedure has been to replace automatically the name of the remitter with that of [Redacted]. We have 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 (name and address) 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 SWIFT will continue to arrange wire transfers on a back to back 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

[Redacted]

Memo

09 Jun 2001 17:02

To: Susan A WRIGHT

From: Bob Cooper

Subject: Significant Exception 2500-34

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.
However, for payments that are identified as being OFAC positive they will follow a different procedure.

In these circumstances, for USS payments, HSBC will arrange cover for the payment using MT103/202 remittances. There are back to back payments and no underlying remitter/beneficiary details are required. They simply facilitate the movement of funds to/from nostro/vosto accounts between banks.

US$ 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$, can be made for an individual or company on the OFAC list, without the name being detected by the OFAC filter on all US$ banks would apply.

John Drench estimates that anything between 20-30% of HSBC’s business would fall into this category. We need to remember that one of HSBC’s shareholders is also an OFAC listed bank!

I have spoken to Jim and separately talked to HSBC, London branch for comment. HSBC advise that they do not take any action regarding OFAC listings.

The HSBC issue is a difficult one and I cannot see any easy alternative to that proposed by John Drench.
Subject: Oml't itBnlan - USD Payment Procedures

From: Rod MOXLEY

This is draft copy of procedures regarding Iranian USD payments.

You'll be away from scrum weekly today, that I left meeting clarification from Gary Bown in a small number of issues which may mean that minor comments will require to be made.

I assume that this document will receive the approval of Central Counterparty in due course, along with our previous note regarding Payment message/instructions received. For your information, RMS will amend to incorporate any technical changes which may impact on their operation.

If you have any queries, please contact me.

Regards

Rod
bee:

Subject: Draft Iran - USD Payment Procedures

Rod,

As requested, please find attached the draft Iran - USD Payment Procedures as discussed earlier today.

Regards

Tony

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

HSBC OCC 8875226
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 Specie Transaction Regulations, Imports/Exports, Travel and Flights.

It is crucial 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 as the case may be of any restrictions, limitations, laws or sanctions which may affect 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 be made to ensure that payments effected through HSBC do not contravene US Legislation in order to protect the Bank’s Reputation and that of our customers.

U TURN PAYMENTS

Current OFAC Sanctions preclude any payment sent to or from an Iranian account entering or exiting the US if such funds are as credit or debit an account with a US bank.

The relevant wording provided by the OFAC Sanctions are as follows:

"U.S. depository institution may handle "U-Turn" transactions (some 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 HSBC to effect a USD payment via the HSBC to Overseas-Chinese Banking Corporation Singapore. This payment does not debit or 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.
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 in 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. Refuse the payment if it meets the above-mentioned criteria.

EXAMPLE 1

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8875229
Bank Melli Tehran sent an MT103 requesting $550 to be sent to an account with Overseas Chinese Banking Corp, Singapore via their account with JP Morgan Chase NY.

### Table: MT103 Details

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<thead>
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<th>Explanation</th>
<th>Format</th>
</tr>
</thead>
<tbody>
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<tr>
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<tr>
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</tr>
<tr>
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<tr>
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</tr>
<tr>
<td>Bank operation code</td>
<td>12345678</td>
</tr>
<tr>
<td>Value date/currency/branch used amount</td>
<td>12345678</td>
</tr>
<tr>
<td>Beneficiary customer</td>
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</tr>
<tr>
<td>Account with beneficiary</td>
<td>12345678</td>
</tr>
<tr>
<td>Resistance information</td>
<td>12345678</td>
</tr>
<tr>
<td>Length of changes</td>
<td>12345678</td>
</tr>
</tbody>
</table>

MPS generates the following MT103 message to HSUS (so cover MT202 because incoming instruction had a SWIFT instruction in field 54).

### Table: MT103 Details

<table>
<thead>
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<th>Explanation</th>
<th>Format</th>
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</thead>
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<td>12345678</td>
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<tr>
<td>Value date/currency/branch used amount</td>
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<tr>
<td>Beneficiary customer</td>
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<td>Resistance information</td>
<td>12345678</td>
</tr>
<tr>
<td>Length of changes</td>
<td>12345678</td>
</tr>
</tbody>
</table>

**EXAMPLE 2**

Bank Melli Tehran sent an MT103 requesting $550 to be sent to an account with

Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.
HSBC OCC 8875230
MT202 COVER INSTRUCTION

*Please note MPS doesn’t include the ordering bank on the outgoing message.

Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8875231
EXAMPLE 1

Bank Melli Tebrsm instructs us to pay $500,000 to via their New York Office.

Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8875232
From: SUSAN A WRIGHT/HSBC
Sent: 7/25/2007 2:22 AM
To: ANNE LUDY/HSBC
CC: JOHN ALLISON/HSBC
Subject: Re: 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 disconnections granted to HSBC's own customers - John is the keeper of the disconnections and so will provide you with more detail. (John please copy me in).

Hegeons: Susan

Anne Ludy/HSBC

8/25/2007 5:53 AM
Mail Size: 5051

To
Susan A WRIGHT/HSBC

Subject
Conversion of Clients to Serial Payment Method

Emily
HSBC Holdings plc - HGHD

-------- Forwarded by Anne Ludy/HSBC on 8/24/2007 9:05 PM --------

Anne Ludy/HSBC

8/24/2007 12:43 PM
Mail Size: 7622

To
Susan Weight

Subject
Conversion of Clients to Serial Payment Method

Susan, not sure if this got to you or not.

--- Forwarded by Anne Ludy/HSBC on 8/24/2007 9:05 PM ---

Anne Ludy/HSBC

8/24/2007 9:57 PM

To
Susan Weight

Subject
Conversion of Clients to Serial Payment Method

Susan, I was told today by David Slagle "Instead of disconnection regarding the requirement that we reduce our clients to move from cover payments to the fully automated serial method, I hope that there will be some general discussion regarding the fact that we are having a difficult time getting our Group officers to switch (accepting due to system issues in that regard) so we need to provide more time to our clients to correct as well. But I do think that a disconnection was issued in this regard. Do you have the background on this? Thanks.

HSBC OCC 8875256
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@HSBC on 12/09/2008 15:55 ---

Ramon

To: John F ROOT@HSBC
Cc: M. SALAZAR@HSBC

Subject: Cayman Accounts

---

Please find attached information requested. Regards, Ramon

CAYMAN ACCOUNTS

Customers were classified in emergency lights considering their transactional behaviour as follows:

RED: SSS status, black lists and customers with one or more reports to the authority (SARs) were

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8875462
Yellow Customers affected by CAMP system without SARs
White Customers with no coincidences in the two previous ranges.

John F ROOT@HSBC

John F To
ROOT@HSBC@HSBC
11/03/2006 06:51 a.m.
Subject: Cayman Accounts

Ramon,


Regards,

John

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8875463
Fr: 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 970947

Ken HARVEY

Original Message
From: Ken HARVEY
Date: 10/06/2010 12:46 GMT
To: Ken HARVEY
Cc: Andrew ZISSELL
Subject: INFOSA44860654

Can you prepare the attached, pls send draft for my review.

The

Michael C. ANDERSON

Original Message
From: Michael C ANDERSON
Date: 09/06/2010 05:26 PM GMT
To: Ken HARVEY
Cc: Andrew ZISSELL

The minutes of the last RM included the following action point:
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 Audronis to request Rob 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 only, our timing is such that papers are needed by 25 June.

I am happy to answer any questions if you have any.

Regards

MBC
From: Susan A WRIGHT
Sent: Thu Dec 11 09:13:54 2003
To: John W BALCH
Subject: Re: IRAN EXAMPLES

Importance: Normal
Attachments: Image_0.gif; Image_1.gif; Doc Unknown

--- Forwarded by Susan A WRIGHT@HSBC on Thu Dec 11 09:13:54 ---

From: Nigel J WRIGHT@HSBC
To: Susan A WRIGHT@HSBC
Cc: Geoff ARMSTRONG@HSBC, Gill Armstrong@HSBC, Brian GRAY@HSBC, Rod
MOXLEY@HSBC, Gary BOON@HSBC, John F ROBERTSON@HSBC, John AUSTIN@HSBC,
Mike WRIGHT@HSBC, Brian KNIGHT@HSBC, Tim COIL@HSBC

Subject: Re: IRAN EXAMPLES

Dear Susan,

At our meeting on 30 OCT 03 we agreed that we should obtain legal counsel opinion on our preferred standard MT103 & cover payment method before reverting to HSUS with our test account. We seem to have deviated from the proposed plan.

I believe that the HSUS proposal you are referring to recommend the serial method which is not our preferred solution. I hope this is not the case as I gather it involved manual processing and potentially additional lead time in HSUS.

Best,

Nigel

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.
I am also concerned that the deadline of May 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

10032553

To: Rod MOXLEY KBE/HSBC@HSBC et al

To: Rod MOXLEY KBE/HSBC@HSBC
gary.wootton@hsbc.com
julie.southgate@hsbc.com
john.allison@hsbc.com
mukul.g.rafti@hsbc.com
jim.walker@hsbc.com
jenny.r.walker@hsbc.com
nigel.j.welr@hsbc.com

cc: tt:sw

From: Susan A WRIGHT
Tel 7602 55544 207 92556

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 L/Turn payments, following discussions with Carolyn Will, Head of Compliance for HSBC.

Before proceeding with our agreed plan to approach outside counsel for a legal opinion with regard to our proposals and staff procedures, I contacted Carolyn and asked whether HSBC would be prepared to proceed on this basis. Carolyn has discussed the situation with Paul Liu, Head of Legal and Compliance, and it is her understanding that, apart from a discussion of length between myself, Carolyn, Tim Conolly, Tom Conolly of Advisers and BHS, HSBC Debarrah, Payments, Business and HSBC

Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8875508
Whilst we will of course still need to agree procedures for Payments within HSBU I have asked Clarify to forward the HSBU proposals for consideration by all interested parties and will circulate these as soon as they are received.

Regarde Susan Wright
From: John F Root  
Sent: Tue Aug 10 15:40:31 2004  
To: David W J Baugley; Robert E T Bennett; Sandy Floodhart; Raimon Garcia; Matthew J W King; David Lightner; Susan A Wright  
Subject: HBMX JUL04 Visit Report  

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

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  
HSBC OCC 8875555
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 13-18 months ago. However, Treasury back-office systems are a source of major regulatory concerns, 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 PPS sales may be placing undue on HBMX’s ability to ensure compliance with Group Core Business Principles. Group Key Aesthetic Values, or the Group Compliance Policy.

There are areas under control. First, the Mexican environment for financial services is significantly challenging. Senior management is fully aware of the risks, and is taking steps to mitigate them.

The reviewer wishes to thank management for its cooperation in the preparation of this report.

2. REGULATORS

Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 887567
Patricio Gustavo Pérez, one of the five commissioners of the CNBV (Comisión Nacional Bancaria y de Valores), notes, "In the business area of HSBC, the resources have arrived. In the area of controls, the resources have not arrived."

The CNBV gave us a "factsheet" in English with the following "main concerns" listed below in pertinent part:

### Operational Risk

- **Anti-money laundering processes**: Although improvements have been made, 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 Zarama's branch operations.

- **System Migration & Availability Fail**: Security controls had credibility concerns due to migration of credit card approval and origination processing systems (WHIRL & Summit).

- **Compliance Functions Need to be Fully Implemented**: Although control is expected along most processes (sic), full implementation of controls are reflected.

- **Control in Fiduciary Operations**: Control of legal risk needs to be verified.

- **Fraud Prevention Policies**: High level of customer complaints point to possible weaknesses in fraud prevention policies implementation.

- **Technology in Treasury & Risk Monitoring**: Manual interfaces in treasury operations and risk management levels led HSBC to received several and regulatory letters, like PVRP ("Power Value Risk Points") is a measure of interest rate sensitivity and its general bank liquidity coefficients requirement in USD.

- **QIRPs still in Implementation**: Disaster Recovery Plans are still in implementation process, business continuity has to be secured.

**Redacted Material**
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With regard to the money laundering concerns cited above, senior management at
HSBC is surprised that CNBV should have expressed concerns over Panama's control
of money laundering, as a provision had been given to all regulatory agencies which
included a request explaining in detail how the Panamanian operations were subject to US
surveillance (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 stringer banking security.
Other important CNBV comments are reflected in this report, notably in Section 5 on
"Filialities (Branch)"; Section 8 on "Staffing"; and Section 11 on "Panama".
Recommendation: HSBC CMP should, in consultation with senior management,
develop a programme of specific recommendations to address the concerns in the
CNBV Fact Sheet.
The new standard contract is a 150-page document that is practically illegible because the print is minuscule.

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. 34% of all missing documentation is

Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8875572
KYC-extend.

Recent KYC registers are more rigorous. The Trusts department is discussing with the CNBV whether the trusts pre-dating the new rules a notarised public deed will continue to be sufficient (e.g., 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 9,000 files have been reviewed to date.

A target date of 30 OCT 05 has been set for obtaining all missing documentation. Management has agreed that the efforts to bring the documentation up-to-date will be prioritised on the basis of risk (i.e., recent active trusts will be checked 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 “finance” 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 should investigate this area and send a report to senior management and GHQ CMP with specific recommendations.

7. BENEFICIARIES 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) transfers are generally small (USD 200-300), according to two senior managers, (2) the diligence appears to be adequate in the AML procedures of US third-party service providers, and (3) CAMPO Retail, a software programme to detect suspicious transactions, is scheduled to be installed at the branch network in NOV 05.

Recommendation: HBMX CMP should sample periodically from the United States to determine if, in fact, transfers are generally small and in the ordinary course of business.

8. STAFFING
Senior CHBV regulators were quite upset with the former AML director, who they believe had "lied" to them about the competency 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, IBEX would have been "penalized".

Unfortunately, the person's deputy also performed poorly, according to a number of senior IBEXX managers. However, HR objected to the dismissal of the person, alleging that employment law in Mexico requires a valid "paper trail" of professional incompetence. In this person's case, the paper trail was apparently nonexistent. The matter is still under investigation, and the person has been transferred to another area, but there remains a certain amount of friction within the divisional process.

Carlos Roque, the current AML director, appears to be both competent and diligent.

Recommendation: IBEXX HR and LDA to review and update the procedures for firing staff (including senior management) with or without cause.

9. HEADCOUNT

Approximately 3,000 PFS employees have not been properly accounted for and are presumed "missing." Richard Hardy, an IBEXX IT auditor, is investigating. He has almost finished his analysis (900 cases complete), and no cases of fraud have been found.

Recommendation: IBEXX 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, IBEXX is "looking into the evaluation of adequate measures for Sarbanes-Oxley (the recent U.S. statute which enhances corporate governance requirements)." We are focusing on the quality and quantity of resources required to fulfill standards.

Recommendation: IBEXX CMP should report periodically to senior management and OIF CMP on efforts to recruit staff to address Sarbanes-Oxley requirements.

11. PANAMA

An examining regulator expressed some slight concern that the new IBEXX acquisition of HSBC assets in Panama might lead to "regulatory arbitrage." They do not want Panama to be used as an offshore center for Mexican clients. The example given was one where credit norms would be relaxed for a Mexican client borrowing through a structure in Panama, which they claim would not have qualified for a loan direct in Mexico.

The regulators remedied this to consolidate Panamanian operations using Mexican GAAP.

Recommendation: Ramon Garcia Gilson, head of IBEXX CMP, should inform in

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8875574
1. LOGGING OF REGULATORY VISITS

The IRM Audit notes persistent problems with IHRM exam reporting of regulatory inspections, and its response strategy.

A new system to improve the tracking of regulatory visits should be in place by 31 AUG.

Some confusion has arisen over the need to translate all reports for IRM Audit. It has been agreed that a summary of key issues is sufficient.

2. ANNUAL CONFIRMATION PROCESS

The Annual Confirmation process (i.e. IRM Audit) needs to be improved to ensure that the most up-to-date status reports are included in the reviews.

The process, which is currently manual, should be improved with the introduction of a new monitoring system by 31 AUG.

3. CONCLUSION

The most important issue is the immediate improvement of back-office reviews in Treasury, and most particularly the early introduction of the Summit programme to monitor derivative positions, and the continued hiring of Summit experts.

John Roe
Senior Manager,
Group Compliance
HSBC OCC

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8875575
From: Ramon GARCIA
To: Warren GLEAMING; Susan A V'YRIGHT; Jnl'ln F ROOT
Cc: David W J BAGLIE
Subject: Anti Money Laundering: Shock plan - Update 08'215
Importance: Normal

Below please find weekly report on the subject. Regards, Ramon  

--- Forwarded by Ramon GARCIA <GARCIA@HSBC on 19150309:31:53 p.m. ---

Sent: 15/12/08 01:15 p.m.
To: Ramon GHOCIA<KHCOX@HSBC HSBC04, Luis. ALVAREZ
REJIOXARR@HSBCO4, Gerardo VIGUERAS@HSBC04, Ignacio VERAZ@HSBC04, John R
RENOALL@HSBCO4, Lars RE10ING@HSBCO4, Roy CAPIE@HSBC04, Leonardo
ARANABM@HSBC@HSBC04

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 any branch  
(customers or non customers). We will, as an alternative, offer  
tourists' cheques to customers only. Also, accounts can withdraw  
dollars at any HSBC branch located at airports (starting Jan 15) or from  
any ATM in the world with their debit card.  
We will offer travelers' cheques to customers only  
As an alternative, offer  

Before January 1, 2009: All branches will be closed as  
customer activities. 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  
Casa de Cambio) will be closed. Roy will provide the list provided by  
Compliance to start the closure process. "Remesaderas" will be kept  
The metric to be included in the BRI will be: number of accounts with  
two or more SAR. The intention is that when accounts reach 2 SAR are  

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  
HSBC OCC 8875786
close immediately. Compliance will track this information monthly and will provide the information for the SBCC.

International clients of SBCC 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 USD transactions.

The following are directives of MS:

- All staff should be made aware that if there are persistent breaches of SBCC 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 CMP to the maximum including the closing of all accounts that have two or more suspicious transactions highlighted.

Directives from ES:

- Benchmark HBHX against HBBN, HBUS, HBEU and HBAP in terms of volume of suspicious transactions - Ramon - TBD

TO DO ITEMS TO IMPLEMENT THE PROGRAM:

- Send Calliano and Luis the Benchmark of HBHX against HBBN, HBUS, HBEU and HBAP in terms of volume of suspicious transactions - Ramon - TBD

- Visa Pre-paid Card - Lecarres - January 15

- Follow-up of closure of accounts of Casa de bonos (similar) - Ramon - December 31

- Communication strategy for high risk locations (e.g., La. Jaurez) - Roy

- Security training for employees having to implement the program - Johns

For the January 1 deadline:

- Monitoring process for USD kept by the branches - Luis Alvarez

- Debt card for accounts in USD - January 15 - Lecarres

- Closure of branches 22 and 24 of December; includes managing safeboxes

For the January 31 deadline (closures of improperly documented accounts):

- Prepare long term solution for CMB - Gerardo - TBD

- Audit of CMB files - Ramon - January 14

- Frame of accounts improperly documented to comply with commitment with authority (based on CR)

TO DO ITEMS TO IMPROVE 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: Warren GLEAMING
[...]
To: Catherine BUSSERY
Subject: Fw: Anti Money Laundering: Shock plan - Update 081215
Importance: Normal
Attachment(s): Doc Unkntntm
FYI
Regrets,
Warren Leaming
DEPUTY HEAD OF COMPLIANCE, GUSCO HOLDING PLC HSBC
6 Canada Square, Canary Wharf, London E14 5HD, United Kingdom.

Phone: 0044 20 7991 6207
Fax: 0044 20 7991 7139
Email: glemag@hsbc.com

--- Forwarded by Warren GLEAMING/HSBC on 18P1/2598 11:50 ---
Warren GLEAMING/HSBC Dec 16 11:39; 182008

To: Ramon GARCIe@HSBC
cc: Susan A WRIGHT@HSBC

Subject: Anti Money Laundering: Shock plan - Update 081215

Subject: Anti Money Laundering: Shock plan - Update 081215

Ramon,

Thank you for your update. I know that Susan has commented on the SAIF's analysis. My thoughts are:

I note that it is intended to freeze accounts improperly documented to remedy, with the compensation to be

I understand that you have spoken to Rams about my visit report and that items will be enforced. The
most important ones appear to be for:

(a) the status of the banking SARs, to ensure that SARs are only lodged once we have the appropriate

(b) any additional SARs in respect of accounts after the shock plan, we will need to ensure that SARs are only lodged once we have the appropriate

I note that there is to be a feedback on completing the remediation programme by the 31st January. Given that the Caymanian accounts and CMB accounts have barely started this seems to be overly ambitious. Ah
I cannot assume that a large number of staff have been dedicated to this role. Also are they staffed from Compliance or from the business as your resources seem stretched already.

Happy to discuss.

Regards

Wamu

Ramon García — 15/12/2008 10:23:55 Below please find weekly report on the subject, Regards, Ramon. —— Forwarded by Ramon García/HBMX/HSBC on 15/12/2008 01:33 p.m. ——

Ramon García/HBMX/HSBC 15/12/2008 10:23:55
To: Warren O'Leary/HBMX/HSBC, Ramon A. VAUGHAN/HBMX/HSBC, John P. ROTTING/HSBC
cc: Dewey W. BARLEY/HBMX/HSBC

Subject: Anti Money Laundering: Shock plan - Update 06/12/15

Below please find weekly report on the subject. Regards, Ramon

—- Forwarded by Ramon GARCIA/HBMX/HSBC on 15/12/2008 01:33 p.m. ——

Edward A. MESSMANN/HBMX/HSBC 15/12/2008 01:18 p.m.
To: Ramon GARCIA/HBMX/HSBC, Lowco RANGGIA/HBMX/HSBC, I. ALVAREZ TRIULLO/HBMX/HSBC, Sirin A. VERAMAK/HBMX/HSBC, John R. REDDING/HBMX/HSBC, Leonardo A. ANAHIL/HBMX/HSBC, Ray CAPLE/HBMX/HSBC
cc: Vermaak/HBMX/HSBC, John R. REDDING/HBMX/HSBC, Leonardo A. ANAHIL/HBMX/HSBC

Subject: Anti Money Laundering: Shock plan - Update 06/12/15

Based on our Dec 1 meeting

DECISIONS TO DATE

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8875790
Starting January 1, HSBC branches in Mexico will be "Dollar Free":
- We will no longer buy or sell dollars in cash at ATMs located at airports (starting Jan 1) or from any
  HSBC 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 restrictions project to be
properly documented. Otherwise the closure process of those accounts
will begin.

Starting January 1, 2009: At least 6 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
Casa de Cambio) will be closed. Roy will notify the list provided by
Compliance to start the closure process. "Remedies" will be kept

The metric to be included in the JSC 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 JSC.

International clients of HSBC will be given the same treatment as
domestic clients, provided proper identification is possible.

Credits transactions will also be eliminated
Starting January 1, 2009, the group will also focus on MXF transactions:

The following are directives of MG:

- Benchmarks MMX against HSRR, HSRR, HSRR and MFA in terms of volume of
  suspicious transactions - Ramon - TBD
- Do items to implement the program:
  - Send Emily and Luis the benchmark of MMX against HSRR, HSRR
  - Follow-up of closure of accounts of Casa de Cambio (or similar) -

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8875791
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 - Increase
- Closure of branches 22 and 24 of December requires managing addresses.

For the January 31 deadline (closure of improperly documented accounts):
- Prepare long term solution for CBS - Gerardo - TBD
- Audit of OBS files - Banks - January 15
- Freeze of accounts improperly documented to comply with commitment with authority (Based on ABC)

TO DO ITEMS TO TRACK THE PROGRAM:
- Weekly tracking report on the achievement of milestones - Gerardo - Weekly by Friday
- Weekly tracking report of USD exported - Luis Alvarez - Weekly by Friday

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8875792
From: Warren G. Gleaming  
To: J. Bagley  
Subject: Fw: RV: Fw: HBMX—CAYMAN ACCOUNTS  
Importance: Normal  
Attachments: image.png, Doc Link from  

FYI, as discussed  

Regards,  
Warren Gleaming  
Deputy Head of Compliance & Risk—HSBC Holdings PLC & HSBC  
5 Canada Square, Canary Wharf, London E14 5HS, United Kingdom  

Phone: 44 207 961 1077  
Fax: 44 207 961 4719  
Email: warren_gleaming@hsbc.com  

--- Forwarded by Warren G. Gleaming@hsbc.com on 24/10/2008 13:42 ---  
Warren G. Gleaming@hsbc.com  
Oct 23 2008 10:58 PM  
To: Ramon Garcia@hsbc.com  
Subject: RV: Fw: HBMX—CAYMAN ACCOUNTS  

Ramon  
We are corresponding separately in respect of re-lauching the Cayman USD escrow product but could you please update us where we are on the remediation and whether John received a response from Luis?  

Using Barclays  
Warren Gleaming  
Deputy Head of Compliance & Risk—HSBC Holdings PLC & HSBC  
5 Canada Square, Canary Wharf, London E14 5HS, United Kingdom  

Phone: 44 207 961 1077  
Fax: 44 207 961 4719  
Email: warren_gleaming@hsbc.com  

--- Forwarded by Warren G. Gleaming@hsbc.com on 23/10/2008 10:54 ---  

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  
HSBC OCC 8875818
Adrian CRISTIANI
HSBC Bank, USA, N.A.

To: Warren G LEAMING

Re: HSBC - CAYMAN ACCOUNTS

Warmth,

Thanks. I will follow up with the business and come back to you.

Best,

Adrian

--- ORIGINAL MESSAGE ---

From: Warren G LEAMING

Sent: 10/10/2008 16:29 GMT

Subject: Fw: HSBC - CAYMAN ACCOUNTS

To: Adrian CRISTIANI

From the attached it appears that

1. the requestor 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 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,

Warren

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8875819
Dear Warren,

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...

Regard,

Ramon

-- Message original --

To: "Warren O LEARNING"<warren.learning@hsbc.com>
Subject: "HSBC - CAYMAN ACCOUNTS"

Ramon,

Warren, Adrian’s proposal on not accepting cash has been sent in the business as an instruction, I will follow up due compliance to it. On remediation’s topic, below please find selfexpleratory mail sent to Pena by Jhr. I expect to have a response from CRO 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.

Regard,

Ramon

--- Message original ---

To: [Addressee]
CC: [Cc Addressees]

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 risk of failures with Calderon processes leading to "good" customers getting classified as high risk, prompting closures etc.

Leonard and I 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 with tightening 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 all existing customers. I have asked CMP to work with product on whether we may safely shorten our RBS/CCS enhanced KYC to create a more manageable and specific process for this product category.

Finally, with the existing customer base, a lot of work has been done to analyse the risk profiles of the accounts held. We have asked the Operational Directors to focus on the highest risk cases - 1,314 customers (2.5%) and then the highest risk cases - 2,037 total (4.1%). The good news is that 85% (923) are viewed as low risk. We have also de-duplicated each category against the transactional 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:-

1. Implement an agreed set of new product parameters and apply the transactionality rules to the existing stock that will be manual at first.
2. Implement a rather streamlined "enhanced KYC" that is designed, checked in Operations and tested by approved checks (as we are doing with the site visit reports). Stop the enhanced KYC for existing low risk customers to allow us to focus 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 that is a viable solution to the concerns expressed earlier, I would suggest that we work with GMO CMP and with LAM Audit to get this feedback and input before formally proposing a revised plan. As we still have a month and a half to go before our deadline, I think that it's 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 so far as everyone across ten banks is concerned today, this plan is unchanged. Would welcome your thoughts.

John
BAGLEY/GMOI@HSBC@HSBC
To: Jan R RENDALL/HBMBUSI@HSBC, Mark D KROCH/HBMBUSI@HSBC, Michael J U KG/HSBC@HSBC, Matthew J U KG/HSBC@HSBC, Richard E T BENNETT/HBMBUSI@HSBC, Robert S BAGLEY/GMOI@HSBC, Graham THACKRAY/HBMBUSI@HSBC, Patrick J W KING/HBMBUSI@HSBC, Leonard A RANZI/HBMBUSI@HSBC
Cc: John R RENDAL/HBMBUSI@HSBC, Luis PENA/GEO@HSBC

Re: J BM - CAYMAN ACCOUNTS

11:43 a.m. 31/07/2008 10:34:58 a.m. - Richard We have been in discussions with HBMS CHQ with regard to certain potentially suspicious transactions identified by our KYC processes. We will follow the same 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

To:
Cc:
Subject:

Richard E T BENNETT/HBMBUSI@HSBC
Michael J U KG/HSBC@HSBC, Graham THACKRAY/HBMBUSI@HSBC, Patrick J W KING/HBMBUSI@HSBC, Luis PENA/GEO@HSBC

J BM - CAYMAN ACCOUNTS

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8875822
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. While 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 drugs to drug 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 in Cayman residents. The licence, inherited from BHS, allows HBMX to provide USD-denominated services to peruvians domiciled in Mexico. Mexican regulations apparently prohibit individual Mexicans from non-US domiciled 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 was recently fined USD250,000 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 have however strongly reviewed 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 should therefore be seen as high risk from an AML and reputational perspective.

 Apparently on such carried out in 2006 of the Cayman branch activities was cleared as below standard and identified significant KYC weaknesses. It will be important to ensure these accounts will be covered by the various account remediation processes underway in HSBC, 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

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8875823
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 businesses 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 (RMI) HSBC HOLDINGS PLC MARK
1 Gresham Street, Canary Wharf, London E14 9AD, United Kingdom

Phone: 020 7881 4773
Email: warren.leaming@hsbc.com

--- Forwarded by Warren LEAMING/HSBC on 06/11/2006 13:12 ---

Warren B LEAMING/HSBC Oct 03 2006
17:36 Phone no. 799162 Call back 799162

Re: HSBC Cayman Strategy

Further to our discussion last night, thank you for the updated Cayman Strategy.

I also had a discussion with Adrian Cristiani this morning on progressing both remediation of existing accounts and proposed strategy going forward and undertook to provide him with both summary of our position and an update on 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. It appears to me that Susan may wish to make some or all of these today, with the office today.

For any comments, please advise. The proposal strategy would allow individuals to deposit cash up to $10,000 and for corporations 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 Worldwatch if you use that in Mexico.

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8875824
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 VOW.

In respect of the remediation exercises we would expect that all red and amber accounts are frozen to prevent any transactions on these accounts until the enhanced KYC is completed.

I am happy to discuss if you have any questions

Regards

Ramon

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 on where we are with this topic. Regards. Ramon

[attachment "Grand Cayman Strategy Update 3.ppt"] created by Adrian CRISTIANI/GMO/HSBC

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8875825
Point taken, wasn’t thinking of the central restoration doc record keeping.

Regarding the fact that they are regulated by separate regulators and amounts in different currencies are held in different places, we need to align them all in the system. We can do that with the right tools.

Regards

Warren

HSBC Holdings plc
Registered Office: A Canada Square, London E14 4HQ, United Kingdom
Registered in England number 570987

John R. RENDALL

--- Original Message ---

From: John R RENDALL
Date: 29/11/2008 11:44 GMT
To: Warren G LEAMING
Subject: Re: Cityman Accounts

What is the reason for keeping two documents separate? My concern is that we will end up having two different sets of control protocols. Are we really trying to work towards a system that is easier for us to identify customers properly?

John

Warren G LEAMING@HSBC

Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8875826
Dear 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.

John would be keen to review the enhanced KYC questionnaires.

We assume that the validation of prospective customers against blacklists 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 replied: 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 could advise what the blacklists include.
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 HSBC 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 accounts across the country, HSBC opened a branch located in Grand Cayman in 1960.

In JU2008 CAMF monitoring system identified significant USD transfers made by a number of customers to a US company allegedly involved in supplying aircraft to drugs cartels. SARs have been filed with the authorities.

On 31 JUL 2008 the opening of USD DDAs and DDAs located in Cayman was suspended and a review of the process followed by HSBC to operate USD accounts through its Cayman branch was commenced. On 31 JUL 2008 CAMF initially flagged 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 customer transactional activity as follows:

**CAYMAN ACCOUNTS**

Customers were classified according to traffic lights considering their transactional activity as follows:

- **RED** - SSR status, blacklisted people and customer with one or more report to the authority (SARs)
- **AMBER** - Customers alerted by CAMF system without SARs
- **WHITE** - Customers who are not included in the two above categories.

Legal and Compliance areas have raised an opinion as follows:

**USD DDAs and DDAs located in Cayman**

The opening of USD DDAs and DDAs located in Cayman was suspended.
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 ENI, the account will be cancelled.
- Validation of prospective customers against blacklist.

- Cayman accounts can be opened only by customers with 6-month old MAIN Account.
- Individuals can open only one account in USD either in Cayman branch or in HSBN.
- 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
Steuerlese Consultant (HSB) Mexico, S.A.
Paseo de la Reforma 145, Piso 3, Col. Condesa, Mexico D.F., C.P. 06500

Phone: (5255) 5111 5042
Fax: (5255) 5111 5042
Email: maria.dal Chiến@hsbc.com
### Compliances FAQs, GCL 070449

#### Sanctions against Iran

<table>
<thead>
<tr>
<th>Q1</th>
<th>Does the GCL apply to Iran nationals residing outside of Iran, in respect of their bank accounts outside Iran?</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>No. Only in respect of payments made to Iran which should be in accordance with the GCL</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q2</th>
<th>Can we continue to have Iran residents as customers?</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Yes. We are not encouraging taking on new customers, however, as long as we are comfortable with the KYC and comply with GCL, in respect of payments in end 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.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q3</th>
<th>Where is a subsidiary of an Iranian Bank based and registered overseas (notable for CFT) would sanctions apply to that entity?</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Yes. The restrictions apply to all subsidiaries of Iranian Banks.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q4</th>
<th>Does the GCL apply to international Banks that have branches in Iran?</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Yes. It applies to all Banks operating outside Iran.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q5</th>
<th>If a non-trade customer wants to send or receive non-USD to or from Iran can they do so?</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>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.</td>
</tr>
</tbody>
</table>

There should be no trade transactions in accordance with the trade guidelines available on the GHQ CMP internet. Only trade transactions for which our customers has a license are under the control account as set out in the Compliance Guidance on the Group Compliance Internet will be permitted. Following 2000/05/15 all SWIFT BIC’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 Wire filters and will be investigated to ensure that the Relationship Managers are comfortable that they are not trade transactions for good that can be categorized as such use.

<table>
<thead>
<tr>
<th>Q6</th>
<th>Will we be closing the HSBC Iran representative office?</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>No. The representative office in Iran will continue to operate in order to maintain a line of communication with Bank Markazi (Iran’s Central Bank) and to support the Group’s existing business.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q7</th>
<th>What is the Trade Control Account?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The only exception to the prohibition of trade with Iran is for existing customers exporting food, medcines or goods for which a specific governmental licence has been issued. A control facility has been established in order to support this humanitarian trade through GTL. If a situation falls within this very limited exception the Relationship Manager should contact their Regional CMP and Regional FTS.

Q8 The GCL refers to all senior payments being used for all payments from Iranian banks until the ERE’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 MT103’s for bank to bank payments and provides good reasons for doing so (e.g. system constraints) we will consider these requests on merit. Such requests should be directed to the relevant FTS team. We have already had two requests from SBI and Parsian International Branch requesting dispensation for their business with HSBC UK Inc and these have been granted.

Q9 Does the GCL apply to paper transactions i.e. drafts and cheques issued from Iran?

A Absolutely, business must ensure 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, as 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 it is through the control account.

Q12 Can we continue to be part of local clearing systems some 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 072049 in our country could be discriminatory, what is the Group's position?

A Whilst we would never endorse a breach of a local law in general the GCL applies to branches entities in Iran and is not applied in local countries so the GCL may 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.

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8876014
Q14: Does the closures of accounts and SWIFT arrangements mentioned in QCL-870648 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
VerDate Nov 24 2008
09:24 Nov 27, 2012

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Iranian portfolio

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PEF has provided ,"clllti ••
to a number of Export

Credit Agency ("ECA "j
l3upponed loan to Iranian
Bank•

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• PEF has 10 Export Credit Agency ("ECAn) supported loans to various
Iranian banks; including Tejarat, Melli andi~B

• HSBC's lending equates to USD239 million of which USD9.8 million is
uncovered exposure.

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• Loans WL'fe medium terms and have between 7-9 years until maturity. Loans
all being repaid on time.

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PEF has also a gignifioont
portfolio of loan.
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• PEP has a very close relationship with the~IiiI _ _
of Iran (elB name) and has provided in excess of 20 loans to this
entity.

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• The facilities are supportl~d by each of the major EeAs, with the longest
maturities up to 10 years.

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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 HBEI) in loans provided by other international banks.
  - USD 1.53 million in total (USD 0.3 million of exposure)
  - USD and EUR.

- Bank Melliti:
  - 1 sub-participation in a loan provided by another international bank (through HSFR).
  - USD 7.7 million (USD 0.4 million of exposure)

- PEF has provided additional support through the Export-Import Bank of China and the Islamic Development Bank for loans to Iranian banks.
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 (UK) still retains a EUR denominated sub-participation in one of our loans.

- Bank Melli plc (UK) still retains a EUR denominated participation and an EUR denominated sub-participation in two loans provided by PEF.

No other issues with Saderat or Sepah to report.

Significant issues will arise if the US takes further action against Melli.
Loans to National Petrochemical Company

- PEF has arranged and booked in excess of 20 individual loans 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 provided 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.
The "structured financings" that HSBC has arranged operate in the following manner:

PEF London or Tinkaus (Germany) hold a series of escrow accounts in the name of

NPC - Structured financings
Iranian payments

The portfolio of loans given also to a number of payments that need to be made.

- Disbursements under the existing loan agreements:
  - PEF is required to make payments under the loan facility to the international contractors.
  - Funds transferred from HSBC to an international contractor.
  - Funds transferred from HSBC to a contractor.
  - Funds transferred from HSBC to a contractor.

Iranian payments

4. The administration of the escrow accounts that PEF London and Trinkaus hold for Iranian payments is as follows:

- Funds are paid into the accounts by international petrochemical oil majors (USD, EUR and JPY).
- PEF London and Trinkaus are required to transfer balances between different sub-accounts to offset balance of payments needs during the year. These are internal transfers.
- The escrows are debited twice a year to make repayments of debt service. Funds are transferred to the escrows to PEF London and Trinkaus' clearing accounts and payments are then made to designated banks.
- Any transfers to the clearing accounts are returned to our clearing banks and then cleared to our nominated banks.

In summary, PEF London and Trinkaus are acting as financial intermediaries in the administration of the escrow accounts.
From: Warren G. LEAMING
To: John
Subject: Fw: Desktop & L Jrwy ~ AML practices in HBCR

Hi 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's email and which has been deleted.

We can discuss when you have digested it.

Thanks,

Warren

--- Forwarded by Warren G. LEAMING "HSBC" on 2007.05.29 11:39 ---

Ramon GARCIAMENDEZ@HSBC 29/05/2007 15:54

To: Graham THOMSON@HSBC, Mark WILSON@HSBC, Warren LEAMING@HSBC, Kim GRIFFITH@HSBC, John THOMSON@HSBC, Warren LEAMING@HSBC, Kim GRIFFITH@HSBC, John THOMSON@HSBC, Warren LEAMING@HSBC
Cc: Graham THOMSON@HSBC, Mark WILSON@HSBC, Warren LEAMING@HSBC, Kim GRIFFITH@HSBC, John THOMSON@HSBC, Warren LEAMING@HSBC, Kim GRIFFITH@HSBC, John THOMSON@HSBC, Warren LEAMING@HSBC

Subject: Re: Desktop survey - AML practices in HBCR

Hi All,

Given the attached Desktop survey, the AML practices in HBCR.

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8876088
Graham T.

These issues have already approached by Compliance. We have elaborated on Action Plan

... for the implementation of Group standards in this region. The Plan was explained to
Aco 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 completed a review of 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 2008.

The relationship in the region with North Korea, Cuba and Myanmar is explained in this report.

I would strongly recommend to the CCO's 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 subjected to changes in developments in the
region to achieve total integration. As an example, CAMP Group MLC systems will not be in place during
2007 since HODAN system must be in place first. We are currently using Barco MQL system which is

MONITOR) this preliminary file contains some other details over MLD controls.

Regards,

Ramon

Graham THOMSON@HSBC

David

many thanks for the response and thanks for closing the gap on OFAC application to IRMs and ORMs. I
am surprised that this had not been picked up earlier by HSBC/PRR CMB.
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 6230

"Diarea, David" <dgracwa@hsbc.com>

"Diarea, David" <dgracwa@hsbc.com>

To: <dgracwa@hsbc.com>
Sub: Desktop survey - AML practices in HBCR

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 2007, one case was sent in April 07.

Point 12: the Cuban customers were already part of an investigation following enquiry from HSBC/HBPA. We identified 15 accounts but in all but 32 cases the customers were not naturalised according to our records and were not transacting business with prohibited countries. We believe it probable that the majority of the 32 cases fell 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 and the need never to raise any outward remittances has been subject to an OFAC analysis in the manner required i.e. even the monthly process which is not linked to 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

Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8876090
Paris Duncan, David
Asesoría: elltrada para Gisberta Tremmies
Don David: Adyante el documento con las observaciones señaladas, saludos
<<Gisberta Thomsen, dome>> (attachment "Gisberta Thomsen.doc" deleted by Ramon GARCIA ANBAV HSBC)

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8876091
INFORMATION REQUESTED IN CONNECTION WITH: (NORTH KOREA, CUBA, AND MYANMAR)

1. Description of the past and current business activities, contributions to overthrow 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.

HSBC - Mexico

We were notified that there are relationships with Cuban and North Korea customers. HSBC requested the cancellation of these accounts, and followed up with the person with whom accounts were deemed to be by HSBC's own analysis. As of today, the business activity has been frozen. In order to comply with the letter of December 11, 2012, HSBC has requested the information with reference to the request of USD 92,585. Please note that the request is determined in USD.

Please find below an updated list of relationships with Cuban and North Korean citizens:

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Customer Type</th>
<th>Accounts</th>
<th>Cash</th>
<th>Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Korea</td>
<td>MXP</td>
<td>108</td>
<td>174</td>
<td>3,198,005.25</td>
</tr>
<tr>
<td></td>
<td>Both MXP and USD</td>
<td>7</td>
<td>24</td>
<td>3,174,908.17</td>
</tr>
<tr>
<td></td>
<td>USD</td>
<td>9</td>
<td>9</td>
<td>46,072.23</td>
</tr>
<tr>
<td>Cuba</td>
<td>MXP</td>
<td>1264</td>
<td>1944</td>
<td>30,624,799.34</td>
</tr>
<tr>
<td></td>
<td>Both MXP and USD</td>
<td>104</td>
<td>194</td>
<td>30,606,014.29</td>
</tr>
<tr>
<td></td>
<td>USD</td>
<td>13</td>
<td>23</td>
<td>346,219.07</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1,476</td>
<td>2,044</td>
<td>13,334,808.46</td>
</tr>
</tbody>
</table>

Note: the above figures have been used to business cards so that they will verify the authenticity of the above relationships, and as to confirm their reliability even when we have detected but some of them have been instructed in Mexican citizens.

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8876093
HSBC - Panama
HSBC Bank Panama S.A. does not have relationships with customers of the aforementioned institution.

Business Panama has the following relationships with Cuban nationals who reside in Panama:

- Deposit Account with balance of USD 482K.
- Credit Card with balance of USD 31K.
- Mortgage in the amount of USD 144K.

The accounts of Cuban nationals are expected to be cancelled on 30/09/12.

Credit Cards of Business Panama that are authorized to process transactions in Cuba are expected to be cancelled on 30/09/12.

ESPE - Peru
HSBC does not have any relationships either with the choice jurisdiction, banks or government.

HSBQ - Queretaro

There is one relationship with, but it does not have assets with the bank. (They neither make deposits in Cuba nor receive maintenance. Their deposits are denominated in local currency). There is an account denominated at local currency with a balance of USD 15K.

HSBN - Honduras

There is one business relationship with. They maintain a savings account denominated in USD that was opened on 24-Dec-01 with a balance of USD 155K in the amount of HSBC. The accounts owned by these are cash accounts, cash withdrawals that are exchanged into local currency for USD 5K.

In addition, there is not commercial relationship with 44 Cuban nationals with the following balances:
- Accounts denominated in USD, USD 2015.
- Accounts denominated in local Currency (Lempiras) USD 30K.

HSBC - Costa Rica

There is one commercial relationship with 22 Cuban nationals who have different savings and check accounts denominated in USD with balances of USD 4K and credit card with balances in the amount of USD 35K.

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.
HSBC - El Salvador

There is one relationship with a Cuban national (A savings account domiciled in local currency - USD with a balance of $1,623.12.)

HSBC - Venezuela

Nicaragua does not deserve has not normal relations with Cuba, North Korea or Myanmar national's entities.

Subsahar

(Deleted report that it does not have any relationships with Cuban nationals)

II. Any new developments or future anticipated business activities related to, or connected with, the companies listed.

For the other region, all necessary arrangements have been made to cancel all business relations with the above jurisdictions, either to relations to accounts domiciled in USD or commercial relationships with such jurisdictions. There are no new business relations 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 connected to these governments, and the sums made by these parties of funds received in the relevant transactions.

For the entire region, normal relationships maintained with such jurisdictions are with the companies, as shown in section 1 below.

IV. Quantification for each of 2003, 2004, 2005 and 2006 e.t.

(a) revenues from the country;
(b) profitability of the country (please provide any significant estimate used in determining costs); and
(c) total assets in the country.

No available information.

V. Details as to whether the activities identified are subject to export control.

For the entire region, confidentiality restrictions are applicable and information may not be provided unless it is requested by the regulator.

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HSBC OCC 8876095
BRANCH AUDIT REPORT
HSBC
SPECIAL REVIEW OF RESTORATION PROJECT
GROUP INTERNAL AUDIT
NOVEMBER 2008

REPORT No: GAQ 980807

This report is for the exclusive use and knowledge of the Management, Audit and Compliance Committees, as well as within the HSBC Group, and shall not be used by any other person to this not specifically mentioned.

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8876417
1. EXECUTIVE SUMMARY

1.1 Context

The auditors have assessed the high risk grade of the Restoration Project Phase I as Amber. Appendix 3 outlines the assessment of each of the 7 sub-projects selected for review, as well as overall project management.

Despite it is acknowledged the Restoration (Restoration) project started from the need to urgently address concerns raised by local authorities regarding 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.
- While the systemic system to identify customers engaged in high risk types of business is important, CDF should conduct periodic reviews of the accounts database to confirm all customers under such category have 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 program made in phase I for 76% of customers with cash deposits above USD 10k was found to be flawed, where these two concepts resulted in integration percentages of 34% and 22% within a period of 6 months despite account cancellation actions had been taken.
- The impact of account cancellation on the business, customers and costs should be analysed against the risk that have been mitigated and accepted, or this will allow having adverse balance between reduced 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 III 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 project.
project, to discuss the work, 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 HSBCX Compliance, Controls & Distribution, Operations and OPECO for their assistance and cooperation during the course of the audit.

1.4 Scope

In addition to the following circumstances were the background of this project:

- Growing pressure from Mexican regulators re KYC issues.
- Failure in previous MLDD and Compliance issues in HSBCX.
- Existence of documented KYC processes.
- The regulatory requirement to remediate 2 million of cumulative files.
- The control and accuracy of customer files held with more than 1,300 branches, i.e., those were not centralized, which impacted ensuring adequate files integration and quality.
- Failure to reconcile new accounts input to the system vs. accounts with a file integrated at the branch.
- Identification/monitoring of PEPs and high risk customers.
- No follow-up was given in the integration of old account files.
- Poor levels of integration of new accounts based on internal Audit reviews.
- There was no reliable management information that showed the actual position of files integration.
- There was no identification, monitoring or categorization of high risk customers, including customers who make high volume transactions.

In light of the above, efforts were mainly centered on ensuring the credibility before the authorities, from there the Restoration project was divided into 10 sub-projects:

<table>
<thead>
<tr>
<th>Sub-project</th>
<th>Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Source recording</td>
<td>Assess strengths of existing, fresh and vital to patch the processes highlighted by the regulation.</td>
</tr>
<tr>
<td>2. Definition &amp; Listing of high risk customer files</td>
<td>Declare a scenario in bank, keep up to date, and monitor high risk customers to ensure regulatory compliance.</td>
</tr>
</tbody>
</table>

This report is for the exclusive use and knowledge of the Management, Audit and Compliance Committees, as well as within the HSBC Group, and shall not be used by any other person in any manner whatsoever.

Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8876420
## 3 Stage

The scope of audit fieldwork considered 7 out of 10 sub-projects, and their performance indicators, and estimated, internally, a review of:

a) Project management:
   - Roles and responsibilities
   - Budget
   - Processes
   - Ongoing milestones

b) Processes ongoing:
   - Files digitization
   - First-accounts
   - Databases
   - Systems supporting the identification of SCC's

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.

This report is for the exclusive use and knowledge of the Management, Audit and Compliance Committees, as well as within the HSBC Group, and shall not be used by any other person to the case specifically mentioned.

---

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The objectives of the audit were to assess and report on:

1. The processes and controls used to manage and implement the restoration project and related sub-projects.
2. The processes in place ensuring internal controls and those established with the CMFV, and their effectiveness in preventing regulatory breaches.

The following areas have responsibility for clearing the report, and were included in the distribution list:

- Direction of Operations and Administration
- Direction of Channels and Distribution
- Executive Direction of Compliance
- Executive Direction of Internal Control and Compliance within Channels and Distribution

1.6 Summary of Key Risk Matters

Key high risk matters identified during the audit are summarised below:

- The roles and responsibilities, and activities, of those involved in the sub-projects should be clearly defined to prevent gaps, work in silos, or over-projecting.
- For Phase II of the project, resource capabilities should be analysed based on the scope and objective of the project to avoid delays and ensure the successful and timely implementation of the project.
- For Phase II of the project, there should be clear definition criteria in place to select and identify the customers/transactions to be reviewed from the database, as well as ensure reconciliation processes to ensure their reliability.
- While the identification/selection of high risk customer/activities is automated, the database should be regularly reviewed to confirm all high risk customers had been categorized in the system.

Robust validation procedures should be applied to ensure customers reported to the authorities have been identified and categorized in the system as high risk customers.

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8876423
### GHOSH ABDUN MISIR

#### AUDIT REPORT SUMMARY SCHEDULE

<table>
<thead>
<tr>
<th>Name of Audit</th>
<th>GHOSH - SPECIAL REVIEW OF THE RESTATEMENT PROJECT</th>
<th>Region USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business or Customer Group</td>
<td>Compliance</td>
<td>HSA/NA</td>
</tr>
<tr>
<td>Name of Audit</td>
<td>Compliance</td>
<td>Central Risk</td>
</tr>
<tr>
<td>Name of Audit</td>
<td>Compliance</td>
<td>Central Risk</td>
</tr>
<tr>
<td>Name of Audit</td>
<td>Compliance</td>
<td>Central Risk</td>
</tr>
<tr>
<td>Name of Audit</td>
<td>Compliance</td>
<td>Central Risk</td>
</tr>
</tbody>
</table>

#### Nature of Business

The “Recovery Act” (commonly known as the “Plunge Protection Act”) project was designed to address certain concerns raised by local regulatory authorities relating to HSBC’s AML and anti-money laundering (AML) processes. The project was expected to provide an opportunity to review and update certain AML controls, with a focus on improving risk assessments.

#### Conduct of Audit

The author visited the company’s offices and conducted interviews with key personnel. The objectives of the audit were to:

- Assess the effectiveness of the company’s AML program in identified areas.
- Identify areas for improvement and make recommendations for enhancement.
- Analyze the company’s compliance with relevant regulatory requirements.

#### Response from Management

Management was responsive to the findings and recommendations made during the audit. The company is expected to implement the recommendations to improve its AML program and ensure compliance with applicable regulations.
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 correspondent to effect the payments. It is believed that some service providers assist the payment to remain as is not mentioned in the body of the payment instructions to their USD correspondent. This process minimizes the risk of payments being referred to OFAC.

International Banking and P&CM 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) will have to enter the full name, address and account number of the ordering party 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 prioritized 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 in denominations outside the USA using the "U-Turn" process documented within the OFAC regulations for 2002. 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 making 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 London
branches/companies and Group office has been increasing off the time. The Group now
has an excellent relationship with all Iranian banks and some very large Iranian
companies such as NIOC.

About 30% of Iran's foreign trade, equating USD125 billion, is denominated in USD.
It underlines 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
informing potential Iranian businesses to Group offices. This has allowed HSBC to
establish 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 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 capability
for HSBC in the market. This objective has been achieved and the Group is well
glued to develop its operations from a position of considerable growth. 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 Q3 2003 and will force banks
within the FATF countries, to disclose all details of the ordering and beneficiary
parties, effectively ending the previous commonly undertaken for Iranian payments. The
Iranian banks have yet to hear from their existing providers, namely Lloyds Bank and
Standard Chmercral Bank, and we believe there is currently a window of opportunity.

However, during the past two years, HSBU and HSBU have been in discussions
about how we can process these transactions, identifying the operational processes
and compliance issues involved. After meeting with OFAC and external counsel,
HSBU has produced a payments process that will be agreed by HSBU, subject to
discussion in this paper, in order to identify their operational, compliance and IT issues
before providing details with a service proposal.

HSBU / HSBU have identified that by using the 'U-Turn' payment method, Iranian
banks can offer remittances to beneficiary accounts outside the USA. This method
will allow HSBU to send HSBU payments originating with Iranian entities quoted on
the instructions and yet at the same time be compliant with FATF and OFAC
guidelines. The proposed service package will provide a suitable framework to
ensure HSBU is not held liable for any payments which have not met the 'U-Turn'
criteria and as a result been referred to OFAC.

Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8876491
Benefits

- Payment volumes are estimated at 300 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 USD40. We believe that charges being levied by other banks in the moment are far higher than this.
- Balance income in HSBC.
- Reputation within Iran and the potential to leverage additional business.

Risks If Approval Declined

- If HSBC declines to process these transactions, data consideration will need to be given to closing all existing foreign bank USD accounts with the HSBC Group.
- Should the above occur the current Group annual income of USD40M 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 HSBC but strongly believe that by working together we can overcome these issues 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 BMC at the earliest opportunity and advise me of the decisions as soon as possible.
Appendix 1

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 USD500M is utilised. HSBC now has a number of facilities outstanding with two projects, one for USD415M for which one for USD51M out of Iran is utilised by HSBC through structured financing outside the above line. The latter, for USD415M is already finalised and the other one is near completion. The provisions for this are being reduced to 5% as of 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 USD700M.

2. Short Term Trade Refinancing Agreement - HBME Dubai USD50M, DACO USD50M. These lines are denominated in USD and require the USD loans to be booked at HBME Dubai.

3. Wheat Finance lines with HSBC Australia USD50M and HSBC Canada USD500M.

4. L/C’s issued for Iranian Customers Ahmad - 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 HSBC’s acceptance of these L/C’s and in line with HSBC Bank Middle East now offering Iran’s all export related L/C’s. Turnover for this business is about USD500M per year.

5. USD Clearing Accounts. HSBC Bank plc has a number of existing USD accounts for Iranian banks, which are used for payment 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 GBP70m in 2002. HBME Dubai and HSBC Markets operate active foreign exchange and money market lines with the Central Bank of Iran and Iranian banks.

   - HSBC is actively pursuing an Asset Management mandate with the Central Bank which will require USD payments to be paid and received.
   - HSBC 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 USD4bn with option to be issued in similar form. HSBC has a very good chance of being assigned to lead managing part of the conventional issue and a good chance of being nominated for the Islamic issue. Both request USD payments to be paid and received.
   - 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
Cc: John AlLISON
Subject: OFAC

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 HIBEU or 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 any reason 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 released.

Regards
David

Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8876504
To: DaviW
From: Martin
Subject: OFAC

While at a meeting yesterday, I was told that HSBC continues to send transfers to the US with names 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
From: Jeremy R WALKER
To: Gary BOON
Cc: John F RCXJT
Subject: Memo: Re: NON COMPLAINT TRANSACTIONS

Importance: Normal
Attachments: Iran examples.doc; OFAC_Iranian_Consideration_Spare_O-10.xls

Gary,

Since the CCL and myself have not declined any payments for being in breach of the US sanctions, this is because the underlying transaction has been questioned before payment was made and deemed to be non-compliant. I have asked to disclose details with these local decisions so as to avoid us at HSBC being involved in any future non-compliant transactions.

I have attached some examples of non-compliant payments that we have declined in the past here in RMB which may be useful to you.

Regards,

Jeremy

---

John F ROOT@HSBC on 25 Aug 2005 09:03

Memo

25 Aug 2005 09:03

From: John F ROOT@HSBC

To: Rod MOXLEY@HSBC

Subject: NON COMPLAINT TRANSACTIONS

Rod,

Would you please be able to provide Gary with a few examples?

Thank you,

Regards,
From: Gary BOON/HBMEJHSBC on 25 Aug 2005 06:40
To: John F ROOTIHGHQHSBC@HSBC
Cc: 
Subject: NON COMPLIANT TRANSACTIONS

John, in David's note to David Heightsine dated 19th August one of the points referred to was non compliant payments in trade transactions (I am pleased to hear you have specific examples that you could send for our education library).

Thanks,
Gary

I note that it is your view that a significant number of the trade and other transactions on the 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 and I have looked at does in our view fall outside of HBME compliance. It is clearly important that in between payment and trade we continue to agree on a single interpretation and it may be that further clarification of a number of the transactions you list is necessary before a final decision is made.

I see however, you note that the single transactions sent for review by HBME were confirmed as U-turn compliant. We have also noted PEP's existing payment flows.

<<_>>

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8876581
From: Marion O ROACH
Date: Wed Jul 06 17:04:43 2005
To: Richard E  BRINNERT
Subject: Visit to HMX - 16 - 25 MAY 2005

Richard

I have mailed you with the headline points just in case family reads you.
There are a lot of detailed points here. after we have the right concept and talk
of resources I cannot see you, know how can make progress.

Regards

David Bagley

--- Forwarded by David W J BAGLEY/MBX/HSBC on 06 Jul 2005 15:33 ---
John F ROOT/MX/HSBC on 06 Jul 2005 15:43

Memo
06 Jul 2005 15:43

From: John F ROOT/MX/HSBC: Tel: 799 1553
To: David Leigh MX/HSBC@HSBC
cc: David W J BAGLEY/MX/HSBC@HSBC
Sue A WRIGHT/MX/HSBC@HSBC

Subject: Visit to HMX - 16 - 25 MAY 2005

David,

I have, in separate e-mail, sent you my visit report. There is a wealth of
detail, so a close analysis of the memos reveals both where progress has
been made and where we should focus our efforts.

The four major recommendations of the report are all Win-win. Because of
the sensitivities involved, they are presented separately in this cover
memo. The recommendations are as follows:

---

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The HSBC MLCO should be appointed as soon as possible in order to recognize presently a demoralized department and improve AML, which by, e.g., overseeing the implementation of CAMP Retail. I make this as we have reassessed our internal processes for this task to be completed as quickly as possible. The correct candidate we have identified is, in my view, acceptable if an equivalent internal candidate cannot be found. I would recommend an early exit for the current. The acting MLCO is, in my opinion, someone whose talents might be best employed in another department. As we have both discussed, we need an independent, effective professional in the sensitive role of Head of AML in Mexico.

The various CLO, should per the LUM, be evaluated timely on an ongoing 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 MD CMO. Projects are started but seldom completed, perhaps because of the many substantial tasks that have worked against the department of the HSBC 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 sole that can be combined with role of MLCO, or the bulk of the required implementation in AML.

Inter-departmental coordination and cooperation could be improved. There are a few examples that will suffice to show where progress could be made. First, the Legal, Compliance, and HR departments should jointly deliver their respective responsibilities in large-scale projects such as the acquisition of the HSBC. Second, HR and Compliance should consider precisely who should do what in helping staff throughout the HSBC group. Third, AML and OPSCO should coordinate closely the further distribution throughout Mexico in transmission units by Group. Here again, responsibilities should be defined.

As you of course know, the work has picked up in the Compliance department, and Human needs help with the backlog. It is true that we have increased staff in the department, but they are mainly entry-level analysts in effect of directions. It is important that we have an MLCO as quickly as possible, and perhaps also a role of “operating officer” for AML to enable him to bring the department up to Group standards. If you agree, it might be possible to establish 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 or copy anyone at HSBC you think is appropriate.

Kind regards,

John Rest
General Audit Report

HBMX – PFS Torreon District (Z04 C01)

Group Audit Mexico
August 2005

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8876677
1. EXECUTIVE SUMMARY

1.1 Background

HBMX District Office Torreon (Z04COI) is located in Torreon, State of Coahuila, Mexico. It controls 22 PFS branches and the District has a headcount of 22 managers, 24 relationship managers, 4 PFS relationship managers (Banco Patrimonial) and 165ellers. Torreon is one of 4 District Offices that report to Direction Z04C, in the Northeast region of the country.

Key performance statistics of the District for March 2005 were:

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>14,021</td>
</tr>
<tr>
<td>Operative Losses</td>
<td>763</td>
</tr>
<tr>
<td>Net Income</td>
<td>10,258</td>
</tr>
<tr>
<td>Net Operating Profit</td>
<td>7,445</td>
</tr>
<tr>
<td>Net Profit Before Tax</td>
<td>11%</td>
</tr>
<tr>
<td>Total Staff (#)</td>
<td>17%</td>
</tr>
<tr>
<td>Net Contribution per Employee</td>
<td>85,441</td>
</tr>
<tr>
<td>Current, Deposit and Investment Accounts</td>
<td>1,290,607</td>
</tr>
<tr>
<td>Average Balance per Account</td>
<td>15</td>
</tr>
<tr>
<td>Number of Customer Accounts (#)</td>
<td>543,900</td>
</tr>
<tr>
<td>Percentage Overdue</td>
<td>1,284</td>
</tr>
<tr>
<td>Customer Credit Receivable</td>
<td>3.3%</td>
</tr>
<tr>
<td>Overdue Receivables</td>
<td>12,284</td>
</tr>
<tr>
<td>Average Overdue</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

The IT systems used within the PFS Network are SICODI (Bank's general ledger system), CT and PSSW (Transactions), HOGAN (Customer account information), and Kroner (loan).

The audit was conducted by Ivan Torres, Arden Torres and Rodolfo Rodriguez of Group Audit Mexico from 04 through 08APR05. 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.

1.1.1 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 fraud, failure in internal control or breaches in authority;
- the reliability and integrity of financial and other operating matters;

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8876678
General Audit Report
HSBC - PTT Terreno District (DoCoMo)
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, consisted, inter alia, of 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 GAO's key performance indicators, 5 of the District's 22 branches were selected for detailed review and examination: these were Cómaco Palacio (230), La Rosita (389), Ciudad Industrial (408), Hipermart Orient (409) and Colón (510).

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 maximize 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 temporary 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 failures 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 FED05 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.
The auditors considered the following recommendations were compliance related issues:

<table>
<thead>
<tr>
<th>Report Ref</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.2</td>
<td>Branch staff should ensure that KVC and account opening documentation is complete and in compliance with regulations.</td>
</tr>
<tr>
<td>4.4</td>
<td>Branch staff involved in selling investment products should be AMIB qualified.</td>
</tr>
</tbody>
</table>
From: Emma E V Lawson
Sent: Oct 18, 2006 23:39
To: John F Root
Subject: Fw: Compliance with GPP 25

John,

Good news from Mexico! It appears we will be adopting GPP25 and giving
transmitters to clients after new SARs rather than the current line.
I will ensure to ensure I receive the results of the next meeting of the MLD
Committee.

Kind regards,
Emma

----- Forwarded by Emma E V Lawson on 18/10/2006 10:20 -----
P.D.

Para favor responder a Emma. Tenemos que tener presente la GPP25 en este tema.

Saludos,

Ramón García Gilman
Dirección Operativa de Compliance
HSBC México SA
Paseo de la Reforma 347 Oficinas 5
Col. Condesa
93390 México DF
(Tel) 55 91 21 37 75
Fax (55) 55 91 21 37 75

Enviado por Ramón GARCIA@HSBC en 17/10/2006 08:23 a.m.

Enviado por Ramón GARCIA@HSBC en 17/10/2006 08:23 a.m.

Ramos

This is something we discussed in the committee.

If the MLD Committee has adopted a procedure of considering closures after the

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8876712
Forwarded by Emma E. Lawson, HSBC on 17/10/2006 09:34

John F. Wood, HSBC
26th July 2006 18:46
Phone No. 7992 5555
+0044 (20) 7992 5555
Mail Size: 2510

To: Ramon Garcia, HSBC
cc: David W. Bagley, HSBC
Laura Yezo, HSBC
Susan A. Wragg, HSBC
Subject: Re: 2Q06 HSBC Compliance Report
Entity: HSBC Holdings plc - HQ

Ramon,

One comment: 4 SARS seem overly enthusiastic, even by local standards. As
any new, it is against Group policy, as Susan points out, so you will need
to seek an official dispensation.

Thank you.

Regards,

John Root

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8876713
From: David W J Bagley
Sent: Mon Oct 14 14:34:43 2006
To: John F Root
Subject: Fw: HBMX BIS AND U AUDIT REPORT SUMMARY FOR SEP06
Importance: Normal

John,

For your information.

Regards,

David W J Bagley (HQHSBC)

--- Forwarded by David W J Bagley (HQHSBC) to John F Root on 09/10/2006 14:39 ---

Matthew J W KIng/GM (NA GRHQ/HQ HSBC
GOM (NA GEORGIO)
Sent by: Liz A Tester
dt/09/06 07:31
Phone No. 791 21176
Fax No. 791 21176
Mail Box: 214759

To: David W J Bagley (HQHSBC)

Subject: Re: HBMX BIS AND U AUDIT REPORT SUMMARY FOR SEP06

For your information.

Matthew King

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8876715
GROUP AUDIT MEXICO
AUDIT REPORT SUMMARY SCHEDULE
GRG REPORTABLE AUDITS

<table>
<thead>
<tr>
<th>Name of Audit</th>
<th>PFS Subcategory</th>
<th>PFS CIC Points</th>
<th>Report to Media</th>
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<tr>
<td>Customer Group</td>
<td>PFS Audit Committee</td>
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Date | Follow-up | Overall Risk|
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<tbody>
<tr>
<td>Last Audit</td>
<td>PFS Reportable</td>
<td>Medium</td>
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</table>

Nature of Business
The PFS Retail US C1 Eastern Office manages a network of 17 branches that provides a range of products, including current deposit and investment accounts, saving and personal accounts, mortgage, car and personal loans, PYNQ, insurance and credit cards, and other services.

Conclusions of Audit
The factors that contributed to the assigned risk were among others:
- KVC issues and file integrity failed to comply with Group policies.
- Weaknesses and ineffectiveness in input of customer information to PFSW and CSE systems were noted.
- User IDs were found to be shared among staff.

Six report recommendations were identified from previous audits.

Response from Management
The final response to the audit is due on 18 OCT99.

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8876717
GROUP AUDIT MEXICO
AUDIT REPORT SUMMARY SCHEDULE
GEO REPORTABLE AUDITS

<table>
<thead>
<tr>
<th>Name of Audit</th>
<th>Business or Customer Group</th>
<th>PFS Subdirectory</th>
<th>PGS</th>
<th>Audit</th>
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The PFS Subdirectory PGS report summarizes a network of 17 branches that provides a range of products: personal, savings, and mortgage accounts, deposit and withdraw services, mortgage, car and personal loans, credit cards, and check cashing services.

Conclusion of Audit

The factors that contributed to the assigned risk were:
- KYC files failed to comply with Group policies.
- Branch staff lacked knowledge of procedures to identify Special Customers.
- Weaknesses in cash management operations and dual control over money transactions.
- Five repeat recommendations were identified from previous audits.

Response from Management

The first response to the audit is due on 18 OCT06.
# Audit Report Summary Schedule

**GROUP AUDIT MEXICO**

**AUDIT REPORT SUMMARY SCHEDULE**

**GROUP REPORTABLE AUDITS**

<table>
<thead>
<tr>
<th>Name of Audit</th>
<th>PFS Sub分行280 A20 Months</th>
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<tr>
<td>Last Audit</td>
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<td>Medium</td>
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</table>

**Nature of Business**
The PFS Mexico 280 A20 branch office manages a network of 19 branches and 1 model that provides a range of products, including deposits and investment accounts, saving and payroll accounts, mortgages, car and personal loans, PYMES insurance, and credit cards and other services.

**Conclusion of Audit**
The factors that contributed to the audit findings were among the following:
- KYC issues and file integrity failed to comply with Group policies.
- Watchlists in the cash management operations and dual control over inventory displayed in many branch issues.
- Credit file integrity failed to comply with Group policies.

**SIC expert recommendations were identified from previous audits.**

**Response from Management**
The first response to the audit is due at OCT05.

---

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8876719
GROUP AUDIT MEXICO
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GROUP REPORTABLE AUDITS

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<td>Nature of Business</td>
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</table>

The PFS Cd. Junior 311 BIG Diagram Office manages a network of 31 branches and 1 Custom Modules that provides a range of products (customer deposit and investment accounts, saving and secured accounts, insurance, wealth management, credit cards, and other services). The Customer Module includes the assessment of Group risks.

Conclusion of Audit:
The factors that contributed to the assigned risk were among others:

- KYC issues and the integrity noted to comply with Group policies.
- Weaknesses in input of customer information to PIMM and CSIs systems were noted.
- Weaknesses in voucher operations, removal control and supervision at Customer Module were identified.
- Weaknesses in the cash management operations and fraud control over money deposited in treasury tick issues.

SIX report recommendations were identified from previous audits.

Response from Management:
The first response to the audit is due on 8/31/12.

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8876720
From: Paul PROCTOR
Sent: Thu Oct 23 09:12:46 2003
To: John F ROOT
Subject: Re: OFAC sanctions evasion - Iranian payments

John,

Correspondence with Clarke/Pollard of Bank plc Compliance,

Paul

--- Forwarded by Paul PROCTOR/HBESBC on 23 Oct 2003 09:12 ---

To: Julie A CLARKE et al
Cc: Rod MOXLEY/HBESBC
Chris POLLARD/HBESBC
John R WILKINSON/HBESBC
Brian W CHARLES/HBESBC

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:

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.AHSBC OCC 8876818
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.

Paul

Julie A CLARKE/IBEU/HSBC on 04 Sep 2003 12:43

Memo

From: Julie A CLARKE/IBEU/HSBC
Tel: 708 25487
44 20 7992 5547
Mail#Size: 3999

Paul PROCTOR et al

To: Paul PROCTOR+IBEU#HSBC
cc: Rod MOXLEY+IBEU#HSBC
Chris J POLLARD+IBEU#HSBC

Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.AHSBC OCC 8876819
Subject: OFAC sanctions evasion - Iranian payments

Paul,

I presume (and hope) you are aware of the. Below is Rod’s response to the original query attached.

It appears that John Wilkinson has been allowed to continue 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 liaise 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 12:27 ---

Memo

From: Rod MOXLEY/HBEU/HSBC
Tel: 790 44479
44 20 7260 4479
Abi line: 9521

To: Julie A CLARKE

Cc: Julie A CLARKE/HBEU/HSBC

Subject: Project Wolf

Julie,
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

From: Rod MOXLEY/HBEU/HSBC
To: Pat N CONROY/HBEU/HSBC
cc: John ALLISON/HGHOIHSBC
Jim F EBOON/HBEU/HSBC
Malcolm G EASTWOOD/MDB'HJSBC

Subject: Project Wolf

Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.AHSBC OCC 8876821
I have been advised by John Taylor, Senior Manager GAE, 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. Ranald) I will reiterate our stance:

1. 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.

2. 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

Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A HSBC OCC 8876822
Hello Rod,

You will see from all the attached emails 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/H8EU/HSBC on 03 Sep 2003 09:20 ---

Julie

This information came to me from an ex-OA auditor (HSBC) now working in the payments area, who showed me a printout of how payments affected by OFAC were 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 OFAC payments and I have no examples.

Sorry I can't be more specific.

-----Original Message-----
From: Julie.A.CLARKE@mhhbl.com (mailto:Julie.A.CLARKE@mhhbl.com)
Sent: 02 September 2003 17:28
To: ~
Subject: OFAC sanctions

The attached note from Matthew King has found its way to me, via several others!

In order to follow up this issue, I need more detail, eg are you referring to payments made through HSBC via CIB as correspondent? Are we talking about bank-to-bank payments here?

Additionally any examples of previous cases may help.

Thanks,
Julie

Memo
29 Aug 2003 12:43

From: Matthew J W KING/GGM ING HQ/HQ/HSBC
Tel: 7991 0276
44 2079 91272
Mail Size: 1500

Sent by: Liz A TESTER
To: David J J BAGLEY/HQ/HSBC
cc: lain STEWART/IBEU/HSBC
Chris HAWKES/HD GAE EU/HSBC

Subject: OFAC

While at a meeting yesterday, I was told by [REDACTED] that HSBC continues to send remittances in the US with ' selves' 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?
To: ALAN T KETLEY
From: HSBC
Date: 11/29/05

Cc: DENISE A REILLY
SUbject: Cover payment processed to Credit Suisse re "Bank Melli" - USD 100,000

FYI - this is the payment I mentioned earlier in the meeting.
I also spoke with your office. If there are any questions, the OFAC Compliance team can support you further, as it relates to the Mid-East summit.
If I believe that Monica and Camille were trying to pull some numbers of the entity types linked per program, let me see if they have specifics to share with you.

--- Forwarded by Grace C Santiago-Darvish on 11/29/05 01:25 PM ---

To: Elizabeth Plotot, John Alonso, John Root, Grace C Santiago-Darvish, Nancy Hedges, Andrew P. Doyle, Teresa Pense, Donald W. McPherson, Jeremy R. Wauher, Malcolm E. Eastwood, HSBC
Subject: Cover payment processed to Credit Suisse re "Bank Melli" - USD 100,000

Elizabeth,

Thanks for your email.

The revised procedures established within HSBC regarding OFAC affected payments necessitate instead payments to be made to a dedicated Centre of Excellence in HAMe 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 HSBC can assert is when it hits the "Wolf queue". It should be understood that at this stage accounting entries will have been generated and the cover MT202 will have automatically been generated by the HAMe Payments system.

The attached transaction for Melli 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 banker/cover payments and HAMe will adjust its routing table for these payments - I believe this is a step in the right direction but involves a huge amount of work and may also have other customer implications.

2. When HSBC identifies the payment in Wolf, we can reverse the accounting entries, recall the cover payment and then re-route via HAMe Dubai who will re-acknowledge the payment and pay as a "final" payment. This has been done on occasions but

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.HSBC OCC 8876884
it irritates the customer, concerns 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. Obviously, if it does not meet the provisions, the cover will be recalled.

At the present time, we see 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 Melli transaction, so that you are in possession of all the facts as to how various issues have arisen:

The original payment was an STP item received from Rio Tinto Minerals (Novartis) as the intermediary bank in field 56 and this created STP.

The 103 to Credit 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 to Credit Suisse would have instructed HBUS to pay Credit Suisse Zurich and informed them the credit related to our direct 103. In this way Credit Suisse were able to apply the funds to MEULIRATHA96. I can find no trace of Bank Melli being within our payments so this must be internal routing from Credit Suisse's end to apply funds to MEULIRATHA96.

The funds could not be applied by Hoffmann 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.

Hoffmann should not have contacted HBUS direct but followed SWIFT protocol and sent their request for further info via Credit Suisse. HBUS requested we advise Hoffmann directly of the further information. EPS have investigated this request and HBUS have provided HBUS with Iranian information.

Regards

Robert

Elizabeth Protoanastro/HBUS/HSBC on 23 Nov 2005 20:07

Note

23 Nov 2005 20:07

From: Elizabeth Protoanastro/HBUS/HSBC

Tel: 212-525-4692

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.AHSBC OCC 8876895
John F Root\HSBC@HSBC
Grace C Santiago-Darvish\HSBC@HSBC
Nancy Hedjes\HSBC@HSBC
Andrew P Drake\HSBC@HSBC
John Malo\HSBC@HSBC
Teresa Pesce\HSBC@HSBC
Anne Uddy\HSBC@HSBC
Donald W McPherson\HSBC@HSBC

Subject: For: Cover payment processed to Credit Suisse in "Bank Melli" - USD 100,000

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\HSBC on 11/21/2005 03:05 PM ---
Elizabeth Protomastro on 23 Nov 2005 15:04
Note: 23 Nov 2005 15:04

From: Elizabeth Protomastro Tel: 212-525-4682
Title: Vice President Location: 402 5th Ave. Floor 07
WorkGroup: COMPANY\MONEY LAUNDERING
Mail Size: 106228

To: Rod MOXLEY\HSBC@HSBC
Teresa Pesce\HSBC@HSBC
Claudia McPherson\HSBC@HSBC

cc: John F Root\HSBC@HSBC
Grace C Santiago-Darvish\HSBC@HSBC
Nancy Hedjes\HSBC@HSBC
Andrew P Drake\HSBC@HSBC
John Malo\HSBC@HSBC
Teresa Pesce\HSBC@HSBC
Anne Uddy\HSBC@HSBC
Donald W McPherson\HSBC@HSBC

Subject: Cover payment processed to Credit Suisse in "Bank Melli" - 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 HSUS on 17-Nov-2005. It was processed as a "straight through" payment as it contains no reference to Iran and no would not be stopped by the filter. Copy is also attached.

17-Nov-2005

Debit: HSBC Bank PLC London Clearing
Credit: Credit Suisse, Zurich

Bank to bank info: Shf Cover Our direct TT Ref: -------

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A HSBC OCC 8876886
On 21 Nov 2005, we received a SWIFT from PLC stating that it had "unidentified the remitter" and they advised "correct SWIFT address should be MemRT94". As you well see from the attached SWIFT message, this message instructed us that HBUS was now to pay Bank Mell. 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 by Credit Suisse on 17 Nov 2005. There is some more background correspondence on this payment, detailed below.

On 18 Nov 2005, HBUS received a SWIFT from Bank Hoffmann, with a "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 instructions processed by HBUR.) 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 transmission 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 that 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 in this cover payment in order to document on our side that (1) we hold no funds to reject and (2) if Bank Mell is involved or confirmed 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 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 Mell, it is covered under the license. But we still have to issue the fact that PLC is balancing the HBUS cover payment 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.
HSBC Bank plc

Memo

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<tr>
<th>To</th>
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<th>Date</th>
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<tbody>
<tr>
<td>David Bagley</td>
<td>Jim Large</td>
<td>21 November 2006</td>
</tr>
<tr>
<td>Rod Moxley</td>
<td>Malcolm Eastwood</td>
<td>Ext 799 12290 @ RCS28</td>
</tr>
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 hsbcuk pmr

1834

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HSBC 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 01 Apr 99 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.

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.AISBC OCC 8876896
This is an extension of our previous dispensation which expired on 31 October 2006. HSBU 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 HSUS 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 HSFR (email from Matthew Paul Smith of 24 October 2006 refers) and surrounds fee charging. The change to serial payment methodology would put HSBU 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 HSUS additional charge issue is resolved and the customer impact minimised. As presented this practice would appear to contravene HSUS policy of “treating the customer fairly.”

Regards.

Malcolm Eastwood
Head of Payment & Commercial Operations

Attachment: USD Serial Routing Complaints Log

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.AHSBC OCC 8876897
USD Serial Routing Complaints Log

1) _____________ 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 ___________ to ensure that the full amount of their payment is received by the beneficiary. The internal solution adopted was to remove the particular beneficiary bank from the pilot and HBUS to code these payments direct again which has pleased ___________ 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) ___________ 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 white label treasury platform provided by HSBC to support their online FX trading and international payments activities. Both payments flows are being processed through HBUS's EPS ___________ 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 unnecessary costs in processing the payments in minimum 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.

3) ___________ 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 exceed £200K and would withdraw their payments business from HSBC – the relationship income is £1.6m per annum.

4) ___________ have raised queries as their customers are complaining that $20 is less from their USD payments. Their business is similar to that of 3) ___________ in that regular low value payments are made to the same beneficiaries. ___________ responded that these are base 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.

5) ___________ 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.

Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.AHSBC OCC 8876898
6) A similar complaint was received from_______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 lead 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 lien-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_______complained about the additional $20 charge on their USD payments to______and as a result their RM believes that they are now making their USD payments from elsewhere.
From: Rod MOXLEY
To: Tony WERBY
Cc: Andy M NEWMAN
Subject: Re: Fw~~ HSBC arrangements for payment of the Consideration

Importance: Normal
Attachments: image_0.gif; image_1.gif; image_2.gif; Doc Link.htm; GCL00011.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 this 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 GCL00011 was to ensure that our colleagues in HBEU were not unnecessarily 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 HBEU are being placed at risk because of the mode of payment transmission, I would suggest that their Compliance area (Elizabeth Protonasto 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

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Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.AHSBC OCC 8876901
From: Paul PROCTOR
Sent: Mon Jul 15 14:56:19 2002
To: Julie A CLARKE; Malcolm G EASTWOOD
Cc: Paul B GOLDFINCH; Nick J COSGHOVE; Geoff ARMSTRONG; Mary L CUSACK; John R CHTTPINDEN; Pat N CONROY; Alan D DEACON; John ALLISON; Chris J POLLARD
Subject: Monitoring of payments transactions against sanctions

Julie/Malcolm

Thank you for your input into the wording of the guidelines to be issued to IL managers/staff. I have incorporated your suggested amendments and would be grateful for your final confirmation of approval.

June, I have highlighted Malcolm’s suggested wordings re recommending that payments including potential offending words are 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 after which I will issue within IL.

Paul

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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/US) 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知 does not deliberately take action aimed at assisting a customer to circumvent US OFAC sanctions. For example, payment instructions should not be amended by IBL staff.

At present, MPDs refer to IBL, transactions from the account in white space and those not straightforward through processed (STP) payments going to countries where they are known to be sanctioned. Payment instructions will be scrutinised to ensure they contain unwary information which may be sanction sensitive. MPD’s 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 clearances against sanctions will also be taken from IBL’s Payment Services or 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 receive transactions against these sanctions.

- As only the sending party (Correspondent/Banking back/HSBC branch) is fully aware of the underlying reason for the transfer, your only practical course of action in such situations is to refuse to act unless you are certain 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 AEPD to process the payment.

- Should you conclude that to process the payment would contravene such a sanction, the sending bank should be advised accordingly.

- You will need to closely follow with AMPD/HPD, 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.

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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 scrutinized in detail under the OFAC requirements. Key words such as Iran, Iraq, Libya, Cuba or the names 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 remitter to prove that the payment is not sanctionable. A full copy of the payment instructions should therefore be reviewed where there is suspicion that sequestration may occur.

Thawing of a sequestered payment can only normally be achieved through the production of a license or by proving that the words 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 amendment to which contains such wording is not made. If it is done 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. The customer should be uncomplicated 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/Corresponding 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 normal marker time that this is in their risk and without any liability on the part of HSBC, unless correspondence to this effect and record the discussion and decisions taken in a call report to the customer’s file.

In the event that referred back to the sending party is not feasible, should 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 scrutinized against the risk of an account claim being made against us if we fail to process ahead of the cut-off time.

15 July 2002

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 8877106
From: John ALLISON  
Date: Tue Nov 11 13:19'442003  
To: Susan A WRIGHT  
Subject: Iran payments  
Importance: Normal

Susan

As you are aware, I visited MPC in Park Street last week to discuss Iran payments.

Current procedure

The Iranian correspondent bank customers enter IRAN in Field 72 of their MT100 payments. This causes the message to drop out for review/repair before execution. MPC 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 MT100 cover payment payment message which is actually transmitted to the USA. There is no clearly documented procedure - it is more of a "established custom", followed by MPC to be at the request of relationship management.

The newly established Compliance Manager in MPC is not comfortable with the position which he has inherited, rather from a more complex perspective, nor from the operational terrorism/arms embargos. Factor should all MPC correspondents 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.

MPC Compliance are very uncomfortable at being asked periodically currently by Nigel Weir and Gary Milan in Middle East whether a certain formatting methodology will pass successfully through an OFAC filter. They feel it is a relationship management responsibility to understand what the Iran payments represent, and give guidance to the Iranian banks on the circumstances, if any, in which payments are acceptable. The role of MPC 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 "U-Turn" payments are allowed for Iran. What exactly is a U-Turn payment?

Answer: A "U-Turn" payment involves transactions where US dollars are involved through a US bank. Generally speaking, there must be a third-country bank on both sides of the transaction in question as a "U-Turn". For example, Bank Melli 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 MPC compliance that all of the Iran payments which they process fall into the "U-Turn" category. They believe that it should be entirely acceptable to good MT110s (which have replaced MT101s) direct to the paying bank, and send MT202 cover payments to US banks, the process avoiding as far as possible specifically to back-office information, field "U-Turn" payments. MPC pointed out that on the OFAC website, "U-Turn" payments are actually defined as cover payments.

QUOTE
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 banking if they do not directly credit or debit an Iranian account.

We discussed how HSBC would want to guarantee that only appropriately qualifying U-Turn payments could be used to fund, and this will be given more consideration. MPD understands HSBC’s preference for a direct MT103 to HSBC, then the U-turn to issue a revised MT103 (the so-called "special route"), because it gives HSBC total transparency and control. This represents a departure 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 Bolognese to cease processing Iranian bank payments, but bearing in mind those discussions, MPD requested further consideration on whether the payments can legitimately be included 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 established be-used. If control/procedures are not 100% reliable, then MT103 probably becomes inevitable.

Happy to discuss further.

John
From: Tony F Collins
To: John ALLISON
Cc: David W J BAGLEY; Malcolm G EASTWOOD; Rod MOXLEY; Jeremy R WALKER; Niall J VREIR; Geoff ARMSTRONG; Quentin I AYLWAH; Ianan WKNICHAKDB; Gary JOON; Jam ROOT; John R VINSON; 3usan A WRIGHT
Subject: Memo: Re: Iran - U-Turn Payments

Attachments: image_0.gif; image_1.gif; image_2.gif; Melli Pymt Processing.doc; Melli 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 funnelled by HSBC, the subsequent pressure placed upon them by the Federal Authorities and our own fears concerning our global regulators.

OFAC Sanctions state that US Depository Institutions may handle "U-Turn" transactions (cover payments involving payments to 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 HSBS to move the goal posts slightly, eventually advising that Social Payments alone would be acceptable in order to retain full disclosure.

The political situation then changed in the wake of 9/11 which I would guess strengthened HSBS 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 customer business and the legal, staffing and financial implications. The most important issue was obviously to ensure that we complied with current OFAC sanctions and in 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, I 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 HSUS 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 HSBS, who understood the reasoning but believed we had lost the impetus of the original plan to persuade HSBS to accept cover payments as a valid payment method, agreed by both OFAC and hopefully Legal Counsel. HSBS 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 Melli will now be duplicated for all our Iranian accounts, HSBS will therefore need to open separate processing accounts for all our current and future customers which will subsequently be entered into their OFAC filtering system to ensure that every transaction is filtered for investigation.

HSBS will therefore require further FTE to process these payments but a business proposal including actual pricing has yet to be agreed. Were the original FTE required for Bank Melli 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 list of customer bases increases.
If customer transfers are to be effected by MT202, the customer must input Fd 55 to ensure that MPS processes the payment through the serial method. It is possible that if Fd 55 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 put a marker on all the Iranian accounts and manually check each payment. If no action is taken, an MT103 from Bank Melli could still STP causing an unlimited cover payment to be effected via the US. MPS cannot be amended, whereas the risk of checking each payment by Fd 56 is left blank. MPS will send out 2 x MT202s by the cover method.

With 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?

In conclusion, this method will require an extremely difficult manual process which places us one step back in our fight by STP. Group Compliance have advised that due to the current regulatory climate, all payments must be transparent which increases the likelihood of HSUS seeing something they don't like and incurring costs for investigation/avoiding assets. With regard to MT103 payments, it all comes down to interpretation. In addition, this extremely limited amount of time available to act is regarded as negligible in motion.

My view is that the serial method requires a large amount of work prior to commencement, is 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 (Glob. HSBC) on 11 Dec 2003 17:30
Memo

11 Dec 2007 17:34

From: A. Wright HSBC
Tel: 7992 5544
44 2075 855854

To: Nigel J. WEIR et al
To: NiguelJ. WEIR et al
To: NiguelJ. WEIR et al
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Subject: Re; Iran· U-Turn Payments

Further to my recent emails please find attached the proposed U-turn process/procedures forwarded by Carolyn Wey.

Could you please advise John Allison of your comments as soon as possible. It may be worthwhile something another conference call and if you would like us to arrange this please let me know.

Regards

Susan Wright

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1850

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 flagged in the OFAC queue for review and approval before processing.
- HBUS will be reimbursed for 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 HBUS to debit their account and make a U.S. payment with full detail.

Orienter's Bank: Bank Melli

Debit Party: Bank Melli's account with HBEU

Credit Party: HBEU's nostro account with HBUS

Intermediary Bank: any U.S. bank via Fedwire/CHIPS

Beneficiary Bank: any foreign bank which is not Iranian, not HBEU and not a foreign branch of a U.S. bank (optional)

Beneficiary: Bank Melli is remitting funds to

Reference: (optional)

STEP 2:

HBEU sends an MT202 to HBUS to debit HBEU's account with HBUS.

Orienter's Bank: HBEU

Debit Party: HBEU's nostro account with HBUS

Credit Party: Bank Melli

Intermediary Bank: any U.S. bank via Fedwire/CHIPS

Beneficiary Bank: any foreign bank which is not Iranian, not HBEU and not a foreign branch of a U.S. bank (optional)

Beneficiary: (optional)

Reference: (optional)

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OPAC 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 OPAC 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 referred to be verified by the second reviewer. If the reviewer determines that payment does not meet the U-turn requirements, 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 exception 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.
From: David W. J. Bagley
Sent: Fri May 05 10:11 2006
To: John Allison
Cc: John F. Root
Subject: Fw: SERIAL PAYMENTS - USD - GCL

John,

I am not sure I fully follow this, nor have I tried to analyse how well this fits with the dispositions requests received in relation to HUB sites, largely via IVL. 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;HHSBC on 05/02/2006 10:08 ---

Michael GRAINGER;HHSBC to David W. J. Bagley;HHSBC
HSBC 05/02/2006 10:00 Phone No: 791 2523
+44 (0) 20 7992 5254 Fax: 7992 5247

--- Forwarded by David W. J. Bagley;HHSBC to Michael GRAINGER;HHSBC
Michael GRAINGER;HHSBC on 05/02/2006 10:08 ---

David,

I work in GTB - PCM for Stuart Rossell/Peter Hazou and have been asked to coordinate a response to the reason QGL, (below) in relation to USD payment messages initiated by a group office having to be sent as serial payments.

In conjunction with Operations - RSC (with whom I know you have been in communication already via MPS (impact at OFC - attached below) and IT, who are reviewing the HUB impact on other European offices.

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yiOUP 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 pilo 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://groups-hsbc.net/hsbcgroup/home/skyfile/UK/0804/DD/1/14480660/10010/emp

This has a £ 2k impact.

1 On MPS from HSBU London where Operations and PCM in the UK have been working with HSBU area teams on a pilo technical solution and minimise system and customer disruption.

Rod Minney has formally sought dispensation 31st October 2006 and below write to yourself so I will let
that run its course. Maintain Eastwood and I am both party to the joint working party.

2 On other HSBU sites through HUB. Extract from IT summary of GCL import.

This requires changes to HUB which, both on a Core 7 and Core 8 platform, only currently allow 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 avoid the pilo release prior to further test out - this is to fully prove the change and prevent unnecessary rework. We need to do more analysis to solidify understanding of any local IT / Core conflicts which might exist before it is applied to any of our Core 8 sites. We also need to review whether there are alternative to back synchronising the change in Core 7 (which would involve my review 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 to 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 HSBU sites.

In the meantime, sites have confirmed that they will comply with the manual workaround (as implemented in Asia), with their dispensation continuing through to end of August. I attach their correspondence at the end 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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HBEU Payment Services are hereby seeking a dispensation from the undernoted two sections of the above GEL as follows:

Quote

This is to effect that all GEL payments initiated by a Cheque Office are remitted via HSBC or any other US correspondents, must be made as serial payments.

HBEU dispensation

All GEL payments initiated by HBEU Payment Services destined for a beneficiary outside the US will be remitted via serial routes to HSBC. We also are not currently in a position to route GEL payments destined for countries outside the US, which will be handled by HSBC for these prime reasons.

Firstly, serial payment methodology does not cater for the increased number of GEL payments thereby necessary to effect some payments requested in settlement of HBEU core customer transactions. Secondly, the US bank 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 HSBC to build solutions which will cater for this requirement. We will ensure that all GEL commercial payments will be via the serial method.

If in the event, under the Cheque Office instruction, should also continue to be made via serial payments (MT103 or MT202 to be used) in order to ensure compliance (TM202 for serial payments is necessary to pass information).

In accordance with GEL (GEL 100) all USD payments must continue to be made via MT103 and MT202. A field of the GEL payment message must be completed so as to enable evidence to be shown.

HBEU dispensation:

We will continue to route USD transactions where payments via HSBC Dubai without altering the customer instruction in any way. Compliance with the R127 regulations will be the responsibility of HSBC Dubai, since we have no control over this element of the process.

HBEU would seek to hold this dispensation in place until 31 October 2005 at which time we would review HBEU servicing and progress of the GEL payment system, with a view to removing the dispensation.

Dispensations are submitted by different parts of the business in different forms. In order to ensure that this is properly formalised, I will be grateful if you can confirm in due course that you are happy with all aspects of the dispensation request (in whatever form it becomes) that you are happy with all aspects of the dispensation request (or whether you require the request to be transferred to a standard form or whether authorisation is required by way of email from HEB of Payment Services), and authorise confirmation that you are prepared to authorise it.

Regards

Rod
Dear [Name],

Thank you for your note regarding [topic].

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 HSBC.

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 in a limited number of cases a cover payment may require the use of serial payment routing (due to the finite number of SWIFT numbers).

If we are to move 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 designed 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 RCB department are working on an enhancement to ensure affected payments are identified pre-accounting, so that incoming payments can be converted prior to credit of customer account or paid (if satisfying exemption criteria).

3. A specific exemption from serial payment methodology will be required for Irrevocable Letter of Credit payments where any such payment must be pre-screened for U-turn compliance and routed via HSBC 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 outlined in the recent “Do not mention Iran” notices on some institutional customer instructions. Secondly, if fields are subsequently requested to be filled as a result of a wire taken by HSME Dubai, roles and responsibilities need to be defined, as the complaint would revert to HBEU (to customer) but the work would be that of HBEU, outside of the Group strategy now.

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 ensure 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 over method, particularly when our GPP system will be geared towards the serial payment methodology.

Other observations:

a. Payment of USD to non-USD 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 GPP CAMP will be called upon to make a difficult business decision here but I do not believe 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 by 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 force.

Regards

Rod

[attachment "U A$ Dollar Serial Banking Issues.doc" created by Stephen REYNOLDS@HSBC]

David W J BAGLEY@GROUP HSBC

Sent by: Marion O ROACH

26/10/2006 14:13

Phone No. 7991 8645
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 recommendations to Group CEO. The approach set out aims to achieve full transparency as early as possible for as many 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 are to be required to move to mandatory serial payment methodology for all USD payments initiated within the Group and passing via HBUS. The need to suggest a date by which such a move will become mandatory - could I suggest 1 March unless it is felt to be impractical to do this earlier - 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. Where any jurisdiction, entity or business is unable to move to serial payment basis by the specified date, then other payments can only continue with a dispensation (I suggest obtained from GSOI CMP on the understanding that we will seek local assistance subsequently). Where any jurisdiction is prevented from this should normally be for a limited period of time (e.g., examples of other systems development by introduction of GPC) by any payments made in relation to any OFAC constrained jurisdiction (where such payment must be in compliance with GCL 56047 - i.e., permitted by OFAC) being made on a serial payment basis.

A specific exemption from serial payment methodology will be required for Iranian payments where again consistent with the above, if an exception, it must be pre-ordinated for future compliance and be routed via HBMS DUB. HBMS 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 GSOI CMP.

Progressively HBUS to migrate third party customers to serial payment methodology with mandatory serial payment methodology being required by 1MAR07 (I am concerned that AML/ATF may be seen as being too long a period of time, although I have to say that recommendation that this is the preferred time, is not one I would like to add to the business rounders 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 for jurisdictional consideration and the changing environment for all payments and what OFAC payments are required to do in relation to the monitoring of such payments.

Assuming that the above accurately reflects our discussion - although I am prepared 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 have some guidance/FAQs with regard to these issues and problems which might be raised by Group Office. Could ask John Allen, 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. It clearly requires that the SWIFT Market 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 OCL 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 particular 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

-- Forwarded by Michael Ramaswamy/FRCA/HSBC on 25/04/2006 05:51 AM --

Subject: Compliance of OWF: USD Dollar Payments

Alan, This is what ASP are doing for their region. Something similar may need to happen for Europe.

Miki

--- Forwarded by Michael Ramaswamy/FRCA/HSBC on 25/04/2006 05:51 AM ---
Lily

We have discussed the system solution, developed by GPCM, in order to meet the compliance requirements of OGL 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 79 existing programs changed of which 20 programs have local to core amendments and 59 programs which are changing are process control programs for 04 and 06 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 around 55 (as per the documentation).

**Broad timelines as determined by INM IT**

<table>
<thead>
<tr>
<th>Task</th>
<th>Start</th>
<th>End</th>
<th>Notes</th>
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<td>1.</td>
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<td>27May</td>
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<td>2May-27May (in parallel)</td>
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<td>3.</td>
<td>Release Proposal</td>
<td>27May</td>
<td>28May</td>
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<td>4.</td>
<td>Release</td>
<td>6Jun</td>
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**Broad timelines as determined by SGH**

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<td>4.</td>
<td>Conversion</td>
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<tr>
<td>5.</td>
<td>User Acceptance Testing (15)</td>
<td>02May</td>
<td>23May</td>
</tr>
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Work that needs to be done per site:

List of HUB sites: Dhaka, Manila, Shanghai, Seoul, Mexico, Hong Kong, Indonesia, China, Bangalore, Australia, New Zealand, Colombia, Chennai, 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.

1. Review of each site's local amendments to verify if there is any impact.
2. Review of each site's processing; methods to verify if there is any impact.
3. Testing of each site's interfaces; modules, processes and procedures.
4. Release of changes to each production environment (see scope for impact).
5. Ensuring proper customer communication and change management.

Given that for the pilot site it will take around 7-9 weeks, elapsed time, we are of the opinion that to roll out the changes to other ASP countries would take up around 2-15 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 GC. 060111 98 in August 2006.

Humberto Fernandez
HSBC WHISTLEBLOWER ITEM 15 - HBMX

INVESTIGATION REPORT - EXECUTIVE SUMMARY

HEAD OF GROUP AUDIT MEXICO (GAQ) FOR GHQ CMP

FEBRUARY 2005
EXECUTIVE SUMMARY

1. Purpose of the Investigation

The purpose of the investigation was to determine the accuracy of a whistleblower claim that a Director of HSBC (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.

2. Background

On 21 DEC 04 GHQ EMP received a whistleblower report of specific irregularities that were alleged to have occurred in the Money Laundering ("MLP") section of the HSBC Compliance (CSP) department (Ramon Garcia Gibson, Head of HSBC CSP). The "Whistleblowing" took the form of an email sent by one individual to GHQ EMP, with two other individuals "co-opted" as whistleblowers by way of being copied.

The email to GHQ EMP claimed that on 13 DEC 04, in a meeting in the Money Laundering Committee ("MLP") section of HSBC, 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 detection committees ("CAPORT") governed by each bank's own internal rules, with a Hacienda mandated requirement, which (after all) sought to add a degree of formality by insisting each bank hold monthly meetings 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 KYCAML.

The allegations conveyed to GHQ EMP were that, in fact, the last meeting covering Money Laundering (CAPORT) 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 that

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as 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 CAPORLU committee, which was thereby superseded, but directed certain additional requirements,powers regarding approval of deterrence personnel, systems, policies and procedures.

At the result of the new requirement, and in accordance with its provisions, CMP submitted proposals for membership of the CCC Committee to the NBMX 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’s annual inspection of the bank during 4Q04, during which copies of the “minutes” of the bank’s money laundering committee had been collected (which clearly related to the old style “Capori” 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 to falsify such attendance lists as an attempt to mislead the Regulators.

The Whistleblowers also claimed Carlos Rochin (who was absent from the office at the time) instructed them to make himself scarce to prevent further questioning by the CNBV.

The whistleblowers’ denunciation also included other secondary complaints relating to alleged favours paid to employees in the department, following the creation of the Compliance Department pursuant to acquisition (where 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 of more favourable compensation packages than those enjoyed by legacy staff), together with other HR related complaints.

At the request of GPA CMP, and with the agreement of the whistleblowers, the Head of GPA 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 GPA CMP and its scope included:
- individual interviews held at an office 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 (CAPORLUC) that were held on 28JAN04, 23FEB04, 20MAR04, 23APR04, 14MAY04, 21JUN04, and that might at first glance have indicated that meetings were held on 16AUG04, 31AUG04, 30SEP04 and 29OCT04;
- discussions with NBMX 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 (NBMX CEO), of the key CMP 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 authorizing the nomination of specific individuals to attend the newly constituted CCC committee, and the fact that Ramon Garcia (Head of HBMX CMP) was one of the nominees as well as the executive responsible for integrating this business in the structure of the bank with list recommendations as to who should be appointed to the CCC committee (and should thus have been aware of developments), the first CCC committee met 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 in such a way that meetings were actually held. Carlos Rochin, Director for Money Laundering Due diligence, directly admitted instructing (highlighting a junior member of his staff) to create false attendance lists and to go back through the file to rectify all the minutes for 2004 by adding a signature line opposite 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 the copy of the doctor document, a copy of which was then given to CNBV.

The process governing production of the Money Laundering committee minutes was as follows. From an electronic Microsoft Word template containing the standard CAPORI minutes leading, authored under all suspect cases for consideration by the Committee and 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 use only until this point, but here in its header words indicating that it was the Minutes of the CAPORI meeting. Following the meeting, the forms would be expanded with text recording the decisions of the Committee, and entered against the file as the official minutes. It should be noted that the forms contained in the file relating to meetings which did not actually take place are in the preceding format. However, as part of the file cleansing exercise preparatory to the CNBV audit, these forms were reprinted 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 reconstituted minutes were then brought before Ramon Garcia for signature, and Ramon was indicated 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. The reasons were that this was consistent with 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 recognized expert on Money Laundering, and because, having worked with Rochin in two other institutions prior to hiring Rochin to HBVMX, he had implicit faith in Rochin.

The reconstituted 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.

VerDate Nov 24 2008 09:24 Nov 27, 2012 Jkt 076646 PO 00000 Frm 00770 Fmt 6633 Sfmt 6633 P:\DOCS\76646.TXT SAFFAIRS PsN: PAT
3. It is important to note that despite the fact that the Money Laundering Deterrence Committee meetings were not held after 25JUN04, the MLD section of HBMX MLD continued to complete all preparatory work necessary to enable such meetings to be held, and discharge 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 confirmed they received these documents, the latter under the express instructions of his superior, notwithstanding that was most uncomfortable with what had been asked to do. Ramon Garcia confirmed that, at the request of Carlos, he had signed the certified extracts 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 minutes 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 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—a 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 already in breach with Hacienda’s requirements. 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 represented by the CCC committee. Carlos Rochin advised having reported to the CNBV during their inspection that he would hold the first CCC meeting in January 2005 to clear breaches of the new rules. However, by his own admission, Rochin never revealed this breach to Ramon Garcia, assuring him 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. Enquiries led to the following information from Rochin in the absence of his direct superior, who was on a business trip at the time, but did so immediately upon his return. As Rochin was on leave by this time, 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 the issue was thereby abandoned. 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, had been told to contact by on 23DEC04, who forwarded the request to Rochin on 26DEC04, which appears to have been unanswered, had, however, responded (the same day) to 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 (28DEC4), by which time he had only around employment in the Bank, and occupied a junior post. It should also be noted that Luis Alvarez personally followed up on the issue, offering a second chance to come forward on a formal basis, but this offer was not taken up.

10. Ramun Garcia during his interview expressed astonishment that the minutes 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 Roehin had had no knowledge of the falsification of the minutes, that the minutes that had not been held, or that the reformatting of minutes held in the files was anything other than a housekeeping exercise.

Rochin 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 as 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 requirements is not in doubt. This omission was further exacerbated by the fact that 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) HSBC subsidiaries were all in full compliance with the new rules by SEP04.

1.6 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 new regulations in a timely manner, and he placed unfair reliance on Rochin given the latter’s track record and demonstrated expertise in the Mexican Money Laundering arena.

All evidence supports the contention that Ramon Garcia was neither involved in the falsifications that were offered, nor that he was in any way aware of them. Rochin was completely unaware that he had deliberately misled his superior whenever Ramon Garcia had inquired 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 shared 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 instigated an inappropriate and junior member of his own staff to falsely document, and he deliberately misled his superior. He should receive appropriate censure.

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available channels, and the direct assistance of an immediate superior, if one was available, to use those channels, in order to report these transcations.

 demonstrably acted in a timely manner, and went to involved parties to resolve the issue, but ultimately failed in the final stage by accepting Antonio’s refusal to take matters further using the channels available to it in the case of Raimo Garcia, the level of concern 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 fulfill his responsibilities as Head of Compliance.

As previously outlined the Bank intends to make factual disclosures to the CNBV of all facts that detailed attendees have been proxied to these pursuant to their recent inspection.

1.6 Management Response

Senior HBMX Management has provided the following response to the findings and recommendations of this investigation:

- Carlos Rochin has resigned from HBMX;

- Raimo Garcia has forfeited his entitlement to a bonus for his efforts during 2004 (a figure approaching $2 million USD) as well as any remuneration under the forthcoming March pay review;

- 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 Bank, 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 by properly qualified and experienced staff. This resulted in the need for extensive external recruitment, including Raimo Garcia (who was well known to GHQ and their strongly preferred candidate), as well as the progressive dismissal 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 payments 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-Directors in question were given ample opportunity to identify an alternative post more suited to his limited abilities, but failed to do so at the expiration of the contract 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 Roehin, who struggled. He had also to face discontent among the disaffected elements 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 to falsify the attendance lists was made whilst Roehin was attending a CAMP working group at another location. It was a decision which he immediately regretted. The call was initiated by _and whether the call had been choreographed by others is unknown, but the result was Roehin's ill-considered, hasty 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 down the GHQ Whistleblower for maximum impact.

In the event, the considerable senior management time spent assessing the evidence presented in the file attached to this management summary proved unnecessary as regards extracting a confession from Roehin. 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 Roehin had correspondently invested considerable effort to procure a pay rise for the whistleblowers, without their knowledge, during the period when they were executing 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 way staff complained in the Money Laundering section (which makes obvious the identity of the complainants), HBMX management is effectively prevented from publicizing the lessons learned as part of the ongoing efforts 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 Compliance Department.

1.7 CNBV Meetings

Representatives of the Bank met with CNBV on two occasions to report the findings disclosed in this report.

Ramen Garcia met with Patricia Bussanante (Vice-president of Supervision) and Yaron 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 its closing meeting to its inspection visit that, by comparison with other Mexican financial institutions, HBMX CAM 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 MacIntosh, 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 matter’s nature, that CNBV 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 was made by Carlos Rochin at a time when he was apparently under pressure. CNBV noted that this mitigation should be explained in a further letter to 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 remove the Bank.

Graham Thomson
Head of Group Audit Mexico
9FEB05
From: Michsel F GEOGHEGAN
Sent: Wed Mar 14 00:21:48 2007
To: Richard E TENNETI
Cc: RzIJph G BARBER
Subject: FW: Iran

Richard

Please bring this matter up at GMB

Mike

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HSBC Holdings plc
Re: registered Office: 9 Canada Square, London E14 4HQ, United Kingdom
Re: registered Number: 8119867

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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 HOOLIVER; David B DOCKHINSON; 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 businesses in the so-called named countries (Sudan, Syria and Iran). Particularly through CBM in London and Paris. I refer to discussions with you, in addition, and as a result of further designations issued by US authorities in respect of Iran banks. I have also briefly updated you with regard to further steps taken in London and Paris discussion with respect to the relationships with Iranian banks.

The position is as follows:

We are aware of the exposure and activities within CBM 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 CBM in advance of the requirements of Group policy, particularly where transactions are

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doominat6d In USa, Some oftllis activity relates to pr9-9x1stlllg committed obHgatjcns which are bhding 011 ao 011go:ong 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 change in terms of having no appetite for new or extended business activity involving certain counterparties. Where transactions appear to potentially conflict with Group policy these transactions are referred to Ovile CAMF for determinations 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 OPAC sanctions based on allegations that Bank Sepah has participated in banking and financial transactions related to weapons proliferation. After discussions with HME and HSBU, 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 across 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 support activity involving these systems.

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. Currently 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 (notably we believe, by UK government pressure). HSBC OCC 8878038

Regards

David Beale
This message originated from the Internet. Its originator may not be who they claim to be and the information contained in the message and any attachments may or may not be accurate.

Elizabethtown - The bottom line is the scenario outlined below does not appear to qualify for the so-called USD "Uturn" exception in the Iranian Transactions Regulations. Section 500.5(d)(1) of those Regulations provides a general license for dollar clearing institutions 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 1 (non-Iranian)—Domestic Bank 1—Domestic Bank 2 or 2—Foreign Bank 2 (non-Iranian)

The HSBC proposal, as described in your message, differs from the above, as follows:

Foreign Bank 1 (HSBC)—Domestic Bank 1 (HSBC)—Domestic Bank 2 (HSBC)—Foreign Bank 2 (non-Iranian)

The problem is at the tail end of the transactions chain. The USD transfer goes back into a foreign bank, HSBC, but the bank in will be a "second foreign bank". In this case, one could argue that the second foreign bank at the end of the transaction chain (to not qualify) is HSBC. But this bank would be flagged because the second foreign bank would not be an open 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 transaction chain (and ultimately benefits from the transaction). This would not be the same bank as the first foreign bank. One way to do this would be to have a US office of Royal Bank of Scotland/NatWest-JP Morgan Chase, which would be a second foreign bank. Alternatively, it is possible that OFAC might have issued a specific license to facilitate this type of transaction.
to JP Morgan Chase to process the foreign 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 the issuance of specific licenses). Still, sometimes large foreign
banks whose proprietary OFAC infringements are able to obtain operating 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 would ask how to proceed with that (could the
license be renewed?). The suggestion is that JP Morgan Chase would comply with the
license procured by HSBC under Section 560.516 because of the involvement of additional entities in the transaction.

As to the remaining questions you stable, 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. Please give me a call if you need further explanation.

Best regards,

Tom Crocker

-----Original Message-----
From: Elizabeth.Protomastro@HSBCRepublic.COM
To: Tom Crocker, Tom
Subject: Central Bank of Iran

As we discussed, HSBC is anxious to obtain a definitive answer to whether
HSBC Bank USA (HBUS) could make and receive USD payments instrumented by HSBC or
for credit to HSBC, 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 understood 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 Marksaz Iran) or Bank Melli,
London Branch, would open a USD-denominated account on the books of HBUS.

For the sake of this note, I will call the account open Bank Melli. Melli
would instruct HSBC to make USD payments, etc. In turn, HBUS would instruct
HSBEU to change the account to effect the payments. Receipts would come into HBUS
via CHIPS or Fed and would be credited to HBUS’s account with HBUS, for further

Best regards,

Tom Crocker

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credit in the USD account that Mell would maintain with HSBEU.

Presently, Bank Mell maintains its USD account with Bank Mell, 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 five 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 it is presumed there could be stop-oups)

4) 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.

For 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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Confidential - POIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8903862
From: Kurt Ziegler/Institutional Banking/Republic/US & Republic

To: Brian W. Richardson/HSBC/CISSPASAS

Subject: URGENT Central Bank of Iran URGENT REVISED

Kurt,

Based on this inquiry outside counsel commented as per the next message.

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.

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSB OCC 8903863
To: Elizabeth Protomartini

Subject: 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 Blenck

21 Jan 2001 17:14

From: Peter C Blenck

TO: Elizabeth Protomartini

Subject: Central Bank of Iran

As discussed, HSBC Bank plc (HSBC) is anxious to obtain a definitive answer as to whether HSBC USA (HSBU) could make and receive USD payments instructed by HSBU or for credit to HSBU, for account of a Central Bank of Iran account on the books of HSBC Bank plc (HSBC). 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 Makarfi Iran) or Bank Melli, London Branch, would open a USD denominated account on the books of HSBU. For the sake of this note, I will call the account owner Bank Melli. Melli would instruct HSBU to make USD payments, and, in turn, HSBU would instruct HSBU to charge its account to affect the payment. Receipts would come into HSBU via CHIPS on Fed and would be credited to HSBU's account with HSBU, for further credit to the USD account that Melli would maintain with HSBU.

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 HSBU substituting for RBS/Nat West and HSBU 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.

(1/20)

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Input would be SWIFT. These payments and receipts relate to placements 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 $500 - $100 million to handle this business efficiently. This line might be secured by deposits with HSBC or MIB.

1) 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 $100 - $100 million per day. We have not heard that the National Iranian Oil Company could be a beneficiary, but this is possible.

4) The names of the ultimate account holder would not appear on the transactions (but it seems 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 Ponzemastro
23/09/2001 28:12
From
6092
HSBC Legal Department
Phone
Dept
Title
Locallon
Vice President
451 5th Ave, Floor 07

To: Kurt Ziegler/Institutional Banking/Republic/US@Republic

Cc: Carolyn Wind/HSBC@Republic

1878
The opinion received from outside counsel, Tom Crocker of Alston & Bird, on 2/4/01 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 560.514(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 560.514(a)(1) from the Iranian Transactions Regulations.

560.514 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; 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;
(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 excepted from regulation pursuant to Sec. 102(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 or 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 §603.500, a United States depository institution may not make transfers to or on behalf of the benefit of a foreign-owned 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.

[46 FR 26434 4/26/91]
Matthew,  

This is in follow up to my email to you of 3/9/01 and my email to W. Brown of 1/27/01 (forwarded to you) concerning the above referenced matter.  

Steve Hersz of OFAC’s Chief Counsel’s Office called me yesterday to say that he discussed with Lauren I. Savio, Deputy Chief of OFAC’s Compliance Division, the language in 31 CFR 560.131 (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 Mr. Lawler acknowledged such language in the regulation, but he 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 Mr. Lawler could come up with any 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 “D-Turn” dollar clearing exception, 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 J.P. Morgan/Chase were also comfortable that their processing transactions would be viewed by the Compliance Division as falling within the “D-Turn” dollar clearing exception whether or not they used another US bank in the clearing process. Accordingly, if HSBC is also the correspondent bank for the second foreign bank, then HSBC 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 HSBC 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 SFTT payment quote 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 HSBC could do so if it desired more formal assurance from OCC.

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John,

Has there been any progress?

Regards

06/03/2001 00:16

To: MatthewJWilling@HSBC/HBSC
Cc: JohnLRICHARDS/HSBC/HSBC
Winton.Snow@shawpittman.com
From: John.Simon@shawpittman.com
Subject: Memo: Re: OFAC - Iran

Please advise if you have further question.

Regards,
John

---

This message originated from the Internet. Its originator may or may not be who they claim to be and the information contained in
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 (Steven Hoon) in general terms about the proposed transaction (without attribution) and specifically about the "U-Turn" dollar clearing exemption in 31 C.F.R. 560.516 and the language in such regulation that would appear to require HBEO, upon receiving a payment order from HBEO, 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 banks from foreign banks for ultimate credit to Bank Mili's account at RBEO, 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 RBEO will likely instruct HBEO 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. Hoon 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

2/1/14
SBAD'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 each message, 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 react with 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

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bind the HSBC entity referred to is duly verified.

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8903873
Brian W RICHARDS/HSBC on 27 Apr 2001 08:18 Memo
To: Matthew J KING/HSBC/HSBC
Cc: John L RICHARDS/HSA/HSBC

Subject: OFAC - Iran

To: Matthew J KING/HSBC/HSBC
Cc: John L RICHARDS/HSA/HSBC

Dear Matthew,

Many thanks.

The payment orders for the debit of Melli's account will originate from HBES and credit to the account at HBEU. The credit will, of course, pass over HBEU's USD account with HBES, with whom receiving funds favour HBEU on account of Melli (mostly from other banks in the USA, but possibly to the debit of HBEU's own correspondent bank customers) or paying away from HBEU's USD account at HBES favour other banks in the USA (or possibly to the credit of HBES's own customers).

Those direct customers of HBES could, on occasion, be another Group entity, such as HSBC or SSAP, but I suspect this would be very much the exception.

The payment orders would not make mention to Bank Mellli, and HBES would not receive either payment orders or payment receipts directly from an Iranian entity. For HBES any Iranian entity would be, at “closest,” the custodes 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 HHAB01.

Best,

Brian

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CONFIDENTIAL - FOIA TREATMENT REQUESTED BY HSBC BANK, USA, N.A. HSBC OCC 8903874
Winthrop Stroum/SPPT

Subject: Re: Me\TLO! OFAC constraint.s in t.he Cent.Ial 13aci;; of Iran operal:iDng a USD Clearing
account with HSBC Bank plc in London documento

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 on 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 came to rest in the US, then the transaction would not be deemed to be a "U-Turn Dollar Clearing" transaction for purposes of such exception. HSBC's proposed transaction appears to fit this scenario as long as (i) HSBC can send USD to receive from an offshore non-Iranian bank back out to a non-Iranian foreign bank, and (ii) payment orders received by HSBC from BOC instruct it to debit its account at HSBC 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 debiting or crediting a transfer to the account on its books of the ultimate beneficiary, to determine if the underlying transaction is prohibited by OFAC regulations, does not apply to wire transfer transactions meeting the requirements of the "U-Turn Dollar Clearing" exemption of Section 560.516(b). While this interpretation from the Compliance Division is encouraging (and may explain why JPMorgan 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 Methan and advise of the foregoing and mention

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that we hope to confirm such results with the Chief Counsel’s Office tomorrow.

Regards,

John

---

To: John Simon
From: Winthrop Brown
Subject: Memo: OFAC constraint 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.

Matthew

---

To: John L Richards
From: Winthrop Brown
Subject: Memo: OFAC constraint in the Central Bank of Iran operating a USD Clearing account with HSBC Bank plc in London

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Could you get your OFAC expert to look at the 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 Cordero. Please send him my regards if you happen to be speaking to him.

Regards

---------- Forwarded by Matthew J W E McB/HSBC/USABC on 18/02/2013 16:19 ----------

John L. RICHARDS

TO: Matthew J W E McB/HSBC/USABC

Date: 19 Feb 2013 11:43

Subject: OFAC constraints in the Central Bank of Ireland operating a USD clearing account with HSBC Bank plc in London

Dear Matthew,

We have been asked by the Central Bank of Ireland 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 UK. We had assumed that based on the clarification given in Palmore McCarthy's compliance circular GMD 900015 that such transactions, as detailed more fully below, would be possible. The advice received from Elizabeth Protomasto suggests this is not the case.

As such transactions are already being undertaken on behalf of Natwest by JPMorgan Chase, which must be subject to the same compliance issues as HSBC, it can only assure that the question asked of Alastair and Bird did not fully cover the transactions that we intend, although the position stated in Peter Sheld'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...
Major influence on our winning of a substantial Asset Management mandate and future project finance mandates. If we are to refuse your request I must be able to show you 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 appreciate your bringing this to my attention and shall be grateful for your intervention. Further information on this matter can be obtained from Brian Richards in FSB 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 13:51

From: Quentin M AXWELL/HSBC/HSBCBC
Gary A MOORE/HSBC/HSBCBC
Chris HOFFMAN/HSBC/HSBCBC
John L RICHARDS/HSBC/HSBCBC

To: Brian W RICHARDS/HSBC/HSBC

Subject: Urgent Central Bank of Iran Urgent Urgent Urgent Urgent Revised

24/26

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To: Janet Burak, Regional Compliance Officer  
David Bagley, Head of Group Compliance  
David Dew, COO, truSI  

From: Carolyn Wind, EVP and Chief Compliance Officer, HUSI  

Date: 7JAN08  

Report: 4Q07 Compliance Report For PFS, CMB, CTS and GFB  

1. Issues Arising  
   (a) New Issues  

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Confidential Treatment Requested
Customer Scanning PrevioSoft Vendor Product: Serious performance issues have been discovered with the PrevioSoft customer scanning product that may hinder our ability to fulfill a 2008 commitment made to the OCC in response to an MRA identified during the Retail Bank AML/AML examination conducted in 3Q07, with respect to PEP scanning. Benchmarks testing has indicated that the existing product, as well as the enhanced version scheduled for release in 2008, will not support PEP volumes. Substantial time and funds have been expended to date regarding implementation of this product, scheduled for completion in 1QQ08. However, ITES 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.

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Confidential Treatment Requested HSBC.PS.PRCD.0000509
Redacted
by
Permanent Subcommittee
on Investigations
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 Leon.

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... who 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 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's the...
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, oh?
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.
Claude: OK, Leon signs for American Leisure not World [7]. do I know? Grand opening, application, no... Les 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 Les jointly.

Mr. Cohen: Allegria

Claude: Mauricio

M. Cohen: Mauricio

Claude: Sonia

Mr. Cohen: Sonia

Claude: Leon and Les 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.
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.
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 Yannie, 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.
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 [V]?
Mr. Cohen: Yes, but what can we put?
Claude: We can change Whisbury 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...
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.
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, so 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: 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, ok?

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.
I have not been told anything else as to why this decision is being taken as
much as if it is a drastic change, my instincts tell me that perhaps this has
counterparts to check for details.

Thank you
Gyanen

----- Forwarded by Gyanen Kumar/HSUS/HSBC on 12/23/2008 09:52 AM ------
Marta LANGASTA/SWIB/HBSCMEXICO
11/23/2008 01:30 PM
To:	Gyanen Kumar/HSUS/HSBC
CC: Abel GhadhANI/HBSC/HSBCMEXICO, Maria NinH/MX/HBSCMEXICO, Mike
gonzalez/hus/hsbc, nikolestaysin@hsbc.com, Javier Fernandez

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

HSBC Mexico has recently announced that as of January 1, 2009, the
bank will no longer be receiving USD cash deposits in any format
(network, cash pick up, etc.). This instruction comes 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 deposit services are offered. As far as I know, this instruction has
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 Rasana, exports and ex.

I am attaching the press release (in Spanish) that outlines the new policy.

Best regards,

Page 1

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Confidential Treatment Requested  HSBC-PSI-PROD-0095869
1905

Mario Langarica
Director - Instituciones Financieras
Global Banking and Markets
HSBC Mexico
Phone: (55) 5721-2630

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HSBC OCC 7591900

Confidential Treatment Requested
HSBC-PSI-PROD-0095870
Alan I.

This is to briefly summarize our discussion yesterday.

Gyosn called us from Miami to inform us that trade volumes have recently decreased significantly with Casa De Carta Puebla in Mexico. When Gyosn contacted the customer to discuss the change, he was told to return the calls in a timely manner, which was unusual. When they finally spoke, they informed Gyosn that the candidate was currently being audited by Banco de Mexico (including KYC on the MSB customers) and they did not give the business with us to any other competitors, but there did not provide any reason for the change in activity.

Gyosn informed us that Mexico had terminated their account with CDCP in Mexico and their next 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 reason for the changes in their activity with us.

We said we would review recent activity with them and monitor 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 we visit and our discussion/interaction regarding the relationship between HSBC and CDCP.

Daniel Jack, VP - AML Compliance
CiticBank North America
Telephone: 212-525-8475

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With immediate effect we are suspending all activity with the subject client.

I will speak to you in the meeting with more detail.

Please treat this matter as confidential.

Thanks

Gwynn
As we discussed briefly, following is a summary of our conversation today with Leopolda Barronzo, the Head of AML for HSBC Mexico (93-212-525-5721-541).

He said that HSBC has a few cases and a loan with Casa de Cambio Puebla, and they have been a customer for over 5 years (pre-HSBC). His office monitors activity and reports any alerts on unusual transactions to the ML committee, which meets on a monthly basis, for action. A circular was sent to all staff in HSBC Mexico on 4/15/07 and an update on 11/28/06 concerning Casa de Cambio (HSMC) to ensure all businesses/branches comply with Group MLK and Mexican regulations concerning KYC, activity monitoring & reporting on their customers.

Leopolda 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. $MPE). He mentioned an article in the News Herald in Florida but could not remember the date. I checked this website and could not find any related articles.

I did not mention the HSA arrests or warrant. We recently saw with CCP (a big drop in their USD sales to us).

Leopolda 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 HSBC exported USD cash shipments from Mexico to US, using armored carriers & commercial flights. Then asked the risk. He thought all this activity & scrutiny was with HSBC. He asked if CCP could provide him with a list of our HSBC Banknote customers in Mexico (banks & NGOs) 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
Leopoldo - Thank you for the quick reply.

I will call you tomorrow at noon by 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 HSBC 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 HSBC has with them and wanted to ask you some related questions. Please let me know. Thank you.

Daniel Jack, VP - AML Compliance Global Banknotes & Vessels
Telephone: 212-325-8686

Leopoldo R BARROSO/HBMX/HSBC
06/05/2007 U: 17 PM

To: Daniel Jack/HBUs/HSBC
cc: Leopoldo R BARROSO/HBMX/HSBC
Subject: Re: HSBC in Mexico - AML Compliance & Casa de Cambio

Daniel,

It is correct, I am the head of AML for HSBC. 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 U:07 a.m.

To: Page 2
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 CO for the HSBC Global Banknotes business and want to ask you a few questions about a casa de cambio in Mexico who is a customer of ours. Please let me know when it 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: 212-321-6888
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: 26OCT07

Report: 3Q07 Compliance Report For PFS, CMB, GTB and GPB

I. Issues Arising
   (a) NEW ISSUES

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(3) MATTERS REPORTED PREVIOUSLY

- HSBC Banamекс/Casa De Cambio Puebla (RED MX70): No transactions have been conducted with Casa de Cambio Puebla S.A. de CV in Mexico since 2015. Although HSBC MX continues to deal with this Money Services Business, HSBC plans to formally terminate the Banamex relationship soon.

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Confidential Treatment Requested HSBC-PSI-PROD-0095919
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The following memo is background information on the Bank Melli business, presented by John Richards, Group Representative Iran. Additionally, in a conference call with Nam Hauger, Compliance and I had the HSBC and Richards on 9/27, it was clarified to us that the Group (with the backing of Bank Melli) was looking for a significant grow in presence in Iran. Current lines of credit were reported to be $16m, with lots of $150m and growth was anticipated in trade, cash management and internal banking. The Bank Melli string was viewed by Richards and others as not only profitable as a standalone but also key to winning additional business.

---

From: John, RICHARDS@HSBC
Tel: 96212041.14151

Mail Size: 4106

To: Brian W RICHARDS@HSBC

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. I am keen to do this but in line with the Group (with the backing of Bank Melli) was looking for a significant grow in presence in Iran. Current lines of credit were reported to be $16m, with lots of $150m and growth was anticipated in trade, cash management and internal banking. The Bank Melli string was viewed by Richards and others as not only profitable as a standalone but also key to winning additional business.

One of our key objectives for the year to develop HSBC's Asset Management activities in Iran and with the Central Bank managing the old plus stabilization fund amounting to some US$10bn there is considerable scope for this. Obviously very few foreign banks are doing the same business and so we need to demonstrate some competitive or technical advantages. The proposal from the Central Bank was therefore attractive.

I had an initial meeting with Mr. Mohammad Tahirifar, Deputy Head of the Central Bank yesterday along with Nam Hauger. He is visiting Tehran and stressed 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 manages their transactions through Bank Melli and there is intention to have discussions held with Mr. Tahirifar.

I would like to end up with a written agreement on what at each party are aware of what they are committing to. Although negotiating with Iranians is frustratingly we only in a strong position. They have become frustrated with NatWest and with the exception of Lyca, we will have the same issues we
hope there is little competition, I also assume that our technology advantages 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
make the business more alive than it was in the past.

In summary, we can make this business independently profitable and
sustainable the benefits that we can derive particularly from the Treasury,
Asset Management and Investment Banking plus will be substantial. I want
to agree a strategy where we go forward and when we decide 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
This is an issue that you should be aware of. As described in Carolyn’s memo, we have been engaging discussions on the basis of Iranian payments to both authorities, with HSU and with MBH. HSU and MBH have also consulted with external counsel. The purpose of the discussions was an RFP for MBH to handle Bank Melli’s US dollar. From an operational perspective, we will consult Compliance. In terms of whether or not support of business by HSU, we will establish any required internal 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: Michael J. Bagley/HB/SUSC@HSBC

From: Carolyn Wind

Subject: Bank Mell

Date: 11 Jul 2001

To: Matthew J. Bagley/HB/SUSC@HSBC

Cc: Michael J. Bagley/HB/SUSC@HSBC

Title: Executive Vice President, Location: 432 9th Ave, Floor 0

WorkGroup: NYCC Compliance

Mail Size: 23102

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HSBC OCC 0816085

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HSBC-PSI-PROD-0296131
Melli, if OFAC identifies a transaction that does not qualify, it might view HSUS’s actions due to the non-disclosure on some basis that would disqualify or weaken. Given the large dollar amounts and volume of activity proposed (300,000 transactions per day), if OFAC found such a view, potential liabilities could be substantial and would certainly impair HSUS’s relationship with OFAC.

So to recap:

A) Does this structure as proposed meet the USM requirement for processing? If HSUS and the second foreign bank do not appear on the MT902 processed by HSUS, we believe that the payment is in fact a U-turn. If HSUS will not know the foreign banks and, therefore, will not be able to monitor for compliance, will HSUS be notifying HSUS of the second foreign bank? Is there a provision in the agreement to monitor these payments for compliance with the USM provision?

B) HSUS will not know the foreign banks, and therefore, will not be able to monitor for compliance. Will HSUS be informing HSUS of the second foreign bank? Will HSUS be informing HSUS of the second foreign bank?

C) If HSUS will be responsible for monitoring the payments for compliance with the USM, is it possible that OFAC may not find it acceptable to HSUS to rely on HSUS to monitor payments for compliance with the USM?

(1) Definition of the permitted "U-turn" transaction under the bastard definition:

The opinion received from, or delivered, Tamarack of Asia & Bill, on 23/11 is regarding the proposed transactions per Peter N-bsz ara of income and benefit to sponsor.

This page contains annotations

Redacted Material
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1. Bank Melli sends instructions to HBEU to:
Debit Bank Melli’s account at HBEU
Credit HBEU nostro with H8US

2. HBEU sends instructions to H8US to:
Debit HBEU account with H8US
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 Melli
as the originating bank

Example I: Cover Payments (MT202 & MT100)
1. Bank Melli, London sends instructions to HBEU to:
Debit Bank Melli and credit HBEU nostro with H8US
2. HBEU sends an MT202 to H8US to:
Debit HBEU nostro with H8US
Credit any foreign bank (via a USA correspondent for the foreign bank)
Note: Current HBEU recommendation on format would still mention Bank Melli
but would contain some reference identification on the specific transaction being settled between Bank Melli and its customer.

3. HBEU instructions to Bank Melli regarding how to format payments:
Debit Melli nostro account at 28US
Credit party, referencing the unique MT202, allowing Bank Melli to settle the beneficiary
Note: The MT100 is often processed prior to the MT202 due to time differences
between the US and the beneficiary’s country.

To: Denise A Reifty/HBUS/HSBC@HSBCAMS
cc: John R Walkinson/HBSNHEL/HSBCam
From: John R Walkinson/HBSNHEL/HSBCam

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Confidential Treatment Requested
Subject: Re: Bank Mell

For our conference call today, please find attached the letter 50APIPHI sent by
our Payments desk (MPD) in Hong Kong.

Once the proposition goes live, we have instructed Bank Mell 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 Bank Mell to try out 'One of our
clients' in field 52, thus removing the chance of Bank Mell entering an Iranian
reference customer name, that shows the end of the clear payment sent to
HSBC and breaches OFAC regulations.

This method was successfully tested last month on an MT202 (bank to bank) and a
MT103 (commercial) payment.

I also understand your concerns following the recent formatting error detailed
in Peter Blenk's email 12/12. However, I must provide some background for
you.

MPD confirmed that Bank Mell have not yet gone live on the new method of
formatting payments, as we have not yet taken on the new business. Bank Mell
are still formatting payments in their usual method, i.e., the reference MPD
failed to spot the poor input and adhered to their normal procedure of
staying the payment, hence it was involved. MPD have again reviewed the new
formatting method will achieve straight through processing and overcome these
difficulties.

I hope the above details is sufficient for your purposes and you are able to
progress this matter forward as alleviated in your earlier approval.

Peter C BLENKJHBEUIPSBC@HSBC

Attachment: A20155691 from MPD to SKBC re formatting, rec.mp

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Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 0616088

Confidential Treatment Requested  HSSC-PS1-PR0D-0096134
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 30 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/HSBC/HSBCNAMER
cc: Alan Wilkinson/HD HTV ASP/HSBC
Quenten P. Aykward/MDA/HSBC
Carolyn M Wind/HSBC
Matthew J Xing/HSBC
Elizabeth Proto/HSBC
Subject: Re: Bank Melli

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.

Page 1

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Please let me know how you wish to proceed.

Best regards

John L. Richards
Group Representative Iran
From: EUZABETH PROTOMASTRO/HBUS/HSBC
Sent: 5/5/2005 1:11:13 PM
To: TERESA PESCE/HBUS/HSBC; DENISE A. REILLY/HBUS/HSBC; ANNE LUCY/HUIS/HSBC; ANNE UDDY/IHBUS/HSBC
CC: GRACE C. SANTIAGO-DARVISH/HBUS/HSBC; HSBC-BNI_E 0071494.lxt
Subject: Fw: Payment rejected re Melli Bilnk PLC

Grace asked me to forward on the attached as an FYI in light of some discussion held earlier today.

------------------------ Forwarded by EUZABETH PROTOMASTRO/HBUS/HSBC at 05/05/2005 02:10 PM ------------------------
Elizabeth Protomastro on 05 May 2005 11:57

From: Elizabeth Protomastro Tel: 212-525-6692
Title: Vice President Location: 452 5th Ave, Floor 07
Work Group: COMP/ANTI-MONEY LAUNDERING Mail Site: 7915

To: John ALLISON/HBHQ/HSBC
cc: Susan A. WRIGHT/HBHQ/HSBC; Grace C. Santiago-Darvish/HBUS/HSBC; Nancy Hedges/HBUS/HSBC; Jose Matias/IHBUS/HSBC
Subject: Fw: Payment rejected re Melli 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 LPL on 4/22/05.

22: Apr 2005
SNV
IBAN
Debit
Credit
Credit: Bank of New York, NY
3rd party: Credit Suisse, Zurich
DRG: Melli Bank PLC
BBI: Acc/Our Ref MPAY1713 19Apr05 USD 362,000

[Redacted]

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Confidential Treatment Requested HSBC-PSI-PROD-0096170
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/HSBC on 05/05/2005 03:36 PM
Elizabeth Protomastro on 19 Apr 2005 12:11

From: Elizabeth Protomastro
Tel: 212-535-6992
Title: Vice President
Location: 452 5th Ave, Floor 07
WorkGroup: COMP/ANTI-MONEY LAUNDERING
Mail Site: 2634

To: John ALLISON/HSBC
cc: Susan A WRIGHT/HSBC
Grace E Santiago-Darwish/HSBC

Subject: Payment rejected re Bank Mellal 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 BIC 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-BNI_E 0071404.txt

19 Apr 2005

Selgit: HSBC Bank PLC,
Credit: Bank of NY, NY
3rd party: Credit Suisse, Zurich
Org: MELL Bank PLC, London
All: Pls do not mention our name in New York
USD 362,000

Please let us know if you have any questions.

Thank you.

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc.  HSBC02845310

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 0616136

Confidential Treatment Requested  HSBC-PSI-PRD-0096172
From: LESLEY MEDZLAN@US@HSBC
To: AU S KAZMY@HSBC@HSBC
CC: ANNE UDDY@HSBC@HSBC
Subject: Re: March 2008 Country Risk List Revision

Approved.

Thanks,
Lesley

Lesley Medzlan
EVP & Chief Compliance Officer | HSBC Bank USA, N.A.
432 5th Ave., 20th Fl.
New York, NY 10018

Phone: 212.525.6410
Fax: 212.525.1760
Mobile: 917-822-1067
Email: LesJcy.Medzlan@ushsbc.com

Ali S Kazmy@HSBC
04/25/2008 02:12 PM
To: Lesley Medzlan@HSBC
Cc: Anne Uddy@HSBC
Subject: March 2008 Country Risk List

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 Uddy.

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 reflected. The second tab of the attached file shows the new groups of rating as well as the present rating.

Your consideration of this matter is appreciated.

Thanks and regards,

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc.  HSBC03965859
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.  HSBC OCC 3590217

confidential Treatment Requested  HSBC-PRD-0096398
MADE SEALED EXHIBIT

by

Permanent Subcommittee
on Investigations

1929
**Know Your Customer Profile - Banknote Information**

**HSBC Bank USA, N.A.**

**Reference:**

**Banknote Approval Status:** Approved

**Country Risk Status:** High Risk

**High Risk Client Type:** Special Category of Client

---

**Client Name:** AL RAJHI BANKING & INVESTMENT CORP

**Country:** SAUDI ARABIA

---

* * Changes to the fields on "Approved" Profiles require Re-approval.

**Banknotes Activity**

* For HSBC Office: Hong Kong

---

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<tr>
<th>Banknote Activity Status</th>
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<tr>
<td>Deactivation Date:</td>
<td>02/29/2012</td>
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<tr>
<td>Deactivation Reason:</td>
<td>KYC Compliance Issue</td>
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<tr>
<td>Comments:</td>
<td>HSBC group wide decision to exit the Banknotes business</td>
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**Initial Trade Date:** 02/29/2012

**Currency Traded:**
- British Pound Sterling
- Euro
- Indian Rupee
- Indonesian Rupiah
- Philippine Peso
- Saudi Riyal

**Monthly Trade Volume Estimates:**

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<th>Currency</th>
<th>Imports by HSBC</th>
<th>Exports by HSBC</th>
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<td>Other Major Currency: British Pound Sterling</td>
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<tr>
<td>Other Major Currency: Indian Rupee</td>
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<tr>
<td>Other Major Currency: Saudi Riyal</td>
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**Are there normal or seasonal variations in volume of activity?**

- Yes ☐ No ☑

---

**Reason for Dealing in Banknotes:**

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.

---

**Confidential Treatment Requested**

HSBC-PSI-PROD:6102304
KYC Banknotes, AL RAJHI BANKING & INVESTMENT CORP

Counterparty is located in a Middle East country, which it is a bank and has a Middle East clientele. The financial statements and other documentation provided were obtained from our dealings with client during the period 2009-2010. The figures included in the monthly average of our sale were USD4,500,000.

Where will banknotes be shipped to?
- Yes
- No

Where will banknotes be shipped from?
- Yes
- No

If yes, indicate credit line amount: USD 0

Above figures are obtained from our dealings with client during Mar 2009 - Feb 2010 and are in original currencies. If all currencies involved, the monthly average of our sale was about USD4,500,000.

Method of Settlement

Wire transfer from: Client

Wire transfer to: Client

D/C/Credit in HSBC account number: HSBC US Nostro

Name of Relationship Manager (RM) for KYC approval: Christopher Lok

Date of most recent KYC review: 03/10/2010

Banknotes Signature Section

I have reviewed the Banknote information listed above and the KYC information contained in the Client's KYC Corporate Profile. I recommend this Client for Banknotes business.

Banknote Trader (BT) Approval: Betty F. S. Ng, 05/26/2008 05:32 AM

Regional Head of Banknotes (RH) Approval: Gay C. H. Yeung, 05/26/2008 04:00 PM

Punishment Head of Business (PH) Approval: David M. Williams, 05/25/2008 11:15 AM

Credit Approval Team Leader (CATL) Approval: Gary C. H. Yeung, 05/25/2008 02:37 PM

Institutional Banking / Trade Lead (IBTL) Approval: Christopher Lok, 06/04/2008 09:23 PM

Regional Money Laundering Control Officer (RMLO) Approval: John P. Whittlestone, 07/16/2009 12:10 PM

APPROVED/DENY HISTORY:

Created: 02/09/2007 04:55:16 PM (Betty F. S Ng)

BT Approved: (Client Status in Progress), 04/03/2008 04:13 PM (Betty F. Ng)

Existing customer with London Office with satisfactory record

RH Denied (Old Status BT Approved), 04/12/2008 05:13 PM (Gay C. H. Yeung)

No Comments

BT Approved (Old Status RH Denied), 04/22/2008 02:37 PM, John N. H. Ng

No Comments

IBTL Approved (Old Status BT Approved), 06/04/2008 09:23 PM, Gay C. H. Yeung

No Comments

15 Approved (Old Status BT Approved), 06/05/2008 03:24 PM, David M. Williams

No Comments

01/25/2012 02:15:44 PM

Confidential Treatment Requested
KOC Banknotes: AL RAJHI BANKING & INVESTMENT CORP.

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Update background info as to why prospect (existing client of HBUS LON) wants to start a relationship with HBUS HKG.

No Comments.

Note: Historically we have been and will be careful about expanding exposure to this client. Discussed with management and received approval from Business Intelligence Division.

Reference:

[1] Daniel Jack
[7] John N. H. Ng
[8] Betty F. S. Ng

Confidential Treatment Requested
<table>
<thead>
<tr>
<th>Entity Case</th>
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**Confidential Treatment Requested**

**Entity Case**

**HSBC**

The world's local bank.

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**Case Notes**

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12/8/2011

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**Updated by the Permanent Subcommittee on Investigations**
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<td>Your role with this client</td>
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<td>Name</td>
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<td>Account Name</td>
<td>Al Rajhi Bank</td>
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<td>Other Name</td>
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<td>Legal Address</td>
<td>Head Office, Al Mariya Building</td>
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<td>Oleya Street</td>
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<td>P O Box 28</td>
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<tr>
<td>City</td>
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<td>Is Inside Information involved?</td>
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<td>Business Owner</td>
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<td>Criminal Links</td>
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<td>Is there any reason to believe that any associated company or individual is or has been linked to crime, however indirectly?</td>
<td>Al Rajhi Banking and Investment Corporation</td>
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<th>Connected Party</th>
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<tr>
<td>If you can think of any other reason why this proposal may give rise to any reputational concerns, please give brief details here</td>
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https://compliance.systems.uk/hsbc/AMLID/entityCase/lab/summary.action?entityId=1434... 12/8/2011

Confidential Treatment Requested

HSBC-PSI-PROC-8102341
### Entity Case - Summary

#### Al Rajhi Banking and Investment Corporation

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#### Fraud Threat

**Guidance:** All the Connected Parties to this Case File

These could be people involved with the client, eg as shareholders, insiders etc, or companies related (but not identical) to it, eg a subsidiary or parent company.

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### Case Status

**Risk:** AML

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### Screening Record

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#### Case File Summary

**Case discussed with KD SWIFT:** 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 is unwrongful. 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**

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Please limit your input to factual information.

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https://compliance.systems.uk.hsbc/AMLID/entityCase/tab/summary.action?entityId=1434... 12/8/2011

Confidential Treatment Requested

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https://compliance.systems.uk.hsbc/AMLID/entityCase/tab/summary.action?entityId=1434... 12/8/2011

Confidential Treatment Requested
Know Your Customer Profile
HSBC Bank USA, N.A.

Reference: 
Client Profile Approval Status: Approved

Country Risk Status: Standard Risk

--- Rejected by the Permanent Subcommitte on Investigations

Client Name: Hokuriku Bank, Ltd.
Country: JAPAN

* Changes to these fields on "Approved" Profiles require Re-approval.

I. General Information

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<tr>
<td>Client Name</td>
<td>Hokuriku Bank, Ltd.</td>
</tr>
<tr>
<td>Country</td>
<td>JAPAN</td>
</tr>
<tr>
<td><strong>Client Profile Approval Status:</strong></td>
<td>Approved</td>
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<td><strong>Client Name:</strong></td>
<td>Hokuriku Bank, Ltd.</td>
</tr>
<tr>
<td><strong>Country:</strong></td>
<td>JAPAN</td>
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<tr>
<td><strong>Country Risk Status:</strong></td>
<td>Standard Risk</td>
</tr>
<tr>
<td><strong>Client Profile Approval Status:</strong></td>
<td>Approved</td>
</tr>
</tbody>
</table>

Changes to these fields on "Approved" Profiles require Re-approval.

Confidential Treatment Requested

HSBC-PSI-PROD-0102416
The bank was established as the Kanazawa 12th National Bank on 1/31/1943, with the house of Kayama-Maeda providing 70% of the financing. This was the creation of the bank established by Kayama Toshio, 3rd head of the Kayama clan. The Bank was the corner bank of the family established by the founder of the Kaga clan. The Bank was the result of four banks, including ISank merging to form Hokuriku Bank. In 1959, Tokyo Stock Exchange. In 2003, Hokuriku formed and Hokuriku became a subsidiary of HSBC-PSI-PROD-0102416. Financial Group. In 2004, the Group integrated management with Hokuriku Bank and the Group name changed from Hokurgin Financial Group, Inc to the Permanent Subc:ommittee on Investigations.
II. Ownership/Management/Business Information

<table>
<thead>
<tr>
<th>Name of Principal or Depository Owner</th>
<th>% of Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hokuriku Financial Group Inc.</td>
<td>100.0%</td>
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<table>
<thead>
<tr>
<th>Name of Corporate Officers</th>
<th>Title/Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>President</td>
<td>President</td>
</tr>
<tr>
<td>Deputy President</td>
<td>Deputy President</td>
</tr>
<tr>
<td>Senior Managing Director</td>
<td>Senior Managing Director</td>
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</table>

<table>
<thead>
<tr>
<th>Total Number of Employees</th>
<th>1,546 (2017 annual report)</th>
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<tbody>
<tr>
<td>Number of Subsidiaries</td>
<td>10</td>
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<table>
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<tr>
<th>Registration Authority</th>
<th>Financial Services Agency</th>
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<tbody>
<tr>
<td>Country of Incorporation</td>
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</tr>
<tr>
<td>Year of Incorporation</td>
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<tr>
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<tr>
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<table>
<thead>
<tr>
<th>Affiliates/Principal Office</th>
<th>Correspondent Banking</th>
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</thead>
<tbody>
<tr>
<td>HSBC</td>
<td>Commercial/Trade Banking, Other</td>
</tr>
</tbody>
</table>

III. Referral Information

12/05/2011 04:41:55 PM

Confidential Treatment Requested

HSBC-PSI-PROC-0102417
Know Your Customer: Hokunku Bank, Ltd

IV. Visitation

<table>
<thead>
<tr>
<th>General Visitation:</th>
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<tbody>
<tr>
<td>was a client site visit performed</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Visit Details:</th>
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</thead>
<tbody>
<tr>
<td>02/28/2005</td>
</tr>
<tr>
<td>T. Kondo</td>
</tr>
<tr>
<td>K. Tanka</td>
</tr>
<tr>
<td>Purpose: Cash Letter</td>
</tr>
<tr>
<td>USD Cash Letter</td>
</tr>
<tr>
<td>date of visit</td>
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<table>
<thead>
<tr>
<th>V. Purpose/Nature of Activity</th>
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</thead>
<tbody>
<tr>
<td>Transaction Type</td>
</tr>
<tr>
<td>------------------</td>
</tr>
<tr>
<td>ACH (Clearing House)</td>
</tr>
<tr>
<td>APP (Account Reconciliation)</td>
</tr>
<tr>
<td>Asset Management</td>
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<tr>
<td>Check Collection (Cash Letter)</td>
</tr>
<tr>
<td>Clearing/Current Drafts</td>
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<td>Credit Line</td>
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<tr>
<td>Commercial Line</td>
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<td>Commitments</td>
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<td>Current Account</td>
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<td>Derivative</td>
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<tr>
<td>Fundsharing</td>
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<td>Interbank Exposure Limit</td>
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<td>Letters of Credit</td>
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<td>Loans</td>
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Confidential Treatment Requested

HSBC-P5/PROD-0102410
Know Your Customer, Hokuriku Bank, Ltd

VI. Financial Summary

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<th>Description</th>
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<td>Current Account (In USD)</td>
<td>44,265,000</td>
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<tr>
<td>Cash on Hand</td>
<td>1,003,145,000</td>
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<tr>
<td>Short-Term Investments in Bonds</td>
<td>8,844,575,000</td>
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<tr>
<td>Long-Term Investments in Bonds</td>
<td>286,640,000</td>
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<tr>
<td>Long-Term Investments in Notes</td>
<td>286,640,000</td>
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<tr>
<td>Stockholders' Equity</td>
<td>2,400,000</td>
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<tr>
<td>Total Assets</td>
<td>3,543,695,000</td>
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</table>

VII. Documentation Checklist

- Use of Authorized Signatories and No Corporate Resolution
- Client Bank
- Branch of National Bank located in Japan
- Current Annual Report from US Office of Financial Institutions
- Branch of Bank located in Japan
- Indica Signing References and Bankers (List 1)
  - The Bank of New York
  - Citibank, N.A.
  - J.P. Morgan Chase Bank, N.A.
  - HSBC Bank, N.A.

Bank Client and Not a Central Bank

- Branch of Bank located in Japan
- No, N/K/A

Foreign Bank Client and Not a Central Bank

- Has USA Parent
- Certified for US
- Overseas bank located outside of US
- Branch of bank located in Japan
- Indica Signing References and Bankers (List 2)
  - HSBC Bank, N.A.
  - J.P. Morgan Chase Bank, N.A.
  - Citibank, N.A.
  - The Bank of New York

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: Cash Letter, Funds Transfer, Letter of Credit

Concept: No

Confidential Treatment Requested

13052011 04:47:59 PM  Page 5
Know Your Customer: Hokuriku Bank, Ltd


Activity Monitoring:

For email from Client Services dated 3/9/09, acct 50385 was closed on 2/6/2009 and the balance transferred to 34738.

Ownership - Comment on the owner's/principal's background, history and reputation:
Hokuriku Financial Group Inc,
The Hokuriku 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 publicly traded on the Tokyo & Sapporo Stock Exchanges.

Source: 2007 annual report

Management - Comment on the Client's professionalism, expertise, experience, and dedication of senior officers / associates:
Shigeo Takagi, President
Mr. Shigeo Takagi has been serving as President and Representative Director of Hokuriku Financial Group, Inc., as well as President and Representative Director of its 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.

SOURCE: WIIITRIANT.COM

Shigeaki Haneoka, Senior Managing Director
Mr. Shigeaki Haneoka has been serving as Director of Hokuriku Financial Group, Inc. since September 2003. He is also serving as Managing Director of Hokuriku Bank, where he has served as Managing Director, Manager of Office, Manager of Sales Planning and Director in March 1971. He graduated from Hitotsubashi University with a degree in Economics.

Source: www.marketsfree.com

Visit took place on 9/12/2008 with HSBC's attendees Matsumoto-san and Machiko M. Yamashita and Client's attendees Mr. Akahashi, 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 the 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 vs. TCs. HBUS is currently the sole Cash Letter provider for Hokuriku Bank and want to stop providing this service to Hokuriku Bank. (It needs some grace period to find out alternative service provider and revamp its system which is currently arranged to meet HBUS's requirements and also make sure the new service process will not affect_branch office)

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 for arranging operational process in order to help HBUS to


Confidential Treatment Requested HSBC-PSI-PYOD-0102420
Know Your Customer, Hokuriku Bank, Ltd.

Introducing 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 the requirement on high value deposit (exceeding USD20k per deposit), since when they have been providing their customers' information including name, address and business as well as amount and number of TCs. If HSBC requires further more information about different process, Hokuriku bank is ready to discuss on that.

1942

Close the Client’s KYC and Anti-Money Laundering (AML) risk and procedure documentation.

Close the client’s KYC and AML process documentation and verification when closing an account and maintaining the required records.

Close the client’s adherence program regarding the processes for the department of the branch.

Close the client’s active accounts to ensure documentation is obtained.

Close the client’s account from the process to account for documentation requirements.

Close the client’s account to ensure documentation is obtained.

Close the client’s account to ensure documentation is obtained.

Close the client’s account to ensure documentation is obtained.

Close the client’s account to ensure documentation is obtained.

Close the client’s account to ensure documentation is obtained.

Know Your Customer, Hokuriku Bank, Ltd.

Incentive 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 the requirement on high value deposit (exceeding USD20k per deposit), since when they have been providing their customers’ information including name, address and business as well as amount and number of TCs. If HSBC requires further more information about different process, Hokuriku bank is ready to discuss on that.

1206/2011 04:47:59 PM Page 7

Confidential Treatment Requested HSBC-PSI-PRCD-0102421
The government of Japan is also considering measures to implement FATF's Special Recommendation Nine, which requires trans-border currency reporting requirements. After September 11, 2001, Japan has regularly searched for and designated accounts linked to terrorist or other illicit organizations listed on the UN or other sanctions lists.

Underground banking systems operate widely in Japan, especially in areas bordering China, North and South Korea, and Peru. These systems are used to launder funds from illegal activities, often under the guise of legal financial transactions. Such systems have been targeted by international financial institutions and regulatory bodies for their potential to facilitate money laundering and terrorist financing.

Underground banking systems have been linked to terrorist organizations and other illegal activities in various ways. For example, underground banking networks in Japan have been used to launder funds transferred abroad to finance terrorist activities. These systems have also been linked to the financing of organized crime, which can include various illegal activities such as drug trafficking, corruption, and fraud.

The FATF's Special Recommendation Nine requires countries to implement measures to prevent the misuse of the international financial system for illicit purposes. Japan's government is considering measures to comply with this recommendation, as well as other international anti-money laundering and counter-terrorism financing measures. These measures will help to prevent the use of the international financial system for illicit purposes and ensure greater financial stability and security.
Know Your Customer: Hokuriku Bank, Ltd

KYC Review: 08/14/2008

Signature Section

APPROVE/DENY HISTORY:

Created: 05/29/2001 10:20:33 AM Converted from Epic

Address:

2-26, TSUTSUMI CHO-DORI
1-CHOME TOYAMA-SHI 930
JAPAN

Client Name: HOKURIKU BANK LTD. (THE)

Approver: K.C. Cagayan X Hargraves

Purpose of account changed from: [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]

Ownership percentages changed from: [3.4, 3.1, 2.8] to: [3.4, 2.3, 2.3, 2.3, 2.28, 2.1, 2.08, 1.87, 1.62, 1.59]

12/09/2011 04:47:59 PM

Confidential Treatment Requested
Know Your Customer: Hokuriku Bank, Ltd.

License Country(1) changed from: [J to. [JAPAN
Transaction Activity changed from: [DailySee Bank notes Activity SectionOccasionallyOccasionallyj to·

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 10:39 AM: Beth Fisher

AM Approved: (Old Status RM Denied), 11/20/2001 11:57 AM: Beth Fisher
No Comments

In Process: (Old Status Approved), 01/29/2002 02:12 PM: Nanayo Ryan

Other Accounts changed from: [D to 

AM Revised: (Old Status AM Approved), 11/20/2001 10:09 PM: Beth Fisher

KYC Updated
RM Denied: (Old Status AM Approved), 02/16/2002 03:50 PM: Beth Fisher

AM Approved: (Old Status RM Denied), 02/16/2002 12:24 AM: Nanayo Ryan

Approved: (Old Status AM Approved), 02/16/2002 08:57 PM: Beth Fisher
No Comments

In Process: (Old Status Approved), 02/15/2002 06:49 PM: Nanayo Ryan


Ownership percentage changed from: (0.46, 0.22, 0.46, 15, 1.45, 1.41, 1.41) to: (100)

AM Approved: (Old Status In Process), 02/15/2002 06:17 PM: Nanayo Ryan

Approved: (Old Status AM Approved), 02/15/2002 10:39 AM: Beth Fisher

In Process: (Old Status Approved), 02/14/2002 12:06 PM: KG Krugers K. Hargraves

Name of principals changed from: (Hokukoku Financial Group Inc, Toyama, Japan) to: (Hokuhoku Financial Group Inc, Toyama, Japan)

AM Approved: (Old Status In Process), 07/22/2008 12:25 PM: KG Krugers K. Hargraves

Annual review update
RM Denied: (Old Status AM Approved), 07/22/2008 02:09 PM: Wayne W Ferguson
No Comments
Know Your Customer: Hokoku Bank, Ltd

Annual Review

Approved: (Old Status RM Denied), 07/22/2008 09:00 PM, Kgomotso X Hargraves
Approved: (Old Status AM Approved), 08/04/2008 01:21 PM, Anthony Julien
No Comments

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<th>Reason for Update</th>
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<tr>
<td>Shannon M Jones</td>
<td>09/03/2010 06:48:41 AM</td>
<td>Updated certification date and business address</td>
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<tr>
<td>Danielle A Twerski</td>
<td>09/18/2010 01:01:54 PM</td>
<td>Updated new RM - prev memo incorrect</td>
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<tr>
<td>Danielle A Twerski</td>
<td>09/27/2011 02:23:19 PM</td>
<td>Updated for potential exit of relationship</td>
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<td>Kim Zinszer</td>
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<td>2-10, NihonbashlMuromachi</td>
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<td></td>
<td></td>
<td>3-Choume, Chuo, 103-0022</td>
<td>103-0022</td>
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</tbody>
</table>

Confidential Treatment Requested   HSBC-PSI-PROC-0102425
Call Report CV

Client* Social Investment Bank

**Main Details**

Date of Call 27 September 2009  
Country of Call Bangladesh  
Title Periodic courtesy call and AML issues  
Call type Client Meeting at Client

**Attendees**

Reported on behalf of RODRIGUES, Virgil P

<table>
<thead>
<tr>
<th>HSBC attendees</th>
<th>...</th>
<th>Client attendees</th>
<th>...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td>Job Title</td>
<td>Country</td>
<td>Name</td>
</tr>
<tr>
<td>REZA, Sabrina</td>
<td>MANAGER II and HGS ASST. RELATIONSHIP MK. BD</td>
<td>Bangladesh</td>
<td></td>
</tr>
<tr>
<td>HASAN, Ekramul</td>
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</tbody>
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Other attendees  
Not stored in the system

Client attends Executive role

Chairman  
Treasury  
Chief Executive Officer  
Chief Financial Officer

**Detailed description**

Existing Attachments

Had a courtesy call with Mr. K.M. Ashaduzzaman, Managing Director and Mr. A.M.M. Fakhr, 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 offshore 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 procedures 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 issues and disputes were discussed and both of them agreed to take care of the issues from their end.

*Confidential Treatment Requested*
### Description

<table>
<thead>
<tr>
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<th>Assignee</th>
<th>Priority</th>
<th>Status</th>
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**Global-Links Referrals**

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<th>Referral Date</th>
<th>Referred By</th>
<th>Referred To</th>
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</table>

**Security**

- Does this document contain any particularly sensitive information?
  - Yes
  - No

Consent Given: The Client or Client Group has given Consent to share information

http://clientvision.systems.uk.hsbc/opensCallReport.do?_wid=1257345269713&object...11/04/2009

Confidential Treatment Requested

HSBC-PSI-PROC-0102516
**Main Details**

- **Date of Call**: 10 June 2009
- **Country of Call**: Bangladesh
- **Title**: Periodic courtesy call
- **Call type**: Client Meeting at Client

**Attendees**

- Reported on behalf of: RQOOGIES, Vog 2

<table>
<thead>
<tr>
<th>HSBC Attendees</th>
<th>Page 1 of 2</th>
<th>Client attendees</th>
<th>Page 2 of 2</th>
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<td>Name</td>
<td>Job Title</td>
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<td>Name</td>
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<tr>
<td>ROCOOGIES, Vog 2</td>
<td>CEO, Relationship Manager</td>
<td>Bangladesh</td>
<td>NAVID, Virgol</td>
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<td>AHMAD, Unknown</td>
<td>Relationship Manager</td>
<td>Bangladesh</td>
<td>NAVID, Virgol</td>
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</table>

**Other attendees**

- [not stored in the system]

- **Chairman**: Executive role
- **Treasurer**: Executive role

**Detailed description**

Existing Attachments

It was a periodic courtesy call to Social Islamic Bank, Limited, where they want 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 2009.

The meeting was called by Social Islamic 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 HBU. 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 HBU. Which, in turn, will encourage them to increase our PI volume and minimize their account maintenance cost.

**Follow-up Tasks**

http://clientvision.systems.uk.hsbc.com/openCallReport.do?_wid=1257186064022&object... 11/02/2009
<table>
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<th>Referral Date</th>
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**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 deal specific consent comments.

**Reader rights**

- Account Owner
- The Deal Team
- Client Service Team
- Direct Managers
- All of Global Banking globally

**Editor rights**

- Named individual readers
- Add the CST to the list?

**History**


Confidential Treatment Requested

HSBC-PSI-PRID-0/102618
Call Report CV

Call Report

Client: Social Investment Bank
Related CAOs and Deals

Date of Call: 24 September 2009
Products
Country of Call: Bangladesh
Title: KYC & AML Issues
Call type: Client Meeting at Client

Attendees

Reported on behalf of AHMAD, Inhafique

Resultant Business

Name | Job Title | Country | Name | Job Title | Country
--- | --- | --- | --- | --- | ---
RODRIGUES, Virgil | Division Head | Bangladesh | SHOHIDUDDIN, Muhammad | ASSY | Bangladesh
AHMAD, Ishaque | RELATIONSHIP MANAGER, IB | Bangladesh

Existing Attachments

The visit was initiated to follow up the present status of IIRQ 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 HSUS and IML accounts.

Follow-up Tasks

Description | Assignee | Priority | Status | Date
--- | --- | --- | --- | ---

Security

Does this document contain any particularly sensitive information?

Yes

Consent Given: The Client or Client Group has given Consent to share information

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Jake Houseknecht http://clientvision.systems.uk.hsbc/is/clientReport.do?_wid=12315... 01/09/2009
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HSBC-PSI-PROD-010320
### PARTICULARS OF DIRECTOR OF SIBI

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<thead>
<tr>
<th>Field</th>
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<tr>
<td>NAME</td>
<td>Abdul Awa Patwary</td>
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<tr>
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<td>where the interest is involved</td>
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<td>Foyles Shopping Complex Ltd</td>
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<td>Patwary Cold Storage Ltd</td>
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<td>Patwary Potato Flakes Ltd</td>
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<td>GreenTech Greenhouse Bangladesh Ltd</td>
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<tr>
<td>Managing Director</td>
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<td>Foyles Traders</td>
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<td>PHONENNUMER</td>
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Confidential Treatment Requested

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Signature: 
(Md. Sayedur Rahman)
ABOUT US >> Board of Directors

LIST OF DIRECTORS OF THE BOARD

1. Mr. Alhaj NASRUDIN
   Chairman

2. Mr. Munshi Akhtaruzzaman
   Vice Chairman

3. Mr. Md. Sayedur Rahman
   Vice Chairman

4. Mr. Abdul Awal Patwary
   Director

5. Mr. Md. Humayun Kabir Khan
   Director

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

   Director

10. Mrs. Zohra Alam. 
    Director
11. Mr. Kamaluddin Ahmed.  
   Director

   Director

13. Mr. A. Jabbar Mofleh  
   Director

14. Mr. K. M. Ashaduzzaman.  
   Managing Director

Mr. Mahamud Hassan  
Company Secretary


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SOCIAL INVESTMENT BANK LTD.
Head Office, Dhaka
DIRECTOR'S BUSINESS INFORMATION

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name</th>
<th>Name of Firm/Companies</th>
<th>Nature of Business</th>
</tr>
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</table>
| 1      | Mr. Abdul Awal Patwary, Chairman | Chairman *Potato Preserve Center  
*Foy'sl and Company  
*Foy'sl Shipping & Navigation  
*A.A. Maritime Int'l Ltd  
*Foy'sl Marble Corp.  
Chairman *Gista Int'l (BD) Ltd.  
*Airport Int'l Hotels and Foy'sl Shopping Mall | *Foy'sl Preserve Center  
*Pumps  
*Foy'sl and Company  
*Shipping  
*Foy'sl Int'l Shipping Lines.  
*Foy'sl Marble Corp.  
*Import of Marble, Granite and Sanitary Goods  
*Trading &  
*5 Star Residential Hotel. |
| 2      | Alhaj Nasir Uddin, Vice Chairman | Managing Director *JAN Corporation Ltd.  
*New Trade Corporation  
*Ahsan Trading Company | *Import and Export  
*Trading |
| 3      | Md. Syed Rehman, Vice Chairman | Managing Director *M/S Lodestar Garments Ltd.  
*M/S Lodestar Fashions Ltd.  
*M/S Mid Asia Fashions Ltd.  
*M/S Jessore Fishery | *Readymade Garments Industry  
*Trading  
*Real Estate Business  
*Fishing |
| 4      | Major (Retd.) Dr. Md. Rezaul Haque, Director | Chairman *Little House Limited.  
*Forum Co-operative Society  
*Sponsor Director  
*Continental Hospital Ltd. | *Real Estate Business  
*Computer Training and etc  
*Hospital Business |
| 5      | Alhaj Sultan Mahomed Chowdhury, Director | Proprietor *Pharmax, Dal, Flour and Oil Mills  
*Pharmax Garments  
*Pharmax Food Industry | *Industry  
*Industry |
| 6      | Hamdard Laboratories (WAQF) Bangladesh Represented by Mr. Asiful Haque | Director Finance & Accounts  
*Hamdard Laboratories & Waqf  
*Bangladesh Ltd.  
*Hamdard (WAQF) Bangladesh Ltd.  
*Sonargaon Dhaka. | *Herbal Medicine |
| 7      | Mrs. Nargis Mian, Director | Housewife | |
| 8      | Mrs. Zohra Alam, Director | House Wife | |
| 9      | Mr. Kamal Uddin Ahmed, Director | Proprietor *Ahn Commodities House  
*Sonali Trading Corporation. | *Import and export  
*CAF Firm. |
<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Title/Senior Position</th>
<th>Company Details</th>
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<tbody>
<tr>
<td>10</td>
<td>Mr. Ahmed Akbar Sobhan</td>
<td>Director</td>
<td>Chairman &amp; Managing Director, Holy Crescent Hospital Ltd.</td>
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<tr>
<td></td>
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<td>*FAB Plus (Pvt.) Ltd.</td>
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<td>*Real Estate and Housing</td>
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<td>*Clinker Grinding Cement Mills</td>
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<td>*Recycle Poly and Newprint Making Industries</td>
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<td>11</td>
<td>Alhaj SK. Mofid. Rabban Ali</td>
<td>Director</td>
<td>Managing Director, Bashundhara Group of Companies</td>
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<td>*Basundhara Import Export Ltd.</td>
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<td>*Frey Schmidt Tissue Ltd.</td>
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<td></td>
<td>*Recycle Poly and Newprint Making Industries</td>
</tr>
<tr>
<td>12</td>
<td>Mr. Munsii Abulnurazaman</td>
<td>Director</td>
<td>Managing Director, Inland Navigation Development Corporation</td>
</tr>
<tr>
<td></td>
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<td>*Chinatown: Bimane, Banglades, Proprietor, M/S. Akbar Enterprise</td>
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<td>*Import of Various Items</td>
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<td>13</td>
<td>Mr. Md. Haseen Khan</td>
<td>Director</td>
<td>Chairman, Smooth Corporation</td>
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<td></td>
<td>Trading</td>
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<tr>
<td>14</td>
<td>Mr. K.M. Asaduzzaman</td>
<td>Managing Director</td>
<td></td>
</tr>
</tbody>
</table>
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. Nasim 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 Al-haj 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.Knits 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 25 years of vast business experience in different field of business. He has obtained diploma in Textile Chemistry. He is the Chairman of Narzangi 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 Zinc Limited, S. Alam Cement Limited, S. Alam Vegetable Oil Limited, S. Alam Super Sable Oil Limited, S. Alam Bag Manufacturing Mills Limited, S. Alam Hatchery Limited, S. Alam Luxury Chair Coach Service Limited, S. Alam Broth Limited, S. Alam Nail 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. Foyez Ahmed Patwary:
Mr. Foyez 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. 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 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
Name: Mohammad Sayedur Rahman
Father's Name: Redacted
Mother's Name: Redacted
Position: Vice-Chairman, RANS Real Estate Ltd.
Address: Redacted
Date Of Birth: Redacted
Nationality: Bangladeshi by birth.
http://ransrealestate.com/vice%20chairman.htm
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, Lodestar Packaging
   h) Managing Director, Blue Bell Shipping.

http://ransrealestate.com/vice%20chairman.htm
<table>
<thead>
<tr>
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<td>* M/s Mld Asia Fashions Ltd.</td>
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<td>* M/s Jessore Fishery</td>
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Names of Securities

**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 Foremost 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 Randeta 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 Zaitkland Insurance Company Ltd.
23. 11016 Prime Insurance Company Ltd.
24. 11017 Pioneer Insurance Company Ltd.
25. 11021 Nitil 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 Takful 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 & 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 Dallma Cotton Spinning Mills Ltd
7. 12007 Bashimco Synthetics Ltd
8. 12011 Hexanex Ltd
9. 12012 Sajib Knitwear and Garments Ltd
10. 12013 Chitex Ltd
11. 12014 Sheerup Textile Mills Ltd
12. 12015 Hamee 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/Company_Name.html

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<td>7. Islami Bank Bangladesh Ltd</td>
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<td>8. IFIC Bank Ltd</td>
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<td>9. Al-Arafah Islami Bank Limited</td>
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<td>13. National Credit &amp; Commerce Bank Ltd.</td>
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<td>14. Dutch-Bangla Bank Ltd</td>
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<td>27. The Premier Bank Ltd</td>
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<td>28. Trust Bank Ltd</td>
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<td>29. First Security Islami Bank Ltd</td>
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http://www.csebd.com/cse/companyinfo/Company/Name.html
CIBM - Institutional Banking

Part One - Medium Risk

OECD FATF website

KYC Profile Reference Number:

Social Islami Bank Limited

Institutional Client Name:

A Basic Identification Details

Address:

Head Office, 15, Dilkusha Commercial Area
Dhaka -1000, Bangladesh

Country/Territory:

Bangladesh

Telephone:

88 02 9556014, 9568098, 9568275

Facsimile:

88 02 9556013, 9564764

Website:

www.siblbd.com

HSBC Entity

Italy

Industry Sector

Banks

Type of Client:

Socially responsible

What is the client's principal line(s)

Social Investment is a Islamic Shariah based bank. The principle lines

of business? (Please click here to see Explanatory Note 22)

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 retail sector.

Country/Territory in which the client

Bangladesh

is incorporated:

Confirm that the client is regulated:

Yes

By which body is the client regulated

Bangladesh Bank

Detail regulatory body role and

The Banks in Bangladesh is regulated by the Bangladesh Bank

powers within the broad financial

(country's Central Bank). The Central Bank has statutory objectives

infrastructure of the country (Please

relating to the financial system: maintaining market confidence;

click here to see Explanatory Note

promoting public understanding; protecting consumers; and reducing

31F)

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://emoa-apps.systems.uk.hsbclcoreapps/iKYC/gb/kyc.ms?/AdvSearch/776C08D865FCDCC0257574005A4EB7....

Confidential Treatment Requested
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)

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)

Confirm that it is not an offshore bank: (Please click here to see Explanatory Note 26)

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? Yes

Which exchange? Dhaka & Chittagong Stock Exchange

Date Relationship with local office commenced (dd/mm/yyyy): 09/01/2006

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)

Not applicable. No single individual/entity has more than 10% stake in the bank.

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)

http://emea-apps.systems.uk.hsbc.com/KYCDbkpcyks.nsf/AdvSearch/776C08DF8F5FCDC0025574005AB489F7?...

Confidential Treatment Requested

HSBC-PSI-PROD-0102847
Would any of the principal owners/controllers of the client be classified as special category clients (SCC)? Note 25

No.

Membership and composition of the board is appropriate and as per Bangladesh Bank guidelines.

World check 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.

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. Note 23

Yes.

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. Note 24

Yes.

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), 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 or in the terrorist lists or

http://emos-apps.systems.uk.habo/comapps/KYC/gphkyc.nsf/AdvSearch/776C8878F655CDCC523574605AAB4EB7...
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)

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 end other Govt. agencies also undertake 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...
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 banks: (Please click here to see Explanatory Note 4)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>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)</td>
<td>Once a year</td>
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E Additional Local Regulatory Requirements

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 details. The guidelines also imposed restriction in 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 / indentures 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://emos-apps.systems.uk.hsbc/coreapps/KYC/ghkgyc.nsf/AdvSearch/776C0BD8F5FCCDCC0257574005A84EBF?...

Confidential Treatment Requested
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 Authorized 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 issues 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

Mahbub 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 Camden 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 2)

Yes

B Transactional Activity

The Know Your Customer policy requires a listing of the client’s

http://emea-apps.systems.uk.hshb.co.uk/ykyc/AdvSearch/776C0BDFF65FCDCC0237574003A4EB?

Confidential Treatment Requested HSBC-PSI-PROD-0102691
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 Docs
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 deterrent 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:
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.
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

Author Details

Document Edit history

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http://emea-ppps.systems.uk.hsho/coreapps/KYC/gb/kyc:ns/AdvSearch/776C0FB8F65FCDCC8255174095AB4EB2...
Dear Jon,

Please note comments on your mail in GREEN.

Regards

Virgil D RODRIGUES  
Assistant Relationship Manager, Institutional Banking | HSBC BANGLADESH  
Dhaka Main Office, Anchor Tower 7th Floor  
106, Sir Fazlul Hossain Road, Dhaka-1205

Phone: +880 2 9660536 X 735  
Fax: +880 2 8626560  
Email: virgildrodrigues@hsbc.com.bd  
Internet: http://www.hsbc.com.bd

Cc: Ahmed SAAD, Ishtiaque AHMAD, Sadique REZA, Hersel Mehanl

Sadique REZA  
Division Head | International Banking & Securities Services  
The Hongkong and Shanghai Banking Corporation Limited  
Anchor Tower 7th Fl 106 Sir Fazlul Hossain Road, Dhaka-1205, Bangladesh.

Phone: +880 2 9660536 X 770  
Fax: +880 2 9625512  
Email: sadigueren@hsbc.com.bd

Sent from: virgildrodrigues@hsbc.com.bd

Confidential Treatment Requested
Hi Ishtiaque,

Were the below issues addressed with Social Islam?

Thanks for your assistance,

Jon K. Jones
Senior Analyst | HSBC Bank USA
90 Christiana Road, New Castle, DE 19720
Phone 302-327-2017

From: Jon K. Jones/HBUS@HSBC To: Ishtiaque AHMADIIB DAI@HSBC@HSBC03, Hersel Mehani/HBUS/HSBC@HSBC02, Ali S Kazmi/HBUS/HSBC@HSBC02, Gillian E Baci1stein/HBUSIHSBC@HSBC02, PSRR@HSBC02
Cc: Date: 02/09/2010 03:39 PM Subject: Compliance Conditions: Social Islam Bank Ltd

Hi 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 3/812005 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 IRO 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 IRO. (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
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 IRO or previously confirmed.
3. Fresh confirmation is required that no dividends have been paid to IRO.

You may click on the following link to the profile:

--- Forwarded by Jon K Jones@HSBC on 02/09/2010 03:32 PM ---
Re: EDD Report of Findings: AB Bank Limited in Bangladesh (PCM)

All S Kazmy sc: Daniel Jack

09/16/2019 09:03 AM

Dear,

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.

---

From: Daniel Jack [mailto:Daniel.Jack@HSBC.com]
Cc: Jon K Jones, A S Kazmy, Joanna S Flanagan, Denis E O'Brien, Judy P Stoldt

Date: 09/17/2019 09:09 PM

Subject: Jon, Please review this RFO and provide us with... 09/17/2019 09:03:37 PM

Please review this RFO 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 on PEP, KYC profile -> but we need clarification/resolution on the EDD RFO 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, G71
HSBC Bank USA, NA
452 Fifth Avenue, 7111 floor, New York, NY 10018
Phone: 212-525-8686
Email: daniel.jack@us.hsbc.com

--- Forwarded by Daniel Jack/HBUS/HSBC on 09/17/2019 08:51 PM ---

Confidential Treatment Requested

HSBC-PS4-PROC-010740
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 (212-35254214) if you have any queries.
Compliance Conditions: Social Islami Bank Ltd
Jon K Jones 10:21:120912010 03:39 PM
Cc: Ali S Kazmy, Gillian E Bachstein, PSRR

Reza, Hersel Mehan, Ishliaque 0210912010 03:39 PM

Ishliaque,

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

From: Ali S Kazmy/HBUS/HSBC
To: Jon K Jones/HBUS/HSBC
Cc: HSBC 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:

Confidential Material Requested
HSBC-PSI-PROC-0102742
Ref: SIBL/ACIDIF-2009/No.1
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 shareholders 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, 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.
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 Chattogram Stock Exchange.

- Management Details: As for the management details we have attached herewith brief bio-data 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

Confidential Treatment Requested

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Total: 504,450

Percentage: 100%
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<td>SHARON KUSHA CJA</td>
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*Redacted by the Permanent Subcommittee on Investigations*
**PARTICULARS OF DIRECTOR OF SIBL**

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<tr>
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<td>BUSINESS</td>
<td>Chairman: Patwary Cold Storage Ltd  Patwary Potato Flakes Ltd  Greentech GreenHouse Bangladesh Ltd</td>
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<td>Managing Director: Foysal Shopping Complex Ltd  Foysal Traders</td>
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<td>(Abdul Awal Patwary)</td>
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<tr>
<td>Name</td>
<td>Md. Sayedur Rahman</td>
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| 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 |
| Home                  | Redacted           |
| Office/Business       | Redacted           |
| Mobile                | Redacted           |

Signature: (Md. Sayedur Rahman)
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)
   - [ ] HSBC Remit Master, Inc.
   - [ ] Citicorp Bank, N.A.
   - [ ] Other

2. Is any of this activity routed through HSBC Bank USA? [ ] Yes [ ] No
   If yes, please describe: [ ] [ ] 

3. Can the money transfer services be used by: (check all that apply)
   - [ ] 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. Must the user of these services have an account with your institution? [ ] Yes [ ] No

7. What is the maximum U.S. dollar amount that you allow to be paid out? [ ] per day, [ ] per month, [ ] per year

Other Comments:

Updated: March 2007
We have a big file on this specific shareholder "IWO". 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.

Subject: Re: Social Investment Bank Ltd (Bangladesh)

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.

Confidential Treatment Requested
Mary Anne, please centralize any comments from CFAC 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 preliminary decision is that this relationship will be allowed to continue. It will be designated as a DCC 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 Mahani, 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 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 are not aware of any nominee shareholder relationship or other ownership structure which would enable IIRO to hold more than 8% of Social Investment shares.
- 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.
- The client has no dividend payout to IIRO.
- The client has 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 gives 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, J HSBC Securities (USA) Inc.

432 FIFTH AVENUE, NEW YORK, NY 10018
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 lm@HSBC
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 Kafiz, established the International Islamic Relief Organization (IIRO) and the IIRO has an 8.62% ownership of Social Investment Bank Ltd, Bangladesh (DIDA). KYC data mentions Social Investment Bank was designated SCC category 4 (reputational risk).

Please let us know if you have any questions.

Regards,

Andy Lim
AVP, AML Compliance, HSBC Bank USA, N.A.
452 Fifth Avenue, Tower 7
New York, NY, 10018

Phone: 212-625-6139
Fax: 212-625-5769
Email: Andy.Lim@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: +1-212-625-4239
Fax: +1-212-625-4249
Email: hersel.mehani@us.hsbc.com
Internet: HSBC-GPM-Cash-Mgmt-USA

Jacob X Houseknecht
HSBC Global Site

CC

Sadique Ahian,

Hersel Mehani
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 (8.5%). 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 Awa! Patwary and Mr. Md. Sayedul 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 Mehrali/HBUS/HSSC]

Thank you,

Jake Houseknecht
PSRR
HSBC Bank USA, N.A.
90 Christiana Road
New Castle, DE 19720
(302) 327-2520
Jacobi Houseknecht/HBUS/HSSC
1994

Compliance email

Shannon M. Jones
To: Shannon M Jones
cc: PSR@HSBC
Subject: Fy: Social Investment Bank - IIRO

FYI - Princely

--- Forwarded by Princely P Munis@HSBC on 09/29/06 03:52 PM ---

To: Havele Sharyn, Gillian
cc: *Andrew Rizkalla* <andrew.rizkalla@us.hsbc.com>,
    *George Tsugranes* <george.tsugranes@us.hsbc.com>,
    Princely P Munis@HSBC
Subject: Social Investment Bank - IIRO

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 see status.

Alan T. Ketley
Senior Vice President, Anti Money Laundering
Tel: 212 525 6147 / Fax: 212 382 7580
--- Forwarded by Alan T Ketley@HSBC on 09/29/2006 03:44 PM ---

To: Alan T Ketley@HSBC
cc: Andrew Rizkalla <andrew.rizkalla@us.hsbc.com>,
    Angela Cassani@HSBC,
    Gillian E Bachovchin@HSBC,
    Stephanie L Napier@HSBC
Subject: Compliance issues from Trip to Dhaka

Note related to KYC

We asked all the questions listed in your email to Social Investment Bank - International Islamic Relief Organization which is on the OFAC list prev 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.

Confidential Treatment Requested

HSBC-PSR/PROD-0192755
Shannon M. Jones
10/02/2006 07:19:28 AM

I was informed that the bank does not have any contact with the IIRQ 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 IIRQ 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 IIRQ in any way.

3) Is the bank aware of any Nominee shareholder relationship or other ownership structure which would entitle IIRQ to hold more than 8% of Social Investment Bank?
No they are not.

4. Is the bank aware of any actions taken by IIRQ in response to the US Department of Treasury announcement?
No they are not as mentioned they do not have any contact with IIRQ.

5. Is IIRQ a customer of the bank and does the bank conduct any cross border transactions for IIRQ?
IIRQ has no relationship with the subject bank and do not maintain or operate any account with the bank.

6. Given that IIRQ is the bank’s largest shareholder, please reconfirm that IIRQ 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 IIRQ 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, IIRQ’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
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

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 ---

Tel: hersel.mehani@us.hsbc.com

To: richard.c.boyle@us.hsbc.com,
mohohuzzaman@hsbc.com.bd

Subject: Call Report: Social Investment Bank - KYC
Shannon M. Jones
10/03/2006 07:19:28 AM

Client: Social Investment Bank

HSBC attendees: MEHANI, Herzel; ALAM, Iftikhar; BOYLE, Richard C; SHOHIDUZZAMAN, Muhammad
Client attendees: ESAM, Md.; SOHEL, Abu Sadek; ASADUZZAMAN, K; SHAMSUDDOHA, A

Attendees from other Clients:

Detailed description:
Herzel discussed few issues related to IIRIO, 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 IIRIO in OFAC sanction list. The meeting was initiated to have the opinion of SIBL’s management in this regard. The management informed us that, IIRIO 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 IIRIO’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.co.hb.sco/autoLogin.do?object1d=978ACE656B-AAC9-
4965-9785-2525A7859F970

[attachment "CallReport.pdf" deleted by Hersel Mehani/HSBC]

• Forwarded by Hersel Mehani/HSBC on 09/26/2006 08:40 AM --
Iftekhar ALAM/HBAP/HSBC

To: Hersel Mehani/HSBC/HSBC

Tel: 860 2 88880504 x 250
09/26/2006 03:39 AM

Subject: Fw: USD Account with HBUS

Please follow the doclink to the Call Report.

• Forwarded by Iftekhar ALAM/HBAP/HSBC on 09/26/2006 01:41 PM --

Date of Call: 09/18/2006

Description / Purpose: USD Account with HSBC

Relationship Manager: Aftab HAIDER/IB DAK/HBAP/HSBC

Bank Representative(s): Richad Boyle/HSBC/HSBC

Customer Representative(s): Mr. Md. Monibur Rahman, Managing Director. Mr. Md. Mokhlesur Rahman, Additional Managing Director. Mr. Md. Monibur Rahman. First Assistant Vice President & Head of Treasury. Mr.
Shannon M. Jones
10/02/2006 07:19:28 AM

Hassan Ahsan Tariq, Executive Officer, International Division

Nature of Contact: Meeting on Customer's Premises

Product Discussed:

Summary: [Redacted]

Discussed issues raised by Compliance Department of HBL 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 DC confirmation limit from HSBC to conduct more business. In reply, we indicated that upon satisfactory share fixation through IPO and conducting of reasonable business through the nostro account (to be opened by HBL), we will actively consider extending DC confirmation line to Premier Bank.

Confidential Treatment Requested

HSBC-PSI-PROC-0102789
1999

Shannon M. Jones
08/07/06 10:24 AM

To: Gillian E Bache^<hsbc^<hsbc@hsbc, Shannon M Jones^<hsbc^<hsbc@hsbc
Cc: PSR@HSBC

FYI

--- Forwarded by Princely P Mars^<hsbc^<hsbc on 08/07/06 10:08 AM ---

Alan T Ketley^<hsbc^<hsbc
08/07/06 09:47 AM

To: Hersel Mehari^<hsbc^<hsbc@hsbc, Sharyn Muto^<hsbc@hsbc, Andrew Rizkalla^<andrew.rizkalla@us.hsbc.com>, George Tsugranes^<george.tsugranes@us.hsbc.com>, Princely P Mars^<hsbc^<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 1 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 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
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 gives 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.

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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
From: George Tsugranes  
Title: Vice President  
WorkGroup: AML Compliance  
Tel: 302-838-2044  
Location: DelawareOPSIS, Floor 2  
Mail Slot: 12239

To: Rhonda Lee-Thomas

cc: Narayi Ryan

Subject: Re: Fw: Social Investment Bank Ltd

Ronda - HRC designation is fine.
Rhonda Lee-Thomas on 16 Apr 2005 12:25

From: George Tsugranes, et al
WorkGroup: Client Services - Financial Institutions
Tel: 302-436-2017  
Location: Delaware
Mail Slot: 6117

Subject: Fw: Social Investment Bank Ltd

George/Terrel, (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

Steve BANNER on 16 Apr 2005 04:09

From: Steve BANNER  
Tel: 390-2-174-0583 x 611  
Location:  
Mail Slot: 2638

Subject: Social Investment Bank Ltd

Narayi,
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 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
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 Islamiyah, are highly adverse, no U.S. or foreign government law enforcement or regulatory body has stated, unconditionally, that these organizations 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 failure 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, Mohammed Azam, Late Abdul Majid, Abdul Matin Khan, Rukhsana Habibullah, Late Munshi Faizur 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.

It has been reported that the IIRO had been involved in the financing and aiding of terrorists in the 1993 World Trade Center bombing. The IIRO has also been reported to have played key roles in laundering of funds to terrorist for the 1998 African embassy bombings. The IIRO is also reported to have 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. al-Bahrani, 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 Tul炭em 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 IIRO.

Confidential Treatment Requested
HSBC-PS-PROD-0102767
Mahfouz family and Yaqub Mirsa, 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 Islam 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 Mujahideen 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, Esaam Amaout, was indicted in 2002 with conspiring to defraud its 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 "siphon project" for Maktab al-Khidmat, 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 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 same names 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.
Hi Michael,

Could you please treat this as a special request as we needed this as soon as possible.

Thanks,

Nan

--

As I am updating the KYC, would you please run an "updated" EDD on the listed "high risk" client. I have attached the KYC link below for your reference.

Bank Name:

Social Investment Bank Ltd, Dhaka, Bangladesh

Best regards,

Rhonda

Confidential Treatment Requested

HSBC-FDI-PROD-0102770
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 8.63% 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 bychanneling 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 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 do 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
From: George Tsugrahe  
Title: Vice President  
WorkGroup: AML Compliance  
Note: 18 Apr 2005 08:06  
Tel: 302-636-2044  
Location: Delaware Ops/2, Room 2

To: Rhonda Lee-Thomas

cc: Harri Mehendhi/HSBC  
Nanayo Ryan/ HSBC@HSBC@GAMERICAS  
Sharyn Malone/ HSBC@Republic

Subject: Rs: Fw: Social Investment Bank Ltd

Ronda - HRC designation is fine.

Rhonda Lee-Thomas on 18 Apr 2005 12:25

From: Rhonda Lee-Thomas  
Title: Officer  
WorkGroup: Client Services - Financial Institutions  
Note: 16 Apr 2005 12:25  
Tel: 302-636-2077  
Mail Size: 6717

To: George Tsugrahe, et al  
cc: Nanayo Ryan, et al

Subject: Fw: Social Investment Bank Ltd

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/HSBC on 04/16/2005 09:55 AM

Steve BANNER on 16 Apr 2005 04:09

From: Steve BANNER  
Tel: 880-2-9660536  
Location: Delaware  
Mail Size: 2039

To: Nanayo Ryan  
cc: Rhonda Lee-Thomas, et al

Subject: Social Investment Bank Ltd

Nanayo
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 Hasrat 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
Angela Cassell-Bush
08/03/06 09:34 PM
To: Angelo Cassell-Bush@HSBC
Subject: Investment Bank, Bangladesh

Hi Angela,

Please note the attached. The last approval was back in Oct. 2003. Please treat this profile with a priority, advising Princeley when he returns from vacation on Monday (I believe Gillian is officially on vacation at the time of this writing).

Thanks,

Sheryn Malone

--- Forwarded by Sheryn Malone/HBUS@HSBC on 08/03/2006 05:30 PM ---

Sheryn Malone on 03 Aug 2006 17:07

Mark 03 Aug 2006 17:07

From: Sheryn Malone
Tel: 212-636-2105
Title: First Vice President
Location: Delaware DSU/2, Floor 2
WeekGroup: Client Service Support
MID: 15330

To: Stephanie L. Napier, et al
cc: Gillian E. Bachstein, et al
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 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 BOP 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

Confidential Treatment Requested HSBC PSI-PROD-0102779
Angela Caswell-Bush 06/03/2006 04:44:21 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
Abd Al Hamid Sulaiman Al-Mujil (Al-Mujil) is the Executive Director of the IRO Eastern Province (IRO-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 Qaeda and is identified as a major fundraiser for the Abu Sayyaf Group (ASG) and Jamaah Islamiyah (JI). Both ASG and JI are al Qaeda-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 Qaeda 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 Qaeda co-founder Abdullah Azzam. Al-Mujil traveled continuously to meet with members of Bin Laden's organization in Arab countries. In the 1990s, Al-Mujil established a relationship with senior al Qaeda operational planner Khalid Shaykh Muhammad.

Al-Mujil has a long history of providing support to terrorist organizations. He has contributed financial assistance to ASG leaders, including Abdurahman Janjalani (deceased).

The Indonesian and Philippine branches of IRO have received support from IRO-EP, which in turn is controlled by Al-Mujil. Indeed, he is often responsible for authorizing payment transfers for IRO Philippines (IRO-PHL) and IRO Indonesia (IRO-IDN).

**Name:** Abd Al Hamid Sulaiman Al-Mujil

**AKA:** Dr. Abd Al Hamid Al-Mujil
Dr. Abd Abdul Hamid bin Sulaiman Al-Mujil
Dr. Abd Al Hamid Al-Mujal
Abd al Hamid Mujal
A.S. Mujal

**DOR:** Abu Abdallah

**Nationality:** Saudi Arabian
International Islamic Relief Organization, Philippines Branch Offices

The IIRO-PHL is a source of funding for the al Qaeda-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 Qaeda 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 Qaeda through his relations with senior al Qaeda 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 Aff, served as the director of the IIRO-PHL and used the organization to funnel money to terrorist groups including the ASG. Aff was implicated in the assassination of Father Salvatore Carzeda in San Jose Gem, 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-Islamiya al-Allamiya
Hayat al-Igatha
Hayat Al-Igatha
Igatha
Igatha
Igasra
Igasra

Confidential Treatment Requested

HSBC-PSB/PROD-0102779
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 League
- World Islamic Relief Organization
- Al Ikhlas Al-Islamiya
- Hayat al-Aghatha al-Islamiya al-Abamiya
- Hayat al-Iqtha
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Address:
International Islamic Relief Organization, Indonesia Office
Jalan Raya Ciping Jayo No. 90
East Jakarta, 13410, Indonesia
P.O. Box 3654
Jakarta, Indonesia 54021

-30-
Know Your Customer: Social Islami Bank Ltd

Know Your Customer Profile
HSBC Bank USA, N.A.

Reference: 
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

<table>
<thead>
<tr>
<th>Field</th>
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<tbody>
<tr>
<td>Client Name</td>
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</tr>
<tr>
<td>Client Type</td>
<td>Special Category of Client</td>
</tr>
<tr>
<td>Country</td>
<td>BANGLADESH</td>
</tr>
<tr>
<td>Legal Entity</td>
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<tr>
<td>Client Category</td>
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</tr>
<tr>
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<td>Bank</td>
</tr>
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<td>Client Activity Status</td>
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</table>

Changes to these fields on "Approved" Profiles require Re-approval.

Confidential Treatment Requested

Page 1

02/07/2012 12:12:58 AM
Know Your Customer: Social Islami Bank Ltd

Social Islami Bank Ltd (formerly Social Investment Bank Ltd.) was incorporated on 5th July, 1991 as a result of dedicated efforts of a group of seasoned Bangladeshis and international trade personalities. The bank started commercial operations on 23rd November, 1991, with a clear mandate to demonstrate the operational efficiency, banking and financial services as an integrated part of economic development of the country.

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, issuing of documentary drafts, and foreign exchange operations. The bank is also engaged in the provision of housing finance, personal housing, and corporate finance services.

The bank also participates in the provision of financial sector investment, management, and development services through various projects. It is also involved in the provision of Islamic banking services, investment banking, and other financial services.

Social Islami Bank Limited is regulated by the Bangladesh Bank and is subject to various banking and financial laws and regulations. The bank is committed to providing quality banking services to its customers and maintaining the highest standards of corporate governance.

General remarks

Customer

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Know Your Customer: Social Islamic Bank Ltd

II. Support Statement

On 12/20/2011, Subha Reza replied, "As FIRM, I am supportive of continuing this relationship."

III. Findings

E00 RUF Requested on 12/04/2011 - score 32, received 02/03/2011, Reflections:

"An additional feature of findings in support of E00 was performed on Social Islamic Bank Limited which is located in Bangladesh, a high risk country on per HSBC-CSR.

World Bank and other reputable sources were conducted on the client and its board of directors and there is no evidence of money laundering and/or terrorist financing or any other substantive criminal activity.

As per compliance guidelines, the client was previously classified as an SJC (Regulatory Risk) due to the client's minor ownership (1.01%), International Islamic Financial Organization (HIO), which was designated a terrorist entities by US Department of the Treasury for facilitating the funding of the Taliban and associated terrorist groups.

A final ownership by the beneficial owner with over 5% shares has been obtained from the client and there is no evidence of any individual or company that owns more than 5% share. This client continues to be on HSBC's list of high risk clients for the mailing list and/or International Islamic Financial Organization (HIO).

An RUF was conducted on 02/07/2011 and 02/14/2011. "There was no matches found in our database in or out of HSBC." The client and officers in conjunction with some terrorist, money laundering, fraud, embezzlement, and corruption are performed 02/14/2011.

Social Islamic Bank has issued a statement in a letter dated 02/05/2011.

Reference your email and subsequent conversation with our Senior Executive Vice President and Head of International Department we are providing below some updates on HSBC as required by the authorities.

The International Islamic Financial Organization (HKI) in the UK is a 5% owner of the Social Islamic Bank Limited. It is of mention that the bank does not have transactions with the organization as a shareholder owning their bank shares and there is no evidence of any suspicious activity from the bank when it was financed and received various bank shares. An executive Director of this company having liaison with the US authorities has been moved the bank's controls by the management. The bank is subject to the notice of Bangladesh Bank and Security Exchange Board of Bangladesh (SEBB). The bank has no suspicious activity of HSBC and the company did not respond to the bank's request to fulfill their requirements.

To overcome the situation and to safeguard the interest of the bank the management of the bank placed the issue before the shareholders of the bank in the 11th Annual General Meeting (AGM) held on 11.1.2008 and adopted a resolution unanimously.
Know Your Customer: Social Islami Bank Ltd

HSBC-PSI-PROD-01D2785

VerDate Nov 24 2008 09:24 Nov 27, 2012 Jkt 076646 PO 00000 Frm 00930 Fmt 6633 Sfmt 6633 P:\DOCS\76646.TXT SAFFAIRS PsN: PAT
Compliance observed on 09/29/09 that the responses provided were satisfactory and that the fact that the IRIS has no involvement in the running of the bank, is not a client of the bank and will likely be treated as a shareholder give considerable grounds for comfort.

BDF was received on 06/10/09, with no further additional information, that was not already mentioned in the previous findings.

The U.S. Department of the Treasury had announced on August 15, 2005, the designation of the Philippines and Indonesian branch offices of the London-based international Islamic Relief Organization (IRIS) for facilitating fundraising for al-Qaeda-linked and affiliated terrorist group. Treasury additionally designated Abd Al Rahman Sallum Al-Madh, the Executive Director of the Eastern Province Branch of IRIS in the Kingdom of Saudi Arabia.

Compliance Analysis: The bank’s shareholding is a minority holding and its organization’s board is not involved in any manner in the bank. Currently, that with the knowledge we have today and the knowledge available for us to review, we have investigated that IRA lacks robustness.

IV. AML/ODI Analysis

AML/ODI discussion took place 08/27/2012, new violation section for details.

V. AML Policy

A. Copy of the client’s AML policy in the file. AML Due diligence in file.

B. MTS Questions in file: Client is a payee agent for Lusail Finance Bank, Saudi Arabia; the client is not a member of any bank.

C. They do not route through HSBC USA: “Once funds come through HSBC, it’s Western Union but is not HSBC funds.” The bank clears and does not have specific AML program applies to these amount and user must have some amount.

VI. Other Knowledge

Note: Client name changed from Social Investment Bank to Social Investment Bank, Limited, effective 06/10/09.

Client notified 06/10/09 that RM/GRM has been queried several times for a resolution to this issue and the only response we have received is that they may be awaiting response from the client.

Compliance status on 06/10/09.

On 06/10/11, approval of the KYC Policy for Social Investment Bank Inc. (SIBI) was denied pending collection of more information in accordance with the International Islamic Relief Organization (IRIS), a Saudi-based Islamic charity whose status was proposed on the OFAC SDN list on 29 April 2008 (exact date not known). Since denying approval of the account in April, Compliance has commenced with P&L and with local (Bangladesh) HSCB officers and feels more confident that the ownership of SIBI has been raised to a non-material level.
Know Your Customer: Social Islami Bank Ltd

II. Ownership/Management/Business Information

<table>
<thead>
<tr>
<th>Name of Principal or Beneficial Owners</th>
<th>% of ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zabihur Rahman</td>
<td>10%</td>
</tr>
<tr>
<td>Shahidul Islam</td>
<td>10%</td>
</tr>
<tr>
<td>Md. Islam</td>
<td>10%</td>
</tr>
<tr>
<td>Md. Aziz</td>
<td>10%</td>
</tr>
</tbody>
</table>

Publicly Traded: Yes

Name of Corporate Officers:

- Zabihur Rahman (Chairman)
- Shahidul Islam (Vice Chairman)
- Md. Islam (Director)
- Md. Aziz (Director)

Total Number of Employees: 726

Main office: 535, Bank of Bangladesh

Where the branches/offices located:

- Dhaka
- Chittagong
- Khulna
- Rajshahi
- Sylhet
- Mymensingh
- Bogra
- Sirajganj
- Sylhet

Type of ownership:

- Commercial Banks

Location of the Firm’s Corporate Office:

- Bangladesh

Ownership:

- Government

Country of Incorporation:

- Bangladesh

Country of Society:

- Bangladesh

Banking:

- Yes

% of shareholding:

- Yes

Number of years in operation:

- 10 years

Note: Confidential Treatment Requested
Know Your Customer: Social Islamic Bank Ltd

<table>
<thead>
<tr>
<th>III. Referral Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>How was the Client introduced to the bank?</td>
</tr>
<tr>
<td>Relationship to Manager (CBO) or Country Relationship Manager (CROM) relationship (e.g., client is another BOC's client)</td>
</tr>
<tr>
<td>Name of Relationship Manager (CBO) or CROM</td>
</tr>
<tr>
<td>Name of Relationship Manager (CBO) or CROM</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IV. Visitation</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Visitation:</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Visitation Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of Visit</td>
</tr>
<tr>
<td>Place of Visit</td>
</tr>
<tr>
<td>Type of Visit</td>
</tr>
<tr>
<td>Name of Relationship Manager (CBO) or CROM</td>
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<tr>
<td>Name of Relationship Manager (CBO) or CROM</td>
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<tr>
<td>Client Attended</td>
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<td>Client Attended</td>
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<tr>
<td>Client Attended</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>V. Purpose/Nature of Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transactions</td>
</tr>
<tr>
<td>AIS (Account Reconciliation)</td>
</tr>
<tr>
<td>Cash Management</td>
</tr>
<tr>
<td>Check Collection (Cash Letter)</td>
</tr>
<tr>
<td>Checking/Clearing Drafts</td>
</tr>
<tr>
<td>Clearing (Cash Letter)</td>
</tr>
<tr>
<td>Commercial Loan</td>
</tr>
<tr>
<td>Commitments</td>
</tr>
<tr>
<td>Current Account</td>
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</tbody>
</table>

For Confidential Treatment Requested, please refer to the HSBC-PSI-PROC-010788 document.
Know Your Customer: Social Islam Bank Ltd

<table>
<thead>
<tr>
<th>Derivatives</th>
<th>Trading - Fixed Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forward</td>
<td>Trading - Foreign Exchange</td>
</tr>
<tr>
<td>Forward Rate Agreements</td>
<td>Trading - Futures</td>
</tr>
<tr>
<td>Swaps</td>
<td>Trading - Securities (Treasury)</td>
</tr>
<tr>
<td>Guarantees (Debt, Deposits)</td>
<td>Trading/Lending - Prime/Prime Rates</td>
</tr>
<tr>
<td>Inter-Currency Swap</td>
<td>Zero Balance Account</td>
</tr>
<tr>
<td>Letters of Credit / Bankers Acceptances</td>
<td>Occasionally</td>
</tr>
<tr>
<td>Loans</td>
<td>Other:</td>
</tr>
</tbody>
</table>

VI. Financial Summary

- Managing by House - Client Profitability
- (Unaudited returns, or data that is limited, is used make sense)
- This approach is very simple.

VII. Documentation Checklist

- List of Authorized Signatures and for Corporate Resolution in Client File
- Yes No
- Corporate Financial Statement in Client File
- Yes No
- External Banking Reference and Relationship (New, Previous, Quality, Date and Relationship)
- Yes No
- In banking reference documentation in Client File for clients related through high net worth countries
- Yes No

Bank Client and Not a Central Bank

- Copy of Banking License
- Yes No

Foreign Bank Client and Not a Central Bank

- Is a USA Patriot Act Certification
- Yes No
- (Free, data restated by US)
- 04/10/2011
- 04/07/2011

Confidential Treatment Requested

HSBC-PSI-PRD-0102709
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.

The purpose of the account is to clear USD wire transactions and DC Trade related activity. The expected DC volumes are 30-35 DCs per month, valuing from USD 30K to USD 300K. The anticipated activity for MT103 wire transfers is between 10 to 20 transactions per month.

On June 2010, the December 2010 report of transactional activities (Treasury, Third Party Transfers, Cash Letter, and Drafts) from 1/01/2010-12/31/2010 versus 01/01/2009-12/31/2009 reflected Treasury variance (71%) in actual vs expected activity due to low DC activity.

When queried on 02/05/2011, Virgil D Rodrigues responded: In Bangladesh the banks maintain USD Bureau 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 dealing accounts to settle these local currency transactions and to meet these local DC payments. As such, swap transactions are settled through inter bank accounts instead of nostro accounts and as a result such variation of treasury activity in that specific period.

Management - Comment on the owner's principal's background, history and reputation:

Social Islami Bank Ltd (SIBL) was established in 1978 as a humanitarian non-governmental organization (NGO) to provide assistance to victims of natural disasters and war all over the world. HSBC was also established after it was discovered that 80% of refugees and victims were Muslims. The major part of SIBL's social contributions came from private donations in Saudi Arabia. An endowed fund (SIBL & (SIBL)), established to generate a stable income to finance its various activities. Headquartered in Jeddah, SIBL is structured into various departments according to sector needs: the Department of Urban & Social Welfare; the Department of Education; the Department of Agricultural Affairs; the Department of Architectural & Engineering Consultancy; and the "Our Children project".

The SIBL's relief programs are directed towards the provision of medical, educational and social support of those in desperate need. It also encourages entrepreneurship by sponsoring viable economic projects and small businesses. Pat can help victims find employment and earn a living. To fulfill these objectives, the NGO 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. Preferences given to providing assistance in areas of natural disasters and wars.


Management - Comment on the Client's perspective, expertise, experience, and education of senior officers / executives:

2029
Know Your Customer: Social Islami Bank Ltd

Kamaluddin Al mamun, Chairman

Kamaluddin Al mamun has 34 years of business experience to his credit. He is the chairman of Alif Group of Industries, former Vice-President of FBCO and former President of Chittagong Chamber of Commerce and Industry (CCCI).


Anisul Haque, Vice Chairman

Mr. Anisul Haque B. Com (Hons) in Accounting from Dhaka University in 1988. He has completed CA 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. Trade Board and President of Hamdard Officers Welfare Society (HOWS). He travelled Holland, Germany, England, Malaysia, Singapore, Dubai and USA.


Mohammad Azam, Vice Chairman

Mr. Mohammad 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 Meem Brothers & Eko Canvas Trading and sponsor shareholder of Social Investment Bank Limited. He is affiliated with many social and cultural organizations.


Nasiruddin, Director

M. 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 Nasim Trading 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

Ur Rahman, Managing Director

Ur Rahman is the Managing Director of Lodestar Fashions Ltd. and Mid Asia Fashions Ltd. He is related with many social organizations.


Enhanced Due Diligence Visit: 11/22/2016

Client: Social Islami Bank Limited

HSBC attendees:
- Enrique Ahmed, Relationship Manager (R)
- Jorge RODRIGUEZ, Assistant Relationship Manager (VR)

Client attendees:
- M.M. Faisal, Executive Vice President, International Division (EVP)

Detailed description:

The meeting was arranged to understand enhanced due diligence on the client. During the meeting, the following issues have been discussed and details are given below:

Introduction of New Business and Branch expansion:

While informed that since June 2009, Social Islami Bank Ltd did not start any substantial new lines of business, there has been only a strategic expansion of products and networks which included 3 new branches and Central Remittance Processing Unit (CRPU). The bank is going to launch their Islamic Credit Card very soon.

03/27/2012 13:12:56 AM
Know Your Customer: Social Islami Bank Ltd

Ownership Changes:

There has not been any 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 notified 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.

On-boarding process:

AMMF informed that they have a very regulated and formal way in the form of checklist while opening an account.

Due diligence:

Local client on-boarding procedure is maintained as per the Central Bank AML guideline. Necessary KYC documents and transaction details (if any) are obtained. For exchange houses or Money Transfer accounts, the bank follows Central Bank procedures which include approval from Central Bank before establishing such relationships. During this approval process, detailed 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 submitted to the Central Bank for their approval.

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., Hima Money Movers OSL BR, Fast Remit SDN BHD, etc.) to facilitate inward remittances from different countries. These relationships are maintained after obtaining endorsement from the Central Bank.

Central Bank maintains transactional relationships with some Exchange Houses as high risk and prescribed specific guidelines to deal with this. It requires the Money Services’ licence issued by the Central Bank or other appropriate authority of its country of domicile. Credit report from any internationally regulated 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 Services is required before commencing the relationship with them. There are no precious metal or gem traders in Social Islami Banks customer base.

AML procedures or transaction monitoring tools:

AML and transaction monitoring of related clients while on-boarding and transactions:

AMMF informed that they have not installed any filtering system for AML monitoring. The list of sanctioned countries is maintained by the Central Bank and is distributed accordingly to all the branches from the office of the CAMLCO (Chief Anti Money Laundering Compliance Officer). They scan all wire transactions from their names, account numbers and remitting bank details and try to track it with the list provided by the Central Bank. The banks that have 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 Head Office to all the branches and CAML officers 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 need to maintain 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. Shafiul Islam, Executive Vice President is the Chief Anti Money Laundering Compliance Officer. He reports to the Managing Director of the Bank.

Contact details:

In case of any queries and documentation required to be submitted, his contact details are furnished below

Mr. Md. Shafiul Islam
Executive Vice President & Chief Anti Money Laundering Compliance Officer
Social Islami Bank Limited
Address: 1234, 5678, Bangladesh
Email: sbi@bdonline.com

2031

Confidential Treatment Requested

HSBC-PSI-PROO-0102792
Know Your Customer: Social Islami Bank Ltd

On Site Visitations: 01/06/2011

The main purpose of the visit was to meet Mr. Mosharraf Zaman (MD), Assistant Vice President (AVP), and introduce Ms. Shagufta Zabin Khan (SK). He joined recently from EXIM Bank, MoUjheel branch and was happy to see us also providing correspondent services to SIls—as well! He already has tested our services and requested us to provide them same services and standard. We informed him that we will extend them as much as we can. Subsequently, we also requested him to route more DC and Faymen! 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 Bill Rate etc. working on it and we will try our best to do it as soon as possible. He added that they are getting a lot of requests for "Confirmed" DCs but unfortunately, they cannot provide us since we don't have any Credit Line facilities with them.

On Site Visitations: 19/4/2010

The call was to invite Mr. Farhad and Mr. Muhammad Ali, Managing Director of SIBL, for dinner hosted for Mr. Colin Adam, Regional Head of Financial Institutions Sales, Global PCM, Asia Pacific. Mr. Muhammad Ali joined SIBL as the Managing Director on 01 Nov 10, hence it was a courtesy visit to the new MD.

Mr. Farhad and Mr. Muhammad Ali were very much grateful for being invited to the dinner and stressed that HSBC is a world reputed bank and he will continue to bank with HSBC in the current bank and expected to have a win-win situation from the relationship. We requested that we will try our best to provide the unparalleled service that we have been giving them and try to foster this relationship to higher grounds.

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Know Your Customer: Social Islami Bank Ltd

On Site Visitations: 02/07/2012

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, detecting unusual activity, maintaining records of all suspicious transactions, and conducting regular training programs to prevent money laundering. The bank also produces a report to the Bangladesh Bank.
| Know Your Customer: Social Islami Bank Ltd |

<table>
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<tr>
<th>Date of Inquiry</th>
<th>2033</th>
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- **Social Islami Bank Ltd**: Bangladesh is a regional and offshore financial center. Under this dynamic government, it has declared a state of emergency when it came to power on January 11, 2007, ending a decade of rule by the previous government. The new government embarked on a stringent and vigorous campaign that led to the arrest of several high-profile political figures for alleged corruption. The government has been praised for its commitment to fighting corruption and its efforts to strengthen the rule of law. Money laundering and terrorism financing are not considered illegal and are not regulated. The principal money laundering vulnerability remains the widespread use of the underground hawala system to transfer money and value, and the lack of a formal banking network. The vast majority of transactions are conducted in cash, and there is a reluctance to use formal banking channels due to the perception of inefficiency and inconvenience.

**In April and June 2008**, the government promulgated the Money Laundering Prevention Ordinance (MLPO 2008) and the Anti-Terrorism Ordinance (ATO 2000). These laws facilitate international cooperation in recovering money illegally transferred to foreign countries and mutual legal assistance in terms of mutual investigation, information, and extradition. 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 CBB to retrieve illegally transferred money.

For the past twenty years, corrupt practices have been common in Bangladesh. Between 2001 and 2006, Transparency International ranked Bangladesh as the most corrupt country in the world. In 2009, Bangladesh was ranked 103 out of 180 countries surveyed.

**Bangladesh is not considered to be a strategic financial center in the country with the highest level of perceived corruption in the world. In 2009, Bangladesh was ranked 103 out of 180 countries surveyed.**

Although positive legislation has been passed and progress has been made, the government of Bangladesh is still committed to strengthening its anti-money laundering and financial crime regime so that it can be world-rate standards. The GOB's efforts to educate and train officials in the law enforcement and judiciary sectors continue. The GOB is committed to a comprehensive approach to combating money laundering and terrorism financing, including targeted financial and economic measures, as well as enhanced information sharing and cooperation with foreign countries. The GOB is also working to ensure that banking and financial institutions have adequate controls in place to prevent money laundering and terrorist financing. The GOB is committed to ensuring that financial institutions and individuals are aware of their obligations under anti-money laundering and anti-terrorist financing laws.
Know Your Customer: SDBL Islamic Bank Ltd

Has the Client been assessed? ● Yes □ No

If yes, date: 01/10/2011

Does the Client have a credit rating? ● Yes □ No

If yes, credit rating: 01/01/2009

Employing reasonably available information, has the difference between the fitted credit risk score and the client’s AML risk been identified? ● Yes □ No

Has negative information been identified? ● Yes □ No

Has an enhanced due diligence been conducted for this high risk client? ● Yes □ No

Compliance has designated client as a SOT, for reputational risk, and passed a monitoring threshold of $5,000, effective 09/07/09.

Date of final round KYC review 01/10/2011

Department of the Account Manager / Administrator (AM) who prepared this profile: Glenda Payments & Cash Manager

Client Relations Manager / Authorised (AM) APPROVED: Jon K Jones 07/29/2011 01:24 PM

Functional Head of Business / Executive (SH) APPROVED: Anthony Julian 07/29/2011 01:33 PM

Relationship Manager / Team approved: none requested

Institutional Building / Team Leader: SH APPROVED:

Regional Money Laundering Control Officer (COO) APPROVED:

APPROVAL HISTORY:

Created: 12/14/2003 04:22:41 PM Rhonda Lee-Thomas

AM Approved (Old Status In Process), 10/13/2011 15:34 PM Rhonda Lee-Thomas

New Account: Requires immediate attention

Approved (Old Status AM Approved), 10/02/2011 05:15 PM Manfred Hoang

Group Innovative 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), 01/10/2011 01:24 PM Rhonda Lee-Thomas

Updated Cold Card

CR Denied: (Old Status AM Approved), 03/18/2008 11:40 AM Sharyn Malone

02/10/2012 10:13:59 AM
Know Your Customer: Gould Hills Bank Ltd

- Update revenue information - actual 2004 to 2003/2004
- Obtain CEO's written approval to retain (annual)

1. For another EOD Report to determine if anything has occurred during the last year.
2. Under EOD Section you mention yearly visits (yet only have Dec 04 listed) - what happened to the 1st visit?

AM Approved: (Old Status CS Denied), 26/07/2005 07:39 PM: Shannon M Jones
No Comments.

CS Approved: (Old Status AM Approved), 07/03/2007 06:54 PM: Gillian E Bachstein
No Comments.

CS Approved: (Old Status CS Approved), 07/03/2007 04:44 PM: Shannon M Jones
Updated as required. Will send email to RM to follow-up on the status of FRC shares.

CS Approved: (Old Status AM Approved), 06/12/2007 06:54 PM: Gillian E Bachstein

CS Approved: (Old Status CS Approved), 07/03/2007 01:51 AM: Bob Shetty

IB Approved: (Old Status IS Approved), 08/17/2007 01:51 PM: Alan T Kilby

AM Approved: (Old Status IS Approved), 08/17/2007 01:51 PM: Alan T Kilby

CS Approved: (Old Status CS Approved), 08/08/2007 02:14 AM: Anthony Julian
No Comments.

IB Approved: (Old Status IS Approved), 08/18/2007 02:44 AM: Gillian E Bachstein

CS Approved: (Old Status CS Approved), 08/30/2007 02:15 PM: Bob Shetty

IB Approved: (Old Status IS Approved), 03/04/2008 09:49 AM: Jon K Jones
No pending items.

AM Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

IB Approved: (Old Status IS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

IB Approved: (Old Status IS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

AM Approved: (Old Status IS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

IB Approved: (Old Status IS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

IB Approved: (Old Status IS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

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No Comments.

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No Comments.

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No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

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No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.

CS Approved: (Old Status CS Approved), 03/04/2008 09:49 AM: Jon K Jones
No Comments.
Know Your Customer: Social Islamic Bank Ltd

IS Approved: (Old Status IS Approved), 03/16/2011 12:32 PM: Tom Lazaridis

No Comments

CO Denial: (Old Status CO Approved), 03/16/2011 12:32 PM: Tom Lazaridis

Dear client,

In our view whether the disposal of the small IRO stake has been completed. The 2011 letter states that the SIBL Board of Directors voted unanimously on 30 June 2011 to dispose of the IRO stake. However, SSL has not yet confirmed whether this action has been completed. Furthermore, the letter states that SIBL approached the High Court seeking permission to 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 IRO no longer holds its ownership stake in SIBL, or until the bank provides us with a time frame by which the disposal of this ownership stake will have been completed.

AM Approved: (Old Status AM Approved), 07/22/2011 01:23 PM: Jon K Jones

Approved by direction of Compliance CS

CS Approved: (Old Status CS Approved), 07/25/2011 11:02 AM: Greg Frost

Banking references should be more current. Followup with IRO stake to continue

Please correct the double negative comment under ownership changes.

Shannon M Jones
07/21/2011 04:42 AM: Jon K Jones

Confidential Treatment Requested
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, Husa Abdulaziz Mohamed Al Fayyad, Khalid Abdulrahman Saleh Al Rajhi, Badr Abdulrahman Saleh Al Rajhi, Saud 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: Michael 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, Husa Abdulaziz Mohamed Al Fayyad, and his children, Khalid Abdulrahman Saleh Al Rajhi, Badr Abdulrahman Saleh Al Rajhi, Saud 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 Submam 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...
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 Khalid Saleh Al Rajhi is the President. *(World Check 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, 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 co-founder of Al Rajhi Banking and Investment Corp. He is known to have 6 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.dinaras.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 Ilad, 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 3rd 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. (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/ExamPolicy/tradeops/October12-18,2002.asp and http://dirinfo.delhi.nic.in/pubinfo/tradeexcl.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 Newfile, 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.
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.
Test 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
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
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.
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 been less willing to tackle the financial infrastructure essential to terrorism. U.S. intelligence reports state that Islamic banks, while mostly doing ordinary commerce, are also institutions that extremism relies upon in its global spread.

As a result, the Bush administration repeatedly debated proposals for taking strong action 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.

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, willingly 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 Sauds 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 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 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 $300,000 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, 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-Bulhe, 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 Bashr, 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 2000, 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. Bashr.

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
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.
Text of Report of Findings on Al Rajhi Banking and Investment Corp. (Al Rajhi Bank) from October 2006:

CONFIDENTIAL
*** FOR INFORMATIONAL PURPOSES ONLY ***

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 impact, 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

Confidential Treatment Requested
Cassim Docrat, AGM Head, Financial Institutions
Syed Mustafa Odeh, General Manager, Corporate Group
Kizwan Shakor, General Manager, Finance Group
Kishore Dash, General Manager, Investments & Private Banking
Asaad Anchan, AGM Treasurer, Treasury Department
Ismail Odeah, Head of Compliance
Saeed Mohd Al Gharmi, 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 Shady, Branch Manager
Nasir Bin Mohammed Al Subaiy, Deputy General Manager
Ismaeel Hussaini, 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:
Saleh Abdul Aziz Al Rajhi, Director
Saeed Omer Qasim Almayi, Director
Salah Ali Abu Al Khal, Touring
Mohammed Abdullah Al Rajhi, Director
Nauer Mohammed Al Suwail, Director
Mohammed Alabns Al Suhay, Director
Sulaiman Saleh Al Rajhi, Director
Mohammed Ibrahim Alissa, Director
Mohammed Abdul Aziz Al Rajhi, Director
Ali Mohammed Al Rajhi, Director
Abdullah Abdul Aziz Al Rajhi, Director
Abdullah Yahya Al Mouallimi, Director
Ali Ahmed Al Shady, 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
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
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
Sent by: Bob Powers

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*** FOR INFORMATIONAL PURPOSES ONLY ***

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) 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

CONFIDENTIAL
*** FOR INFORMATIONAL PURPOSES ONLY ***

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

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.
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

CONFIDENTIAL
*** FOR INFORMATIONAL PURPOSES ONLY ***

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

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 an 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)
This Space Reserved for 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 SCCT, 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 xxx:

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) 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$1,500.00 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 31st 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(ies)' bearer shares for registered shares, as of December 31st 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(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(ies') directors. Once the process has been completed, we will send to
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

Enc.
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 above 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:

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<th>NAME OF HOLDER</th>
<th>NUMBER OF SHARES OR PERCENTAGE</th>
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Confidential Treatment Requested

HSBC-PSI-PROD-0197131
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: __________________________
Name: __________________________
Signature: __________________________
Date: __________________________

Accepted and Agreed: __________________________
Name: __________________________
Signature: __________________________
Date: __________________________

Confidential Treatment Requested
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.

L/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.

L/We undertake to deliver to the Company for cancellation of said original Certificate should the same ever be recovered.

PARTICULARS OF LOST CERTIFICATE

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<th>Cert. No.</th>
<th>Amount &amp; Class of Shares</th>
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Dated this ___ day of __________, 2009

Signed: __________________________
Shareholder

Signed: __________________________
Shareholder

Signed: __________________________
Shareholder

Confidential Treatment Requested
From: Pallal AliUSTON  
Sent: Sat Feb 23 01:04:44 2008  
To: Michael f GEOGRAPH  
Cc: SIq IPR/K GREEF!; Matthew J WEEKING, Richard E T BENNETT; David W J BAGLEY  
Subject: CNBVJFIU Update  
Importance: Normal  

1. Firstly, to answers your question of why is the being kept now? The intelligence that we have been able to gather on the HSBC and HSBC's efforts to dismantle the drug gangs, crime and corruption have played a critical role in the financial investigation and have been putting increasing pressure on the local regulators because the banks have been seen as not providing good enough control. All the banks have problems with legacy risks, and adverse difficulties with the offshore regulators that were put in place a few years ago, in ensuring sufficient risk management controls. We see the situation is now being addressed by increasing regulatory pressure on the banks.  

2. Many of the banks behind the CNBV section of the report have been raised before and actions have been taken. We have taken much more effective action than they have moved to-date, but this is not the case with respect to the HSBC. While the CNBV is taking all of the banks, HSBC has historically, and continues to be, of a question mark in the way they handle their accounts. We are not sure whether the CNBV has taken all of the banks, but the HSBC has not been seen to be as good as the other banks, and we have become a focus of attention. The new head of the FIU has not yet been able to resolve this.  

3. We are investigating some of the new errors raised by the FIU and will update David Bagley on these next week. We have also been raising these issues with HSBC and have not yet been able to resolve them at the HSBC. We have been raising these issues with HSBC and have not yet been able to resolve them at the HSBC. HSBC has historically, and continues to be, of a question mark in the way they handle their accounts. While there have been problems with legacy risks, and adverse difficulties with the offshore regulators that were put in place a few years ago, in ensuring sufficient risk management controls. We see the situation is now being addressed by increasing regulatory pressure on the banks.  

4. We have been raising these issues with HSBC and have not yet been able to resolve them at the HSBC. We have been raising these issues with HSBC and have not yet been able to resolve them at the HSBC. We have been raising these issues with HSBC and have not yet been able to resolve them at the HSBC. We have been raising these issues with HSBC and have not yet been able to resolve them at the HSBC. HSBC has historically, and continues to be, of a question mark in the way they handle their accounts. While there have been problems with legacy risks, and adverse difficulties with the offshore regulators that were put in place a few years ago, in ensuring sufficient risk management controls. We see the situation is now being addressed by increasing regulatory pressure on the banks.  

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Confidential Treatment Requested
We have been informed at these places: 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 postal police enquiries or tax investigations, etc. We get 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 to better organise 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/responder 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 banksnotes - 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 Begley on Tuesday, and he and I will let you have a full report in advance of the Holdings Board meeting on Friday.

We will also be preparing our response to the CNBV/FLU reports, which we will present to them the following Monday.

Please let us know if you require anything further or have any additional comments.

Regards

Paul
From: Michael F GEOGHEGAN
Sent: Tue Feb 19 22:50:45 2008
To: Paul A THURSTON
Cc: Stephen K. GREEN; Matthew J. KING; David W. BAGLEY; Richard E. BENNETT
Subject: Re: HBMX -ML Review
Importance: Normal

Paul

Thanks—very thorough.

Mike

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

---------------------------------------------------------------------------

Paul A THURSTON

--- Original Message ---

Sent: 19/02/2008 14:06 CST
To: Michael F GEOGHEGAN; Richard E BENNETT; Matthew J KING
Cc: David W BAGLEY; Stephen GREEN
Subject: Re: HBMX -ML Review

As promised, this is where we are:

- The regional head of Security (Gress) 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 PUL 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 (Thomson, Thomson, Bentley, Rendall and Gress) 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.

Confidential Treatment Requested

HSBC-PSI-PROD-0198505
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/IFIU on Monday 3rd March (they were unable to do this last week).

We will keep Matthew King updated throughout.

Regards
Paul

Michael F GEOGHEGAN

--- Original Message ---

From: Michael F GEOGHEGAN
Sent: 02/13/2009 03:36 PM GMT
To: Richard E T DENNETT; Paul A THURSTON; Matthew J W KING
Cc: David W J BAGLEY; Stephen GHEEN
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 travelling in Paris for Seoul, he asked that David should lead in Mexico the Compliance function review.

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 (26th) 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

Confidential Treatment Requested HSBC-PSI-PROD-0198506
Mike

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

Confidential Treatment Requested

HSBC-PSI-PROD-0198507
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 K. GREEN
Subject: Re: CNBV/FIU Update

Paul

I think HBMS 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 unattended for some years

Mike

HSBC Holdings plc
Registered Office: 6 Canada Square, London E14 9HQ, United Kingdom
Registered in England number 617987

Paul A. THURSTON

--- Original Message ---

From: Paul A. THURSTON
Sent: 27/02/2008 09:07 CST
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:

1. 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 good programme manager, probably with experience of the UK G292 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-related 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 -----
Subject: Re: CNBV/PIU 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 today? 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 GMO 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

Confidential Treatment Requested  HSBC-PSI-PROD-0158512
Paul and I met with CNBV and the local Financial Intelligence Unit (FIU) yesterday. Key points made:

- Paul presented the detailed written response to all of the issues raised.
- Paul ran through the main proposed actions to achieve the KOC deadlines, mainly by
  streamlining the account opening process as quickly as possible and to handle formal
  requests for information received from CNBV more promptly and efficiently.
- We made it clear that FUS issues should be handled via a priority bank through a dedicated
  team. This action has been taken.
- CNBV expressed thanks for the prompt and full response. They also expressed a wish to
  work with HSBC to improve the process at their end.

- A further meeting will be held with HSBC to review progress in 4-6 weeks.
- There is an outstanding Q&A to whether the use of an outside law firm has breached
  banking secrecy. CNBV and HSBC will review this.
- We will normally proactively advise FIA of an incident like this in a managed way. CNBV would
  like us to do the first and then write them. CNBV will then speak to FIA.

The meeting was extremely useful and the prompt response and attention, including at Group level
was well received.

I will report fully to GC.

David Bigney

Confidential Treatment Requested
Re: MEXICO BANKNOTES / High-level Timeline

From: Paul LAWRENCE <ctulaw@lawrencehighschool.com>
To: michael.googhegan@hsbc.com
Date: Mon, 07 Jun 2010 09:26:35 -0100
Attachments: MEXICO ATTACHMENT PURCHASE ONLY-4p.jpg (5.29 KB)

As promised, here's an outline of the key events relating to the Mexican regulator's concerns over USD banknotes, leading up to your meeting in NOV08. Before sending this, I spoke to Paul Thurston (PAT), David Bagley (DE), Luis Peña and Emilio Alonso.

October 2007: PAT met alone, at their invitation, with the CNBV. They advised of their concerns over a variety of internal control weaknesses, including credit card fraud, customer service, system instability and weak KYC and had reservations over the persistence of the firm's corporate culture. PAT advised 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, noting:

- the high levels of banknotes exported by HSBC in 2005 and 2006, which are materially higher than competitor
- failures to respond to FIU enquiries in a timely manner and the use of external firms to handle such
- missing KYC documentation, and
- [Redacted]

March 2008: DB spends two weeks in Mexico, further to which he and PAT met with the CNBV and FIU, at which we provide 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, strictly in-house and
- [Redacted]

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 responses and remediation plans.

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H5BC-PSI-PROD-0198514

--- Redacted by the Permanent Subcommittee on Investigations
It is accepted that the HSBC code of compliance (COC) had not seen the regulation as well as the risk and DB had been given to understand. Additionally, the HSBC had to express, as a result of the management, that the Mexican compliance framework is similar to the same in other countries, and a decision is being taken to bring in an independent head of compliance (HCO) for HSBC, who will arrive in January 2008, replacing the time needed to this suitably updated framework. Since then, it is the need of framework for HSBC is released at the end of June 2008, although。。

April 2008, PAT and CB meeting HSBC & FII again to update on progress / actions to address the FII concerns, which are accepted by consensus understand that we are now viewed positively. Later in APRR 2008, HSBC issue Mexico.

July 2008, HSBC OCO (Randy) provides a progress report to the regional audit committee, outlining 6 workstreams, with key progress including:
- successful implementation of a process of digitisation in Mexico account opening for new accounts opened across the 1,449 branches in Mexico
- initiation of a dedicated programme to remove customer KYC files, identified in high-risk segments
- a 95% reduction from 31,709 to 3,203 in the backlog of 2008 CAMP alerts
- implementation of a new process with enhanced KYC for all customers, ordering over USD 100 per

July, and
- process improvements for responses to FII information requests

November 2008. HSBC COO (Randy) provides a progress report to the regional audit committee, updating further progress.

- an enhanced process to handle high priority FII requests that have been implemented.
- 7,081 KYC files for high-risk customers have been reviewed and remediated.
- work was underway to address the second phase (6,200 accounts with ongoing risks) and third phase (13,944 accounts with historic CAMP alerts recorded) of KYC files requiring remediation.
- transaction processing system to assist in tracking annual income excess accounts activity, was being implemented.

Your meeting with the HSBC occurs entirely here. The task of progress in addressing the volume of US$ 6bn and the CII of the graph attached below which shows monthly US$ 6bn volumes showed on average. From 2007 Q3 through Q4.

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These were escalated in February 2003, when the FIU's concerns were received.

At that point, the issues were escalated to GMO 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 HSBC.

In addition 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 FEBDS 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 NOVOS 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
Ministers 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 Durkan ............................................. Item 08/43 to 08/47 (by telephone)
Mr D J Flint
Dr W K L Pang
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 B 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

493 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

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HSBC-PSI-PROD-0198539
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
PRESENT: Sir John Bond, Chairman
The Baroness Dullard, Deputy Chairman
Sir Keith Whittington, Group Chief Executive
The Lord Butler
Dr R K F Chien
Mr W R P Dalton
Mr D G Ekem
Mr D J Fries
Dr W K L Fung
Mr S K Green
Miss S Hunter
Mr A W Johnson
Sir John Kemp-Welch
The Lord Marshall
Sir Mark Moody-Stuart
Mr S W Newton
Dr H Sohrenz
Mr 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 Tony, 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 McPherson - Item 02/117

ABSENT WITH APOLOGIES: Mr C F W de Croisset

109.3 Minute No 02/07.4 Grupo Financiero Bital
The tender offer for the acquisition of Grupo Financiero Bital closed on
22 November. The Group now owns 99.39 per cent of Bital.

CHAIRMAN
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 245, Cuauhtemoc, Mexico on Friday,
30 January 2004 at 8.30am.

PRESENT:
Sir John Bond, Chairman
The Baroness Donaldson, Deputy Chairman
Sir Brian Mullan, Deputy Chairman
Mr S K Green, Group Chief Executive
Mr W F Aldinger
The Lord Butler
Dr R K F Ch'en
Mr W P Pottos
Mr C F W de Croisset
Mr D G Edeean
Mr D J Flint
Dr W K L Fung, by telephone (Items 04/1 to 04/8)
Miss S Hand
Mr A W Johnson
Sir John Kemp-Welch
The Lord Marshall
Sir Mark Moody-Stuart
Mr S W Nevin
Dr H Sollen
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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GROUP AUDIT COMMITTEE MATTERS

Sir Brian Moltke 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 Bried) 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.
Banknotes Trading
A Global Reach
Organizational Chart
As of November 2006
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.
HSBC Bank USA, N.A., London Branch
November 2006

* Coverage for Sally Lomas during extended leave.
Banknotes - Manila (HBAP)
November 2006

Local HBAP Operations - Manager
Grace Tomelden VP & Marketing

Security
Charles Evans Staff Officer & Courier

Mhennie Guevara Administration Manager

Operations
Ruel Guevara Staff Officer & Courier

Laura Pi Administration Assistant

Homobono C Sarmiento Staff Officer & Courier

No of Staff
Marketing 1
Operations 1
Security 3
Total 6
November 2006

Bruce Li
VP & Chief Representative

Henry Su
Marketing Officer

Yan Hui
Liaison Officer

# of Staff
Manager 1
Marketing 1
Officer 1
Total 3
From: CHRISTOPHER Lok/HBUS/HSBC
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
From: DANIEL JACK/HBUS/HSBC
Sent: 8/7/2007 11:04:53 AM
TO: MICHAEL BAEZ/HBUS/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;
MICHAEL KARAM/HBUS/HSBC@HSBC;JAMES S
NATHAN/HBMD/HSBCMERIDIAN@HSBC;GRAHAM J COLLINS/PM RNH/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
From: CHRISTOPHER LOK/HBUS/HSBC
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 HK Dollar? 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 #)

Click on the attachment to open the Profile.
From: CHRISTOPHER LOK/HSBC
Sent: 5/5/2008 2:19:20 PM
TO: GARY C H YEUNG/SVP NBD RNH/HSBC@HSBC
CC: ROGER T K SO/HD NBD RNH/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 to reflect these facts please.

Chris

Gary C H YEUNG/SVP NBD RNH/HSBC@HSBC
05/05/2008 05:11 AM

To
Christopher LOK/HSBC@HSBC02

cc
Roger T K SO/HD NBD RNH/HSBC@HSBC, Stephen J ALLEN/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 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 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. Based 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 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/HSBC@HSBC02
02 May 2008 03:33 Mail Size: 6525
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/HSBC02

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 #)

Click on the attachment to open the Profile.
From: GARY C H YEUNG/SVP NBD RNH/HSBC
Sent: 7/18/2008 9:29:38 AM
To: CHRISTOPHER LOK/HSBUS/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 though 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/HSBC on 07 Mar 2008 10:30
Memo
07 Mar 2008 10:30

From: Gary C H YEUNG/SVP NBD RNH/HSBC Tel: 852 2844 1387
Mail Size: 31755

To: Salman HUSSAIN/HBME/HSBC@HSBC
David B ILLING/HBMD/HSBCMERIDIAN@HSBC
Alex F TSANG/VP NBD RNH/HSBC@HSBC
Denys K S CHAN/VP NBD RNH/HSBUS/HSBC@HSBC
Irwin C F YIU/VP NBD RNH/HSBUS/HSBC@HSBC
Jim K T HUI/VP NBD RNH/HSBUS/HSBC@HSBC
John L SCOTT/HBME/HSBC@HSBC
Roger T K SO/MD NBD RNH/HSBUS/HSBC@HSBC
Stephen J ALLEN/HBMD/HSBCMERIDIAN@HSBC
William M K WONG/AVP NBD RNH/HSBUS/HSBC@HSBC
WING KIN - SQ CHAN/CEO SIF/HSBUS/HSBC@HSBC
Betty F S NG/NBD RNH/HSBUS/HSBC@HSBC
John N H NG/NBD RNH/HSBUS/HSBC@HSBC

Your 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.
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/ HSBC

CC


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 HSBC.

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. +973 17569599

Email. salman.hussain@hsbc.com

Internet. http://www.hsbc.com

Page 2
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
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.  
email.  
Internet. http://www.hsbc.com
Dave, Salman,

HSBC 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

CC
John L SCOTT/HBMI/HSBC@HSBC, Gary C H YEUNG/NBD RNH/HSBC@HSBC, Wing

Kin - Sag CHAN/CEO SIF/HSUS/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
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
From: DENISE A REILLY/HBUS/HSBC
Sent: 3/8/2005 11:16:54 PM
To: DANIEL JACK/HBUS/HSBC@HSBC
CC: occ-psi-00169771
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

The following breakdown shows the # of KYC profiles deactivated by each
Page 1

[Redacted by the Permanent Subcommittee on Investigations]
Banknote office last month:

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:

1. 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

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.
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.
Alan,

Please call us as soon as possible - gary's mobile is ______ and mine is ________

Thanks

Alan

PS We are joining a client for dinner in 30 mins.

*********************************

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 an 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

Page 1
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 Keshavarazi, 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
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
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
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
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]
From: DENISE A REILLY/HSBC
Sent: 9/11/2008 8:33:35 PM
To: ANNE LIDDY/HSBC@HSBC
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: Re: 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'brte; Denise Reilly; Anne Liddy; Michael Gallagher; Thomas W 
Halpin
Subject: Re: FW: Hokuriku Bank

What a great answer.
Thank you,
Alan

Anthony Julian/HSBC
09/11/2008 05:51 PM

To:

Machiko M YAMASHITA/TKY/HSBC@HSBC
CC:

Ako KOBAVASHI/TKY/HSBC@HSBC, Alan P williamson/HSBC@HSBC@HSBC, Cam 
ADAMS/PCM ASP/HSBC@HSBC, Hideki MATSUSHIGUCHI/TKY/HSBC@HSBC, Michael B 
Gallagher/HSBC@HSBC@HSBC, Navin GUPTA/TKY/HSBC@HSBC, Richard SAGGARD/PCM 
ASP/HSBC@HSBC@HSBC, Takahiko KANECHIKU/TKY/HSBC@HSBC@HSBC, Thomas W 
Halpin/HSBC@HSBC@HSBC@HSBC

Subject: Re: Fw: Hokuriku Bank
Please note that HBUS senior management has reviewed this service extensively and determined that we cannot 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, BNY, 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) 317-7453
Mobile (BB): [redacted]

Machiko M YAMASHITA/TKY/HBAP/HSBC02
09/11/2008 01:07 AM

To: Alan P Williamson/HBUS/HSBC02

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
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 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@HSBC 11 Sep 2008 01:22 Mail size: 18427

To
Hideki MATSUMOTO/TKY/HBAP/HSBC, Navin GUPTA/TKY/HBAP/HSBC, Machiko M YAMASHITA/TKY/HBAP/HSBC

cc

Subject
Re: Hokuriku Bank

Page 3
Gentlemen

Can I ask for the status on this matter?

Thank you all for your help.

Alan

----- Original Message ----- 
From: Hideki MATSUMOTO
Sent: 02/03/2008 09:35 AM ZE9
To: Navin GUPTA; Machiko N 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 3203 4252

To Takahiko KANECHIKU/TKY/HBAP/HSBC@HSBC, Hideki MATSUMOTO/TKY/HBAP/HSBC@HSBC
Cc Alan P williamson/HBUS/HSBC@HSBC, Anthony Julian/HBUS/HSBC@HSBCAMERICAS, Cam ADAMS/PCM ASP/HBAP/HSBC@HSBC, Michael B Gallagher/HBUS/HSBC@HSBC, Richard JAGGARD/PCM ASP/HBAP/HSBC@HSBC, Thomas W Halpin/HBUS/HSBC@HSBC, Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC
Subject
Re: Hokuriku Bank

Our Ref
Your Ref

Page 4
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: 3936
To: Cam ADAMS/PCM ASP/HBAP/HSBC, Navin GUPTA/TKY/HBAP/HSBC, Anthony Julian/HBUS/HSBC01/HSBCAMERICAS@REPUBLIC
CC: Thomas W Halpin/HBUS/HSBC01/HSBC, Michael B Gallagher/HBUS/HSBC01/HSBC

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/HSBC01/HSBC; Fred SHYUR
CC: Thomas W Halpin/HBUS/HSBC01/HSBC; Michael B Gallagher/HBUS/HSBC01/HSBC
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 traveler’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
GROUP FINANCIAL SERVICES AUDIT

REPORT ON

HIGH LEVEL CONTROLS REVIEW OF HSBC PRIVATE BANK INTERNATIONAL

FEBRUARY 2004

GFA GEN 04012

OCC-PSI-00210878
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 USD19 million (including allocated costs of USD19.6 million).

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.
2. MANAGEMENT SUMMARY

HSIB 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.
3. SUMMARY OF HIGH RISK ISSUES

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

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
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

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 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 undermargined 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 HRU 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.
GROUP FINANCIAL SERVICES AUDIT
HIGH LEVEL CONTROLS REVIEW OF HSBC PRIVATE BANK INTERNATIONAL

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.

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

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

9.1 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 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 IPR 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. COMPLIANCE

11.1 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
12. INTERNAL CONTROL

12.1 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 RJMA, 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 1.1

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
GROUP FINANCIAL SERVICES AUDIT

HIGH LEVEL CONTROLS REVIEW OF HSBC PRIVATE BANK INTERNATIONAL

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 TelExTeaster 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
From: NERISSA P HALL/HBUS/HSBC
Sent: 4/17/2007 2:41:34 PM
To: ALAN P WILLIAMSON/HBUS/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

---

Alan P Williamson/HBUS/HSBC
04/17/2007 03:36 PM
To: Nerissa P Hall/HBUS/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 [___] 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
To
Nerissa P Hall/HSBC@HSBC
cc
Alan P Williamson/HSBC@HSBC, Irene M Stern/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 lot of
observations.

However, in reading the material, I still have some observations/questions
which may frame tomorrow’s 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 dilemma? 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.

PCS/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 PCS as high risk

Page 2
2145

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 LCD 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 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
From: ALAN P WILLIAMSON/HSBC
To: MARLON YOUNG/HSBC;MANUEL DIAZ/HSBC;TERESA GARCIA/HSBC;SUSAN HOGGARTH/HSBC
CC: TERESA GARCIA/HSBC;SUSAN HOGGARTH/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/HSBC on 06/21/2007 07:12 PM -----

David Ford/PBRS/HSBC
06/21/2007 12:15 PM

To: Alan P williamson/HSBC
CC: Susan Hoggarth

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
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
Manuel Diaz/HBUS/HSBC, Susan Hoggarth/HBUS/HSBC, Teresa Garcia/HBUS/HSBC

Subject
Re: Fw: Waiver Request

----- 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
Manuel Diaz/HBUS/HSBC, Susan Hoggarth/HBUS/HSBC, Teresa Garcia/HBUS/HSBC

Subject
Re: Fw: Waiver Request

I approve the waiver request.

Marlon

----- Forwarded by Alan P Williamson/HBUS/HSBC on 06/20/2007 06:49 PM ------

Manuel Diaz/HBUS/HSBC
06/20/2007 06:32 PM

To
Alan P Williamson/HBUS/HSBC
Marlon Young/HBUS/HSBC, Teresa Garcia/HBUS/HSBC, Susan Hoggarth/HBUS/HSBC

Subject
Re: Fw: Waiver Request

Thanks

----- Forwarded by Alan P Williamson/HBUS/HSBC on 06/20/2007 06:49 PM ------

Manuel Diaz/HBUS/HSBC
06/20/2007 06:32 PM

To
Alan P Williamson/HBUS/HSBC

Subject
Re: 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/HSBC on 06/20/2007 06:24 PM -----

Teresa Garcia/HSBC

06/20/2007 05:29 PM

To
Alan P Williamson/HSBC

Subject
Re: Waiver Request

Alan,
Because they wish to maintain confidentiality, and they have never been asked by our competitors with whom they bank to do this. The family is the most visible and influential family in

Teresa

Alan P Williamson/HSBC
06/20/2007 05:21 PM

To
Teresa Garcia/HSBC
CC

Subject
Re: waiver Request

Why do they not want to register or deposit the shares?

Alan

Teresa Garcia/HSBC
06/20/2007 01:44 PM

To
Alan P Williamson/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 García
Senior Manager Specialized Compliance
Alan P. Williamson/HRUS/HSBC
06/20/2007 11:15 AM

To
Teresa Garcia/HRUS/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) 212-323-6014 (F) 212-323-8255

----- Forwarded by Teresa Garcia/HRUS/HSBC on 06/20/2007 09:57 AM -----

Teresa Garcia/HRUS/HSBC
06/14/2007 03:14 PM

To
Susan Hoggarth/HRUS/HSBC

Cc

Subject
Waiver Request

Sue,
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 am I will ask her tom'w.

Alan

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

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 BDL.

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
From: ALAN P WILLIAMSON/HSBC/HSBC
To: MARLON YOUNG/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

Marlon Young/HSBC/HSBC
06/26/2007 06:09 PM

To: Alan P Williamson/HSBC/HSBC, Jaime Carvallo/HSBC/HSBC, Manuel Diaz/HSBC/HSBC, Teresa Garcia/HSBC/HSBC, Susan Hoggarth/HSBC/HSBC
CC: 
Subject: Re: Family
Page 1
Alan,

This is an important relationship for IPB and a family that has a clean record. It would be a shame if we are not able to obtain an exception. Regards,

Marlon

From: Alan P Williamson
Sent: 06/26/2007 03:24 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

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.

Warm regards

Jaime

From: Marlon Young
Sent: 06/26/2007 06:33 PM EDT
To: Jaime Carvallo
Cc: Teresa Garcia; Thomas Flory; Ana Da Silva; Alan P Williamson
Subject: Re: Family

I have discussed this with Terry and Alan Williamson and will give my support to this Page 2
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 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
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 Mlami 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

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
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

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
Alan T Ketley/HBUS/HSBC
Alexine Von Keszycki/HBUS/HSBC
Anne Liddy/HBUS/HSBC
Bernie Mackara/HBUS/HSBC
Clara Kurtdo/HBUS/HSBC
Daniel Jack/HBUS/HSBC
Deborah K Price/HBUS/HSBC
Denis R O'Brien/HBUS/HSBC
George Tsugranes/HBUS/HSBC
Judy P Stoldt/HBUS/HSBC
Kathleen L Gladkowski/HBUS/HSBC
Mary A Caskin/HBUS/HSBC
Nerissa P Hall/HBUS/HSBC
Richard Salvatore/HBUS/HSBC
Robert Abreu/HBUS/HSBC
Salvatore Iocolano/HBUS/HSBC
Steven J Rockefeller/HBUS/HSBC
Susan Moggarth/HBUS/HSBC
Teresa Garcia/HBUS/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

Page 2
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/HSBC]

The minor changes discussed today will be incorporated after receipt of all comments on Tuesday.

Regards,
Procedure

Section: Customer Service  Risk: "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
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.
The second email.

---------------------- Forwarded by Ali S Kazmy/HSBC on 08/06/2007 10:59 AM ---------------------------

From: clara Hurtado on 29 Jul 2007 13:24

TO: Ali S Kazmy/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/HSBC on 07/29/2007 01:21 PM -----

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
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
From: DANIEL JACK/HBUS/HSBC
Sent: 8/7/2007 10:37:50 AM
To: ALAN P WILLIAMSON/HBUS/HSBC
CC: ALAN T KETLEY/HBUS/HSBC; ROBERT ABREU/HBUS/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; Anthony Vassiliou/HBUS/HSBC; Christopher Carreno/HBUS/HSBC; Clara Hurtado/HBUS/HSBC; Daniel Jack/HBUS/HSBC; Denis O’Brien/HBUS/HSBC; George Tsugranes/HBUS/HSBC; Gina Drexler/HBUS/HSBC; Jonathan Dean/HBUS/HSBC; Jonathan P Morice/HBUS/HSBC; Judy P Stoldt/HBUS/HSBC; Loretta Fields-Powell/HBUS/HSBC; Lorna Kirwan-Bennett/HBUS/HSBC; Margie Lopez/HBUS/HSBC; Maria Teresa Carreno/HBUS/HSBC; Mark A Kaczynski/HBUS/HSBC; Martin Holy/HBUS/HSBC; Nerissa P Mall/HBUS/HSBC; Robert Abreu/HBUS/HSBC; Steven J Rockefeller/HBUS/HSBC; Tabitha Patchel/HBUS/HSBC; Teresa Garcia/HBUS/HSBC; Todd Maddison/HBUS/HSBC; Vanessa Bryant/HBUS/HSBC; Willa McMorris/HBUS/HSBC; William Wehmeyer/HBUS/HSBC

cc
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
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)

Jeff Clous/HSBC
08/16/2007 09:37 AM

To: Manuel Diaz/HSBC, Jose Ortega/HSBC, Antonio Suarez-Obregon/HSBC

cc: Clara Hurtado/HSBC, Martin Holy/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.

Page 1
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.

CMRS, 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 provided 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 suspicious activity.
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.

It is also apparent that 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 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. 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 AEIBI 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 AEIBI
• 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: AEIBI Deferred Prosecution Agreement.pdf.zip
From: JEFF CLOUS/HSBC
Sent: 9/7/2007 9:11:04 AM
To: ALAN P WILLIAMSON/HSBC
CC: CLARA HURTADO/HSBC; MANUEL DIAZ/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.

<table>
<thead>
<tr>
<th># Bearer Share</th>
<th>PUM</th>
<th>Bearer share Est. Margin</th>
<th>Estimated Rev</th>
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<tbody>
<tr>
<td>1679</td>
<td>2,626,134,512</td>
<td>1.00%</td>
<td>26,261,345</td>
</tr>
</tbody>
</table>

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 shares 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/HSBC
09/06/2007 06:43 PM

To
Alan P Williamson/HSBC
CC
Terry Westren, Manuel Diaz/HSBC; Clara Hurtado/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

Page 1
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 Claus, SVP
IPB Operations
1441 Brickell Avenue, 16th floor, Miami, Florida 33131
(305) 539-4810 (Phone) (305) 374 6466 (Fax)

Alan P Williamson/HSBC
08/27/2007 07:50 AM
To
Jeff Claus/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
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 CO, 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 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 Cous/HBUS/HSBC
08/26/2007 10:17 PM

To
Alan P Williamson/HBUS/HSBC

CC
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.
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 Kessycki/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 Gladowski/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/HSBC]

The minor changes discussed today will be incorporated after receipt of all comments on Tuesday.

Regards,

Attachment: All Bearer Share Accounts.pdf.zip
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.
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 RM’s 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.
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.
GROUP FINANCIAL SERVICES AND EUROPEAN AUDIT

REPORT ON

HSBC PRIVATE BANK INTERNATIONAL, MIAMI AND HBUS DOMESTIC PRIVATE BANKING - FLORIDA REGION

OCTOBER 2007

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.
<table>
<thead>
<tr>
<th>SUBJECT</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>2. MANAGEMENT SUMMARY</td>
<td>3</td>
</tr>
<tr>
<td>3. SUMMARY OF HIGH RISK ISSUES</td>
<td>4</td>
</tr>
<tr>
<td>4. PREVIOUS RECOMMENDATIONS</td>
<td>6</td>
</tr>
<tr>
<td>5. SARBANES-OXLEY MATTERS</td>
<td>7</td>
</tr>
<tr>
<td>6. FRONT OFFICE</td>
<td></td>
</tr>
<tr>
<td>6.1 Client Profiles (High Risk)</td>
<td>8</td>
</tr>
<tr>
<td>6.2 Cross Border Marketing (High Risk)</td>
<td>8</td>
</tr>
<tr>
<td>6.3 Source of Initial Funds</td>
<td>8</td>
</tr>
<tr>
<td>6.4 Account Opening</td>
<td>9</td>
</tr>
<tr>
<td>6.5 Control Over Fax Machines</td>
<td>9</td>
</tr>
<tr>
<td>6.6 Performance Monitoring</td>
<td>10</td>
</tr>
<tr>
<td>6.7 Expenditure Pre-Approval</td>
<td>10</td>
</tr>
<tr>
<td>7. INVESTMENT PRODUCT GROUP</td>
<td></td>
</tr>
<tr>
<td>7.1 Timeliness of Trade Input</td>
<td>11</td>
</tr>
<tr>
<td>7.2 Investment Suitability</td>
<td>11</td>
</tr>
<tr>
<td>7.3 Non Deposit Investment Products Committee</td>
<td>12</td>
</tr>
<tr>
<td>8. CREDIT</td>
<td></td>
</tr>
<tr>
<td>8.1 Concentration Report</td>
<td>13</td>
</tr>
<tr>
<td>8.2 Loan to Value (LTV)</td>
<td>13</td>
</tr>
<tr>
<td>8.3 Collateral Reconciliation</td>
<td>14</td>
</tr>
<tr>
<td>8.4 Risk Rating Methodology</td>
<td>14</td>
</tr>
<tr>
<td>8.5 Loss Given Defaults (LGD)</td>
<td>14</td>
</tr>
<tr>
<td>8.6 Macro Level Exception Reporting</td>
<td>15</td>
</tr>
<tr>
<td>9. AML COMPLIANCE</td>
<td></td>
</tr>
<tr>
<td>9.1 Norcom System (High Risk)</td>
<td>16</td>
</tr>
<tr>
<td>9.2 High Risk Clients (High Risk)</td>
<td>17</td>
</tr>
<tr>
<td>9.3 Client Profiles</td>
<td>18</td>
</tr>
<tr>
<td>9.4 GMIB Approval</td>
<td>18</td>
</tr>
<tr>
<td>9.5 Investigative Log</td>
<td>18</td>
</tr>
<tr>
<td>9.6 Offshore Operating Companies</td>
<td>19</td>
</tr>
<tr>
<td>10. GENERAL COMPLIANCE</td>
<td></td>
</tr>
<tr>
<td>10.1 Compliance Staffing</td>
<td>20</td>
</tr>
<tr>
<td>10.2 Gift Register</td>
<td>20</td>
</tr>
<tr>
<td>10.3 Compliance Risk Rating</td>
<td>20</td>
</tr>
<tr>
<td>10.4 Overseas Bank Certifications</td>
<td>21</td>
</tr>
</tbody>
</table>
11. CUSTOMER SERVICES
  11.1 Beneficial Ownership Declarations (High Risk) 22
  11.2 Plastic Cards and PIN Code Storage (High Risk) 22
  11.3 Account Set Up 22
  11.4 Review of Hold Mail Accounts 23
  11.5 Pouch Activities 23

12. FUNDS TRANSFER
  12.1 Transfer of Client Funds (High Risk) 24

13. TRADE SERVICES
  13.1 Letter of Credit Application 25
  13.2 US Patriot Act Certification 25

14. INTERNAL CONTROL
  14.1 Unusual Activity Monitoring 26
  14.2 Best Execution Monitoring 26

15. DOMESTIC PRIVATE BANK
  15.1 KYC - New Accounts 27
  15.2 KYC - Existing Accounts 27
  15.3 Staff expenses 28
  15.4 Controls Over Fax Machines 29
GROUP FINANCIAL SERVICES AND EUROPEAN AUDIT

OCTOBER 2007

HSBC PRIVATE BANK INTERNATIONAL, MIAMI AND HBUS DOMESTIC PRIVATE BANKING - FLORIDA REGION

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 39.8m (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 304m (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...
GROUP FINANCIAL SERVICES AND EUROPEAN AUDIT

HSBC PRIVATE BANK INTERNATIONAL, MIAMI AND HBUS DOMESTIC PRIVATE BANKING - FLORIDA REGION

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 Sornay of GAI, Ralph Guillou of GAU, and BarbaraBurns, KimSokolowski and RobertGuthmuller 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.
GROUP FINANCIAL SERVICES AND EUROPEAN AUDIT

HSBC PRIVATE BANK INTERNATIONAL, MIAMI AND HBUS DOMESTIC PRIVATE BANKING - FLORIDA REGION

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.
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).
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).
GROUP FINANCIAL SERVICES AND EUROPEAN AUDIT

October 2007

HSBC PRIVATE BANK INTERNATIONAL, MIAMI AND HBUS DOMESTIC
PRIVATE BANKING - FLORIDA REGION

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.
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.

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.
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
GROUP FINANCIAL SERVICES AND EUROPEAN AUDIT

HSBC PRIVATE BANK INTERNATIONAL, MIAMI AND HBUS DOMESTIC
PRIVATE BANKING - FLORIDA REGION

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.
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.
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
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.
GROUP FINANCIAL SERVICES AND EUROPEAN AUDIT

HSBC PRIVATE BANK INTERNATIONAL, MIAMI AND HBUS DOMESTIC
PRIVATE BANKING - FLORIDA REGION

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
GROUP FINANCIAL SERVICES AND EUROPEAN AUDIT

OCTOBER 2007

GROUP FINANCIAL SERVICES AND EUROPEAN AUDIT

HSBC PRIVATE BANK INTERNATIONAL, MIAMI AND HBUS DOMESTIC
PRIVATE BANKING - FLORIDA REGION

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.
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.

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.
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.

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.

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.

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.
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 SERVICES

11.1 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.

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.

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.

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
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
GROUP FINANCIAL SERVICES AND EUROPEAN AUDIT
HSBC PRIVATE BANK INTERNATIONAL, MIAMI AND HBUS DOMESTIC PRIVATE BANKING - FLORIDA REGION

15. DOMESTIC PRIVATE BANK

15.1 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.
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
From: PAUL J O'SULLIVAN/HSBC
Sent: 12/10/2007 6:36:29 PM
To: TERRY WESTREN/HSBC; MASON C SALIT/HSBC; TERESA GARCIA/HSBC; ANTONIO SUAREZ-OBREGON/HSBC; JEFF CLOUS/HSBC; MANUEL DIAZ/HSBC; CLARA HURTADO/HSBC; PATRICK M CAMPION/HSBC; STEVEN J ROCKEFELLER/HSBC; DENNIS J DUGGAN/HSBC
CC: MARLON YOUNG/HSBC; LOUIS MARINO/HSBC; ALAN P WILLIAMSON/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/HSBC on 12/10/2007 06:21 PM -----

Ali S Kazmy/HSBC
12/10/2007 04:38 PM

To
Paul J O'Sullivan/HSBC

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
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 are negotiable without endorsement and transferred by delivery; consequently bearer shares are not subject to controls associated with ordinary shares. As regards dividends, they are paid in the form of 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 held by IBCs 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 acquired by an 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.

August 29, 2007
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. 51 and 33, 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 B, 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 desires to open an account with 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 set forth 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 stationary must be provided every three years;
- For new account opening request will only be processed after receiving the bearer share 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 Operations & Control Group (“OCG”). The business units must also report changes to such list to the OCG immediately on effective date of the change. OCG will reconcile names appearing on this list to the names reported on the beneficial register, which is discussed below in section 6. Third Party Custodians must be subject to Enhanced Due Diligence ("EDD"), which includes business unit head as well as AML Director (or designee) approval, ongoing compliance 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.

Page 2 of 11

August 29, 2007
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 the nature 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 Officer, 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. This 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:
OCC-PSI-00226526

- 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 reasons must be documented and retained in the business unit client file.

The AML LCO, together with the business unit Senior Management, will make 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, 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.

August 29, 2007
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.

In case of need for further clarification, please contact your AML LCO.

---

3 For further details on responsibilities of AML Investigations Unit, please see Section 2.2 of the HBUS AML Policy.

August 29, 2007
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, once 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;
- 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);
- ID documentation are expired or appear fake 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.

4 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.

August 29, 2007
# Appendix “B”

## Bearer Share Corporation Account Information Form

<table>
<thead>
<tr>
<th>Name of Corporation</th>
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<tbody>
<tr>
<td>Type of Corporation (i.e. PIC, IBC, etc.)</td>
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<td>Country of Incorporation</td>
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<td>Date of Incorporation</td>
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<td>Purpose of Bearer Share Corporation</td>
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<td>Purpose of Account With HSBC</td>
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### List all Beneficial Owners

<table>
<thead>
<tr>
<th>Name &amp; Specify if SCC and What Type of SCC (i.e. PEP, High Level Military Personnel, etc.)</th>
<th>Beneficial Owner Line of Business</th>
<th>Mark “X” if Sensitive Industry/Occupation (See Appendix “D”)</th>
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### Name & Complete Address (including street, city, state, country) of Third Party Custodian or HSBC Office custodizing the share(s)

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<thead>
<tr>
<th>In 3rd Party Custodian Approved by HSBC</th>
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<tbody>
<tr>
<td>Number of Bearer Shares Issued</td>
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*The Sensitive Industry/Occupation List can be accessed on the intranet via this link: http://connect.us.hsbc.com/intranet/compliance/pd/.Lists/industry.doc*

August 29, 2007
<table>
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<tr>
<th>Par Value of Each Bearer Share Issued</th>
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<tr>
<td>Is Bearer Share Corporation Shifting Account From Another FI</td>
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<tr>
<td>Expected Level &amp; Nature of Activity</td>
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<tr>
<td>List Countries With Whom Transactions Will Take Place &amp; Type of Transactions</td>
</tr>
</tbody>
</table>

Date Form Completed: ____________

Approval: AML LCO (Name & Signature): Date: ____________

Approval: Business Unit Head (Name & Signature): Date: ____________

Approval: AML Director or Designee (Name & Signature): Date: ____________

August 29, 2007
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:

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</table>

Form of Share Ownership:
- [ ] Bearer:
- [ ] Registered:

Each of the Beneficial Owners certifies to HSBC that he/she/it and the Bank have entered into a written agreement 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.

SIGNATURES OF BENEFICIAL OWNER(S)

<table>
<thead>
<tr>
<th>Signature</th>
<th>(Date: MM-DD-YYYY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Signature</td>
<td>(Date: MM-DD-YYYY)</td>
</tr>
<tr>
<td>Signature</td>
<td>(Date: MM-DD-YYYY)</td>
</tr>
<tr>
<td>Signature</td>
<td>(Date: MM-DD-YYYY)</td>
</tr>
<tr>
<td>Signature</td>
<td>(Date: MM-DD-YYYY)</td>
</tr>
<tr>
<td>Signature</td>
<td>(Date: MM-DD-YYYY)</td>
</tr>
</tbody>
</table>

Page 9 of 11
August 29, 2007
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 profile 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 from any of these industries:

- Automotive Dealers (includes: Car and Truck Dealerships)
- Cash Intensive Businesses, such as:
  - restaurants
  - privately owned ATM service machines
  - contractor/constructor
  - gas station
  - parking lot
  - telephone cards distributor
  - ticket broker
  - fast food chain
  - bank
  - buyer
- 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)
OCC-PSI-00226526

- 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 10 years)
- 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 Centers 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 investment 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 PIC in the creation of the Bearer Share corporation (if HSBC created the corporation, then the client will most likely be considered high 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)
- Length 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).
HSBC Private Bank

HSBC Private Bank International

FSA Audit Issues

STATUS REPORT
2221

OCC-PSI-00226813

Redacted by the Permanent Subcommittee on Investigations

Tuesday, December 11, 2007
11.1 - Beneficial Ownership Declarations (HR) MIAMI FSA AUDIT 2007 02/28/2008

PBUS has 1,667 company accounts incorporated with bearer shares. Under beneficial ownership declarations are held for all leases, PBUS has identified 779 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 Response:
PBUS 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.
Redacted by the Permanent Subcommittee on Investigations
9.1 - Norkom System (HR) MIAM! FSA AUDIT 2007

Tuesday, December 11, 2007

OCC-PSI-00226813

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 is no screening 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 too high to identify meaningful alerts.

Further, the functionality of the system has not been fully utilized, 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 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 there are no account fees or corporate actions, which would not present a money laundering threat, has not been used.

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 watching activity. We note that different scenarios have been implemented within Compliance for cash transactions to be monitored on a weekly basis. Further, cheques, money order and traveller’s cheque activity is not identified directly in Norkom and Compliance perform additional manual monitoring.

vi) 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.

vii) 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.

viii) 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.

PBUS management has raised its concerns regarding these issues on several occasions.

Control of the thresholds used when Norkom installs with senior Compliance management in New York and therefore scenarios and thresholds cannot be changed by PBUS.

vi) Selection scenarios should be active unless deemed to be 'not applicable' by Senior Compliance Management and the GM. 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.

vii) The thresholds for scenarios five and six should be reduced to a more reasonable level.

viii) The Group facility should be used to implement stricter thresholds for SCC and other high risk customers. Consideration should also be given to implementing separate thresholds for different types of accounts, such as individual accounts.

ix) 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.

Management Response:

i) Detection scenarios 13, 14, 15, and 16 are turned on. Scenario 14 and 16 are being modified and should be ready by end of 2007.

ii) Corporate compliance has reviewed the thresholds for all scenarios.

iii) Scenarios 3 and 5 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 meaningful alerts and lowering false positives.

iv) No relevant transaction data feeds were turned off in October 2007. Renegotiated.

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 ASI/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.
COMPLIANCE CERTIFICATE

OCC-PSI-00227523

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.
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:


Status reports on any items disclosed in previous Compliance Certificates and still outstanding at the beginning of the reporting period:


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                                      Christopher Lok  
Signature (LCO for Banknotes)                  Countersignature (Head of Global Banknotes)  
December 20, 2007                                December 20, 2007  
Date                                             Date  

HBUS Compliance Certificate
OCC-PSI-00227523

Schedule of Investigations and Disciplinary Actions

<table>
<thead>
<tr>
<th>Company Name and Location:</th>
<th>None.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Name (where applicable):</td>
<td></td>
</tr>
<tr>
<td>Category¹</td>
<td></td>
</tr>
<tr>
<td>Investigating/Actioning Authority:</td>
<td></td>
</tr>
<tr>
<td>Purpose of Investigation:</td>
<td>(Do not include routine inspection visits)</td>
</tr>
<tr>
<td>Date of Alleged Offence:</td>
<td></td>
</tr>
<tr>
<td>Dates of Investigation from ... to ...:</td>
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<tr>
<td>Date and Details of Sanction:</td>
<td>None.</td>
</tr>
</tbody>
</table>

Commentary²:
(Continue on separate sheet if necessary)

¹ 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 claims is likely to be of interest to a regulator as reflecting on a Group company’s or employee’s fitness and properness.

² 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.
Money Laundering Statistics

From: Daniel Jack, AML LCO for Global Banknotes
Region: US & Global

Date: December 20, 2007


1.1 CAMP or other automated monitoring system

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of alerts generated</th>
<th>Number of reports sent to MLRO for validation</th>
<th>Number validated by MLRO.</th>
<th>Number of reports where review / validation by MLRO is outstanding for more than 30 days</th>
<th>Number of reports submitted to Authorities more than 7 days after validation.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>344</td>
<td>1</td>
<td>1</td>
<td>0 (none)</td>
<td>0 (none)</td>
</tr>
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</table>

1.2 Manual Reports

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of manual reports received</th>
<th>Number validated by MLRO</th>
<th>Number of reports where review / validation by MLRO is outstanding for more than 30 days</th>
<th>Number of reports submitted to the Authorities more than 7 days after validation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not applicable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.1 Money Laundering Related Reportable Events

<table>
<thead>
<tr>
<th>Country</th>
<th>Number reported to LCO</th>
<th>Number reported to RCO</th>
<th>Number reported to CMLCO</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA/Mexico</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2.2 Update of Reportable Events reported to the CMLCO and still outstanding at the end of the previous half-year.

<table>
<thead>
<tr>
<th>Country</th>
<th>GHQ Reference</th>
<th>Date of Report</th>
<th>Details and Current Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td></td>
<td>16-Nov-06</td>
<td></td>
</tr>
</tbody>
</table>

2.3 Update of Reportable Events reported to the CMLCO during the half-year.

<table>
<thead>
<tr>
<th>Country</th>
<th>GHQ Reference</th>
<th>Date of Report</th>
<th>Details and Current Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA/Mexico</td>
<td></td>
<td>25-Jun-07</td>
<td>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.</td>
</tr>
</tbody>
</table>

AML Key Performance Indicators

<table>
<thead>
<tr>
<th>KPIs</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current failure rate (shown as a percentage) in respect of local regulatory identification and verification requirements.</td>
<td>0%</td>
</tr>
<tr>
<td>SCC Policy – Number of failures to identify clients correctly as SCC, to follow SCC procedures or to meet regulatory requirements in respect of SCCs.</td>
<td>0</td>
</tr>
<tr>
<td>Confirm the percentage of employees who have received AML training during the previous 12 months.</td>
<td>99%</td>
</tr>
<tr>
<td>Confirm percentage of staff employed in high-risk areas who have received AML training during the previous 12 months.</td>
<td>100%</td>
</tr>
<tr>
<td>Currency Transaction Reporting - Number of failures to report and/or aggregate transactions for the purpose of CTR requirements as required by local legislation.</td>
<td>0</td>
</tr>
<tr>
<td>Confirm the number of SARs validated during the reporting period subject to one or more previously validated SARs.</td>
<td>0</td>
</tr>
<tr>
<td>Confirm the number of relationships exited as a result of more than one validated SAR.</td>
<td>0</td>
</tr>
<tr>
<td>Confirm the number of relationships the subject of more than one validated SAR that are to be continued.</td>
<td>0</td>
</tr>
</tbody>
</table>
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
From: DANIEL JACK/HBUS/HSBC
Sent: 5/30/2008 10:44:52 AM
To: ALAN P WILLIAMSON/HBUS/HSBC
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. 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

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
CC
christopher.lok@us.hsbc.com, Colin W L HUI/VP NBD RNH/HBUS@HSBC, Daniel
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
05/29/2008 09:29 PM

To
Alan P williamson/HBUS@HSBC
cc
Betty F S NG/NBD RNH/HBUS@HSBC

Subject
Fw: KYC BankNote profile is IB Approved for: AL RAJHI BANKING & INVESTMENT CORP

--- Forwarded by Betty F S NG/NBD RNH/HBUS@HSBC on 05/30/2008 09:09 AM ---

Christopher Lok/HBUS@HSBC
30 May 2008 01:23 Mail Size: 2055

To
Betty F S NG/NBD RNH/HBUS@HSBC
cc

Subject
KYC BankNote Profile is IB Approved for: AL RAJHI BANKING & INVESTMENT CORP
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
Supertional 1, Hong Kong International Airport
Hong Kong SAR
************************************************************************************
PBUS KYC Committee Meeting

April 18, 2008
11:00 – 12:30 PM
425 Fifth Avenue, 6th Floor
Meeting Minutes

Chair:
Paul O’Sullivan

Present:
Marlon Young
Mason Salit
Dennis Duggan
Steve Rockefeller
Terry Westren
Bill Prihason
Patrick Campion
Mihaela Nistor
Stefan Hardy
Alan Williamson

On the Phone:
Manuel Diaz
Antonio Suarez-Obregón
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 13th 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 Prihason 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 3rd or 4th quarter of 2008. Bill has met with Hitesh Ghandi, the RMD2 Project Manager, to discuss business requirements. The KYC updates...
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
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 3rd 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 quarters). 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.
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 assets. 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 28th 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
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.
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):  

  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.
----- 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,  
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.siblbd.com  

>>>GRM Support was provided on 06/28/07 by Anthony Julian  

IMPORTANT NEWS RELEASE  
Page 2
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 S11 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 08/03/06 client was visited by 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.
- 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.

RPO 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.
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-Qaeda, 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-Qaeda, 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
From: DANIEL JACK/HBUS/HSBC
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/1B 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
Client Social Investment Bank Deal or CAD

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; SOWDIDUZZAMAN, Muhammad
External Attendees ISLAM, Md. Azharul; SOHEL, Abu Sadek Md.; ASADUZZAMAN, K M; TOBAL, Mohammed

Other attendees

Detailed Description

Had a discussion about their AML and KYC issues. We inquired the status of ousting IIRO which is on OFAC suspension list. 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 transactions on the share holding (i.e. 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/HSBC/HSBC
23/09/2008 07:50 AM

To
Anthony Julian/HSBC/HSBC@HSBC02, Hersel Mehani/HSBC/HSBC@HSBC02

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. Page 2
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.siblbd.com

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.

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 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.
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, Hersel Mehani- RML 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 list. 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
shareholding (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.
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.
# GROUP FINANCIAL SERVICES AND EUROPEAN AUDIT

## HSBC PRIVATE BANK INTERNATIONAL – NEW YORK

### OCTOBER 2008

## INDEX

<table>
<thead>
<tr>
<th>SUBJECT</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>2. MANAGEMENT SUMMARY</td>
<td>2</td>
</tr>
<tr>
<td>3. SUMMARY OF HIGH RISK ISSUES</td>
<td>3</td>
</tr>
<tr>
<td>4. PREVIOUS RECOMMENDATIONS</td>
<td>5</td>
</tr>
<tr>
<td>5. SARBANES-OXLEY MATTERS</td>
<td>6</td>
</tr>
<tr>
<td>6. PRIVATE BANKING FRONT OFFICE</td>
<td></td>
</tr>
<tr>
<td>6.8 Bearer Share Accounts</td>
<td>12</td>
</tr>
</tbody>
</table>

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GROUP FINANCIAL SERVICES AND EUROPEAN AUDIT
HSBC PRIVATE BANK INTERNATIONAL – NEW YORK

OCTOBER 2008

Redacted by the Permanent Subcommittee on Investigations
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 10.22 billion (USD 10.23 billion) and the total approved credit facilities total USD 1.3 billion. IPB NYK has approximately 1,800 client relationships. For the 7 months to 31 July 2008, IPB NYK generated an operating profit of USD 21.1 million (USD 34.5 million) attributed to revenues of USD 42.5 million (USD 73.2 million) and expenses of USD 21.4 million (USD 38.7 million). 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 GAI; Gareth Amos, Viral Shah, Chirag Panikh, Dhiriya Kapadia, Kailash Bhatia and James White of AUF; Ralph Guillaud 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.
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
10. COMPLIANCE

10.1 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.

10.2 NORKOM Alerts

Finding

We have noted from our review that several NORKOM alerts were closed without 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
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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HSBC PRIVATE BANK INTERNATIONAL – NEW YORK

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Permanent Subcommittee on Investigations
Roger. I haven’t discussed with them at all, so I’ll get in touch with them. I’m on a conference call right now about alerts as well, hopefully we’ll have updated news for you on this.

Todd C. Maddison, CAMS
AVP, AML Compliance
HSBC Securities (USA), Inc.
452 Fifth Ave. New York, NY 10038
212-525-5360 Fax 646-366-2528
todd.maddison@us.hsbc.com

Alan P williamson/HBUS/HSBC
11/14/2008 11:05:17 AM

To: TODD MADDISON/HBUS/HSBC
CC: ALAN P WILLIAMSON/HBUS/HSBC02

Re: Bearer share question

Roger. I haven’t discussed with them at all, so I’ll get in touch with them. I’m on a conference call right now about alerts as well, hopefully we’ll have updated news for you on this.

Todd C. Maddison, CAMS
AVP, AML Compliance
HSBC Securities (USA), Inc.
452 Fifth Ave. New York, NY 10038
212-525-5360 Fax 646-366-2528
todd.maddison@us.hsbc.com

Alan P williamson/HBUS/HSBC
11/14/2008 10:21 AM

To: TODD MADDISON/HBUS/HSBC02
CC: ALAN P WILLIAMSON/HBUS/HSBC02

Re: Bearer share question

Ok, please put some time on my calendar. Also note we’ll have to discuss with 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
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:


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/HSB/HBUS on 11/13/2008 03:36 PM -----

Scott J. Watson/HSB/HBUS
11/13/2008 12:49 PM

To
Todd Maddison/HSB/HBUS@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
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.

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
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/HSBC
11/13/2008 07:26 AM

To: “Todd Maddison” <todd.maddison@us.hsbc.com>
cc
subject
Re: 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
----- Original Message -----
From: Anthony M Verga
Sent: 11/12/2008 09:57 PM EST
To: Scott J Watson/HSBC@HSBC@HSBC@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] 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
HSBC Bank USA, N.A.
452 5th Ave, 6th Floor
New York, NY 10018
Work 212-523-4247
Fax. 212-523-0611/0612
BlackBerry 516-439-9979
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 31JAN04 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 HSBC's 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 2003 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

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
We were also aware that at least one other financial institution, 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.
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

Lesley Midzain/HBUS/HSBC
02/15/2010 09:13 AM
To: Janet L. Burak/HBUS/HSBC@HSBC
CC: 
Subject: Advice requested

Janet,

GMO Compliance (Ivor Godfrey-Davies) has asked me for an update about expanded BD 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.
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 Praszkowski
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
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 to suspend activity, file a SAR or close the accounts when adequate responses to our queries are not received in a timely manner so as to comply with 103.176.

b. Joe also verbalized concern as it relates to the 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 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.
   - as detailed in the LN KYC ownership/ principals - founder and owner of 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 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 "exceedingly 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 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 owner.

Minutes: OCC Meeting February 11, 2010
Draft -- Private & Confidential
Drafted by Erin O'Brien
2 of 8
OCC-PSI-00256916
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].

Redacted by the Permanent Subcommittee on Investigations
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 Ribani 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. 
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] 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”
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 the 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 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 follow 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
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

A. Manny Torrijos commented on his observations of

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

1.3 million U.S. Dollars daily – 19 million to a single Beneficiary at _

Also of note were originator’s which were previously subject of negative media:

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 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 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.

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
make sense? stated in 2009 that they cleared 70.5 billion in FX transactions for the year; that would relate to 3.2 million individual transactions.

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 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 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 as the alerts from November 2009 have not been worked.

SARs

Joe and Ray stated concerns - failure to file SARs as it relates to:

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
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 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 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.
MEMORANDUM

Date: July 14, 2008
To: David Dew, Chief Operating Officer
    Lesley Midzain, EVP Compliance/AML Director
    Cam Hughes, Sr. VP Specialized Compliance
    Debra Bonosconi

From: [Redacted]

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.

<table>
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<th>Actual</th>
<th>Jan-08 R.</th>
<th>Feb-08</th>
<th>Mar-08</th>
<th>Apr-08</th>
<th>May-08</th>
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<td>61-90 Days</td>
<td>30-60 Days</td>
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<td>Estimates (based on current average production)</td>
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<td><strong>FINAL ESTIMATE</strong></td>
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<tr>
<td>07/21/2008</td>
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<td>105</td>
<td>49</td>
<td>389</td>
<td>374</td>
<td>581</td>
</tr>
</tbody>
</table>

1 This does not include June alerts which we should have on July 21, 2008.
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 30th, 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.
MEMO

To: Lesley Midzain
From: Ali S. Kazmy
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

<table>
<thead>
<tr>
<th>Client Risk Category/Product</th>
<th>Domestic Clients</th>
<th>International Clients</th>
<th>Minimum Timing/Period</th>
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<tbody>
<tr>
<td></td>
<td>Face to Face</td>
<td>Phone</td>
<td>Face to Face</td>
</tr>
<tr>
<td>Special Categories of Clients (SCCs)</td>
<td>All</td>
<td>All</td>
<td>Annual</td>
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<td>High Risk</td>
<td>All</td>
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<td>Standard/Medium Risk</td>
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<tr>
<td>Approved Intermediaries</td>
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<td>All</td>
<td>$1-$5MM</td>
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</tbody>
</table>

Memo: Modifications to the Approved Private Bank Americas AML Procedures
Page 1 of 2
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,

Memo: Modifications to the Approved Private Bank Americas AML Procedures
Page 2 of 2
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/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 Section 560.516(a)(1).
- HSBC self disclosed the transaction to OFAC.
- This type of transfer has only happened once and no further similar requests 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 to make book entry payments between accounts.

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 HSBC London branch received an instruction from one of its clients-... (Pays... to transfer 10,000 oz of gold to an account of Bank Markazi Iran in the US acting as dealer. Leasing Bank Monarch Inc. 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... based on information contained on the U.S. Treasury web site... Therefore, UK compliance allowed this transaction to take place.

When HSBC 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 dealing activity.

On Friday, May 26, HSBC rejected the second transfer.

Subsequently, on Tuesday, May 30th, OFAC confirmed an OOF that this transaction was not permitted and should be reversed.
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 a Paris to transfer “unallocated” metal to an account of an Israeli entity or the account of the Israeli entity.

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.

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 theBank 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 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. 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-PSJ-00299323

Timeline
24th May 2006: Date of the original transaction.
25th May 2006: HBUS Compliance discussed the transaction with OFAC.
25th May 2006: HBUS applied for a licence to process the transaction.
25th May 2006: HSBC rejected the second transaction.
30th May 2006: OFAC advised the licence application would not be approved and the transaction should be rejected (which HSBC had already done).
27th June 2006: Full details of the first transaction were communicated self-disclosed in a letter to OFAC.
8th May 2009: OFAC issued a Pre-Penalty Notice with a proposed penalty of $125,000.
8th May 2009: OFAC issued a Pre-Penalty Notice with a proposed penalty of $125,000.

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.
From: "PAUL K. STECKER" <PSTECKER@PHILLIPSLYTLE.COM>
Sent: 8/8/2008 3:56:45 PM
To: ELIZABETH PROTOMASTRO/HSBC@HSBC02
CC: ANNE LIDDY/HSBC@HSBC02; DEBBIE M D'AUBNEY/GMO/HSBC@HSBC; JOHN M HALLIDAY/HGHQ/HSBC@HSBC; LESLEY MIDZAIN/HSBC@HSBC02; MARY A CASKIN/HSBC@HSBC02; MICHAEL T RYAN/HSBC@HSBC02; PATRICIA KOPF/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 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.
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 whoever 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.Mldzain@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.
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 you,
From: ALI S KAZMY/HBUS/HSBC
To: MARY A CASKIN/HBUS/HSBC
CC: NERISSA P HALL/HBUS/HSBC; CAROL J HARVEY/HBUS/HSBC; ANNE LIDDY/HBUS/HSBC; ALAN P WILLIAMSON/HBUS/HSBC; ALEXINE VON KESZYCKI/HBUS/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 IGRO, 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
Carol J Harvey/HBUS/HSBC
Anne Liddy/HBUS/HSBC
Alan P Williamson/HBUS/HSBC
Alexine von Keszycki/HBUS/HSBC
Ali S Kazmy/HBUS/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.
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/HSBC
02/26/2007 03:03 PM

To
Mary A Caskin/HSBC

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/HSBC on 02/26/2007 03:03 PM ------

Carol J Harvey/HSBC
02/26/2007 02:25 PM

To
Nerissa P Hall/HSBC

Subject
Re: APC Interim Procedures (draft)

Nerissa,
I made some comments and questions that I highlighted in yellow:
Page 2
VerDate Nov 24 2008  09:24 Nov 27, 2012   Jkt 076646   PO 00000   Frm 01193   Fmt 6633   Sfmt 6633   P:\DOCS\76646.TXT   SAFFAIRS   PsN: PAT

2287

OCC-Psi-00307701

[attachment "APC Interim Procedures (draft) 26FEB07.doc" deleted by Mary A Caskin/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/HSBC
02/26/2007 09:52 AM

To
Carol J Harvey/HSBC, Anne Liddy/HSBC, Alan P Williamson/HSBC, Mary A Caskin/HSBC, Alexine Von Keszycki/HSBC, Ali S Kazmy/HSBC

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/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
From: ALAN P WILLIAMSON/HBUS/HSBC
Sent: 5/9/2007 8:14:15 PM
To: GEORGE TSUGRANES/HBUS/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 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 SECs?

Thanks

Alan W

George Tsugranes/HBUS/HSBC
05/09/2007 01:49 PM

To: Alan T Ketley/HBUS/HSBC
Cc: 

cc: Reduced by the Permanent Subcommittee on Investigations

To: 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 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 absentee some relief in other parts of the daily cash letter monitoring.

Analysis below:

From May 2nd to May 8th, 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
02 May 14 101,837.00
regards,
George

Alan T Ketley/HSBC
05/09/2007 10:26 AM

To: George Tsugranes/HSBC

George Tsugranes/HSBC
05/07/2007 02:22 PM

We have been asked by the OCC what specifically we are going to do about the monitoring for 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 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 separately from other items; it should record the names and address of the 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 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 item 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/HSBC
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 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/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

Total Hokuriku Bank (Japan) and 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 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 office activity each month.

Please review and we can discuss at your convenience.
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 Keilly/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 7380
----- Forwarded by Alan T Ketley/HBUS/HSBC on 04/27/2007 02:11 PM ------
----- Forwarded by Alan T Ketley/HBUS/HSBC on 04/27/2007 02:11 PM ------

To
Alan T Ketley/HBUS/HSBC@HSBC
cc
Subject
re: visit to Brooklyn Ops

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
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 clients (i.e.) middle east, Latvia etc and less time on the heck. 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 focuses 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. Let's start looking at it. WHAT ABOUT SEQUENTIALLY NUMBERED TRAVELLER'S CHECKS AGGREGATING SAY $15k per day, same payee; WHAT ABOUT OFFICIAL CHECK TRENDS/PATTERNS?????

4) Must improve EDD in Delaware. Based upon our conversation 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.

Page 5
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. Kelley
Senior Vice President, Anti Money Laundering
Tel: 212 525 6147 / Fax: 212 382 7580
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

---'fO·~---A-l4-S--Kai!11}/+lBUS/H~~-·--

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.
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/HSBC

cc: Anne Liddy/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 it's clear 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/HSBC
08/06/2007 08:47 AM

To: Alan P Williamson/HSBC

cc: Anne Liddy/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
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/HRUS/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/HRUS/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/HRUS/HSBC
08/03/2007 01:01 PM

To
Alan P Williamson/HRUS/HSBC

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 Keszycki/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 Clakowksi/HBUS/HSBC@HSBC
Mary A Caskin/HBUS/HSBC@HSBC
Nettisa 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,
From: TERRY WESTREN/HBUS/HSBC  
To: PAUL J O'SULLIVAN/HBUS/HSBC@HSBC02  
CC: ALAN P WILLIAMSON/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; ANTONIO SUAREZ-OBREGON/HBUS/HSBC@HSBC; STEFAN HARDY/HBUS/HSBC@HSBC  
Subject: Re: FW: Bearer share corporation policy

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@hsbc.com

---

From: PAUL J O'SULLIVAN/HBUS/HSBC@HSBC02  
Sent: 12/10/2007 06:36 PM  
To: TERRY WESTREN/HBUS/HSBC, MASON C SALIT/HBUS/HSBC@HSBC02, TERESA GARCIA/HBUS/HSBC@HSBC02, ANTONIO SUAREZ-OBREGON/HBUS/HSBC@HSBC, JEFF CLOUS/HBUS/HSBC@HSBC, CLARA HURTADO/HBUS/HSBC@HSBC, DENNIS J DUGGAN/HBUS/HSBC@HSBC, STEVEN J ROCKEFELLER/HBUS/HSBC@HSBC, PATRICK M CAMPTON/HBUS/HSBC@HSBC, MARLON YOUNG/HBUS/HSBC@HSBC  
CC: LOUIS MARINO/HBUS/HSBC@HSBC, ALAN P WILLIAMSON/HBUS/HSBC@HSBC  
Subject: FW: Bearer Share Corporation Policy

All,
Attached is the final draft of the 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 (DFB, 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
12/10/2007 04:38 PM

To: Paul J O'Sullivan/HBUS/HSBC
cc: 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,
OCC-PSI-00328384

HSBC GROUP PRIVATE BANKING NORTH AMERICA
COMPLIANCE REPORT 14 DECEMBER 2007

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 re-certifications. 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
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
planned staffing levels. Compliance management is reviewing the impact of IPB business consolidation plans. The senior compliance officer in California will not be replaced.
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
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 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 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, EKR and HKD which Bahrain Finance is their main currency 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 rejected 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:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Sales by HSBC: Purchases by HSBC:</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD Currency</td>
<td>0</td>
</tr>
<tr>
<td>Other Major Currency: THAI BAHT 40,000,000 0</td>
<td></td>
</tr>
<tr>
<td>Other Major Currency: HONG KONG DOLLAR 2,000,000 0</td>
<td></td>
</tr>
<tr>
<td>Other Major Currency: SAUDI RIAL 30,000,000 0</td>
<td></td>
</tr>
</tbody>
</table>

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

To: ANNE LIDDY/HBUS/HSBC@HSBC02, DENISE A REILLY/HBUS/HSBC@HSBC02, GLORIA STRAZZA/HBUS/HSBC@HSBC02

06/02/2008 06:45 PM
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
2308

From: JUDY P STOLDT/HSBC
Sent: 2/18/2010 4:30:21 PM
To: DENIS E O'BRIEN/HSBC
CC: CAMILLUS P HUGHES/HSBC@HSBC02; WYNDHAM S CLARK/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) 382-7386
Mobile. Judy.p.stoldt@us.hsbc.com

From: Denis E o'Brien/HSBC
To: Judy P Stoldt/HSBC, Camillus P Hughes/HSBC
Cc: Wyndham S Clark/HSBC
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) 229-5245
Mobile. denis.e.obrien@us.hsbc.com

----- Forwarded by Denis E O'Brien/HSBC on 02/16/2010 05:58 PM -----

From: Patricia A Brunner/HSBC
To: Denis E O'Brien/HSBC, Joseph Boss/HSBC
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"
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 No formal write-up was done. The second reviewed looked at 4Q08 activity and 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
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 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 Intl 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: 20903
To: Joe Harpster/HBUS/HSBC@HSBCAMERICAS
Subject: Al Rajhi Trading establishment
Can you advise if any further discussion/correspondence has taken place on this topic?

Thanks.

Carolyn M Wind on 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/HSUS@HSBCAMERICAS
Subject: Al Rajhi Trading establishment

Carolyn M Wind on 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/HSUS@HSBCAMERICAS
Subject: Al Rajhi Trading establishment

FYI

Carolyn M Wind on 11 Mar 2002 09:06

To: Sandy Flockhart/HSUS@HSBCAMERICAS

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 diligence 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.
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

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 by the Permanent Subcommittee on Investigations] Bank and the added strength of HSBC versus Republic. The travellers checks represent less than 2% of the volume ($132M in Page 3.
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.
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 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.
Mary Ann Caskin  
VP Compliance  
HSBC Bank USA NA  
432 Fifth Ave Floor 7  
NY, NY 10018  
212-525-5330

Attachment: Hokuriku_Average.xls.zip
Date: July 31, 2008
To: David Dew, Chief Operating Officer
Lesley Midzain, EVP Compliance/AML Director
Cam Hughes, Sr. VP Specialized Compliance
Debra Bonosconi
From: David Dew

Topic: OCC AML Matters

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.
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. The OCC asked that we continue to provide AML knowledge and training (internal and external) as adjusts to new role. They are in full agreement that risk management skills are an integral part of the GIB AML Compliance process but 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 15th. As noted previously, the OCC is aware of our progress and agrees with our approach to address existing and future alerts.

<table>
<thead>
<tr>
<th>Date</th>
<th>Overdue Alerts</th>
<th>Current Alerts</th>
<th>Total Open Alerts</th>
</tr>
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<tbody>
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<td>1,129</td>
<td>1,599</td>
<td>2,728</td>
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<tr>
<td>6/20/2008</td>
<td>870</td>
<td>1,584</td>
<td>2,454</td>
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<td>6/27/2008</td>
<td>850</td>
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<tr>
<td>7/11/2008</td>
<td>360</td>
<td>999</td>
<td>1,379</td>
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<tr>
<td>7/15/2008</td>
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<td>829</td>
<td>1,179</td>
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<tr>
<td>7/16/2008</td>
<td>289</td>
<td>721</td>
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<td>7/17/2008</td>
<td>243</td>
<td>660</td>
<td>903</td>
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<tr>
<td>7/18/2008</td>
<td>202</td>
<td>601</td>
<td>803</td>
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<td>ADD May &amp; June Alerts &gt;</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>7/21/2008</td>
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<td>1,761</td>
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<td>7/22/2008</td>
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<td>7/29/2008</td>
<td>438</td>
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<tr>
<td>7/30/2008</td>
<td>392</td>
<td>1,094</td>
<td>1,486</td>
</tr>
</tbody>
</table>

**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.
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 7/11/08.

Please advise if you have any questions.
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
Email. ali.s.kazmy@us.hsbc.com

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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
  - Al-Rajhi Banking and Investment Corp., a client of CIB and Banknotes is SCC. Al-Rajhi Bank got its start as a money chainning network and (Chairman, Suleiman al-Rajhi appeared on the “Golden Chain” of wealthy investors who supported Osama bin Laden.)

Negative press: Per prior FMD 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
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.
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: J P Morgan Chase, Tampa, FL
Credit: HBME Ramallah Br., Ramallah Palestine
3rd party: Arab Jordan Investment Bank S.A., Amman, Jordan
ORIG: Ramallah, Palestinian Territory, Occupied
BD: Acc/For further credit to Palestine Investment Bank Head Office Ramallah branch account 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/p0837.htm
http://ustreas.gov/press/releases/p0841.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: HSBC Bank PLC (Joh), Johannesburg branch
Credit: BNP Paribas New York
3rd party: BNP Paribas (Suisse) SA, Geneva
4th party: Sudanese Petroleum Corporation
ORIG: Ethiopian Petroleum Enterprise
OGB: Commercial Bank of Ethiopia, Ethiopia
OBI: Inv/M/10/2006 Dated Nov 05/06
USD 2,538,939.33
"Sudanese 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.
From: ELIZABETH PROTOMASTRO/HBUS/HSBC
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: 1IIIIIIl06DEC06).

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
Elizabeth Protomastro/HBUS/HSBC@HSBC, Gimhani TALWATTE/HCZA/HSBC@HIBM, Grace C Santiago-Darvish/HBUS/HSBC@HSBC

Subject: Re: FW: Funds frozen in USA - payment on behalf of Commercial Bank of Ethiopia (HBUS ref: 1IIIIIIl06DEC06).

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: 1IIIIIIl06DEC06).

Arup, please see the attached. Elizabeth Protomastro of our OFAC Compliance
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 03:10 PM

To
Anne Liddy/HBUS/HSBC

CC
Donald W McPherson/HBUS/HSBC, Grace C Santiago-Darvish/HBUS/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

CC
Grace C Santiago-Darvish/HBUS/HSBC, Donald W McPherson/HBUS/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 please 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
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/HSBC/HB]

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/HSBC/HB]

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
Here are the answers to the below questions:

**Question A:** The timeframe 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 timeframe 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 10:13 AM

To George Dally/HBUS/HSBC

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.
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.

Mary thanks

Arup Roy
Head of Transaction Banking
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
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 issues 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 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: 27-11-676-4542
gimhani.talwatte@za.hsbc.com

----- Forwarded by Gimhani TALWATTE/HCZA/HSBC on 2006/12/15 04:51 PM -----
Subject: PCM operational error. Funds frozen in USA - payment on behalf of Commercial Bank of Ethiopia entity

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 TT message was stopped by WOLF which flags all sanctioned countries/terrorist organisations 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 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 gets 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...
2331

We will wait the outcome of our application and I will keep you informed as and when we have some news.

Regards

Gimi
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
CC: Teresa Garcia/HBUS/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 4830
----- 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
CC: Alan P Williamson/HBUS/HSBC, Anne Liddy/HBUS/HSBC, Steven J
Rockefeller/HBUS/HSBC, Susan Hoggarth/HBUS/HSBC, Clara
Hurtado/HBUS/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
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

cc: Anne Liddy/HBUS/HSBC, Steven J Rockefeller/HBUS/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


To: Alan P Williamson/HBUS/HSBC

cc: Teresa Garcia/HBUS/HSBC, Steven J Rockefeller/HBUS/HSBC

Subject: Re: Fw: Job Aid - Bearer Share
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
cc: Ali S Kazmy/HBUS/HSBC STEVEN J ROCKEFELLER/HBUS/HSBC SUSAN HOGGARTH/HBUS/HSBC ANNE Liddy/HBUS/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
cc: Susan hoggarth/HBUS/HSBC, Alan P williamson/HBUS/HSBC, Steven J Rockefeller/HBUS/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
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 on 06/14/2007 04:29 PM

Ali S Kazmy on 05 Jun 2007 11:59

Note

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/HSBC@HSBC, Alexine von Keszycki/HSBC@HSBC, Bernie Mackara/HSBC@HSBC, Clara Hurtado/HSBC@HSBC, Deborah R Price/HSBC@HSBC, Denis E O'brien/HSBC@HSBC, George Tsugranes/HSBC@HSBC, John P Christiansen/HSBC@HSBC, Nerissa P Hall/HSBC@HSBC, Richard Salvatore/HSBC@HSBC, Robert Abreu/HSBC@HSBC, Salvatore Iocolano/HSBC@HSBC, Steven J Rockefeller/HSBC@HSBC, Susan Hoggarth/HSBC@HSBC, Teresa Garcia/HSBC@HSBC

cc: Alan P Williamson/HSBC@HSBC, Anne Liddy/HSBC, Denise A Reilly/HSBC@HSBC, Georgia Stavridis/HSBC@HSBC

Subject: FW: Job Aid - Bearer Share
cc: Alan P. Williamson/HSBC
Anne Liddy/HSBC
Denise A. Kelly/HSBC
Georgia Stavridis/HSBC

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 available to seek comments/suggestions 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/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,
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 Notification

Hi Anne,

I think it's important we all are comfortable with the issues here and for me to comment, I need to understand the questions HBUS have posed to TALC 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

*******************************************************************************
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 Notification

Peter, I thought we could discuss this 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 I have each piece of 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 Notification

Hi Anne,

Thanks for the explanations but this does not really cover the issue of the
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

Anne Liddy/HBUS/HSBC
HBUS
07/08/2007 14:45
Mail Size: 28215

To
Peter G MAY/HBEU/HSBC

CC
Alan T Ketley/HBUS/HSBC

Subject
Re: Arab Investment Company Reportable Event Notification

Entity
HSBC Bank plc - HBEU

Peter, below is the summary and detailed information that was input into RED on 16JUL07 for RE ~ 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. Please let me know if/when you would be available to ask 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. 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 information...
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, A/C
   Beneficiary: State Bank of India, Export Bills Receivable

   Note: OFAC Letter COMPL 0700200 indicated that Bank of America rejected the payment because the underlying transaction involved an export bill drawn on Alharthan 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 Mitsui 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
   Intermediate 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
Upon review, we identified three additional wire payment instructions (note where wire transfers were not processed) received from TAlC 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

   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 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 comm pymts involving Sudan cannot be proc under sanction."

The relationship with TAlC is currently under review by HBUS PCM and PCM in BCT which has local calling responsibility for TAlC and a recommendation has been made by HS compliance that the relationship be exited. The Group KYC on TAlC indicates that there is a treasury and trade relationship; it also indicates that TAlC 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/HBUs/HSBC
08/07/2007 06:46 AM

To
   Anne Liddy/HBUs/HSBC@HSBC

CC

subject
   Re: Arab Investment Company Reportable Event Notification

Page 4
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

To
Peter G MAY/HBEU/HSBC
CC
Subject
Re: Arab Investment Company Reportable Event 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 10:38 AM

To
Anne Liddy/HBUS/HSBC
CC
Alan T Ketley/HBUS/HSBC, Carolyn M Wind/HBUS/HSBC@HSBC, Ian EDER/IBEU/HSBC@HSBC, Joe E BROWNLEE/IBEU/HSBC@HSBC, Susan A WRIGHT/HGHC/HSBC@HSBC
Subject
Arab Investment Company Reportable Event 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.
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/HSBC on 27 Jul 2007 15:42 -----
Giovanni FENOCCHI/HSBC on 27 Jul 2007 07:54

---- Forwarded by Giovanni FENOCCHI/HSBC on 27 Jul 2007 07:54 -----
Joe E BROWNLEE/IBEU/HSBC on 26 Jul 2007 18:14

Memo
26 Jul 2007 18:14

From: Joe E BROWNLEE/IBEU/HSBC @ HIBM
Mail size: 2352
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 the event.

Date Occurred:
creation Date: 16 Jul 2007 12:53
Event Number: [REDACTED]
OFAC Compliance Team Monthly Update  Date - January 2008

<table>
<thead>
<tr>
<th>Topic</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments:</td>
<td></td>
</tr>
</tbody>
</table>

December 13, 2007

On 13DEC07: HSUS self-disclosed to OFAC the processing of five wire payments (BAUG-07-USD 2,234.89, 12MAR07-USD 8,743.89, 31JAN07 - USD 26,269.74, 26JAN07 - USD 3,625.76, 26NOV07 - USD 33,448.47) in possible violation of Sudan regulations. HSUS received information from another U.S. bank informing us that the beneficiary in the BAUG07 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". HSUS researched the beneficiary and our customer, Credit Libanaise, and identified four other payments processed for the same beneficiary. The beneficiery, "Medica Import and General Trading Co," was intended as the HSUS bank, but related to Sudan. Under OFAC's strict liability policy, HSUS may face a penalty of approximately USD 159,774 for processing the payments going to Sudan.

Redacted by the Permanent Subcommittee on Investigations

OCC-PSI-00631607
Redacted by the
Permanent Subcommittee on Investigations

<table>
<thead>
<tr>
<th>Other:</th>
</tr>
</thead>
<tbody>
<tr>
<td>* OFAC Audit completed</td>
</tr>
<tr>
<td>* OFAC Compliance Deskbook drafted and submitted to team for approval</td>
</tr>
<tr>
<td>* 3 sessions of OFAC training completed for Private Banking for a total of 46 participants</td>
</tr>
</tbody>
</table>

OCC-PSI-00631007
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)
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 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)
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 DBP (NY and Miami). Two OFAC Training sessions for 2008 were presented to 44 AML-Retail. Compliance staff based in Visag, 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); Iraq (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-FSI-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.
Redacted by the Permanent Subcommittee on Investigations

OCC-PSI-00633713
From: ALI S KAZMY@HSBC
Sent: 6/24/2009 2:09:55 PM
To: ANNE LIDDY@HSBC
CC: 
Subject: Re: FW: Group CRRT and US Country Risk Assessments

The 2009 INCSR’s report on Mexico was worse 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 (SIEDD);

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 SIEDD, with support from the UIF and in coordination with U.S. officials. The number of investigations rose from 152 in 2004 to 196 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 in Desierto de los Leones 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, SIEDD 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@HSBC on 22 Jun 2009 17:37

Page 1
To: Ali S Kazmy/HRUS/HSBC02
Subject: Re: FW: Group CRT 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 CRT 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, FATF, 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/HRUS/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/HRUS/HSBC on 18 Jun 2009 16:52
To: Ali S Kazmy/HRUS/HSBC02
Subject: FW: Group CRT and US Country Risk Assessments

Ali, can you pls pull this info together for summarization to Susan. Thanks.
---- Original Message ----
From: Susan A WRIGHT
Sent: 06/18/2009 02:29 PM GMT
To: Anne Liddy/NNUS/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
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
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

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: 03/09/2010 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 workload (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 ZMAG on Governance and
Quality, Deloitte on Backlog, Mark Shaw on Backlog, Booz on AML Risk
Assessment, Booz on Norcom (analyst and running the scope 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 Gelbb 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
From: Anthony R Gibbs/HBUS/HSBC
To: Corbin C Lirot/HBUS/HSBC
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
CC: Curt X Cunningham/HBUS/HSBC, Karen K Gron/HBUS/HSBC
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/HSBC@HSBC 
To: Curt X Cunningham/HSBC@HSBC, "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)
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@HSBC
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: "gpeterson@imaginary.com"; Wyndham S Clark
Subject: Re: AML Townhall

Corbin,
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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

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From: Corbin C Lirot
Sent: 05/09/2010 10:44 AM CDT
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CC: gpeterson@imaginary.com
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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 honest 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/HSUS/HSBC
To: Corbin C Lirot/HSUS/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 Traver (224) 544-4970

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Page 2
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

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.
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)
From: CN=wyndham S clark/oU=HBUS/O=HSBC
Sent: 7/14/2010 1:00:54 PM
To: CN=David W J BAGLEY/OU=GM/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/GM/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

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----- Original Message ----- Page 1
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
From: MARLON YOUNG/HSBC
To: CAROLYN M WIND/HSBC@HSBC;LOUIS MARINO/HSBC@HSBC;MANUEL DIAZ/HSBC@HSBC;JEFF CLOUS/HSBC@HSBC;CLAIRA HURTADO/HSBC@HSBC;JANET L BURAK/HSBC@HSBC;DAVID FORD/PBRS/HSBC@HSBC
CC: ALAN P WILLIAMSON/HSBC@HSBC;CAMILLUS P HUGHES/HSBC@HSBC;STEFAN HARDY/HSBC@HSBC;NANCY LUGO/HSBC@HSBC;JOSEFINA CANILLAS/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

Page 1
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 with the Fed. Given the comments made by the Fed, I suggest we have a conference call with 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 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 Miami office.

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...
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, 77
New York, New York 10018
Phone: 212-525-5503 / Fax: 212-382-5963
E-mail: carolyn.m.wind@us.hsbc.com
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 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 Page 1
Gcc-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
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/IGHQ/HSBC@HSBC; Peter GEORGEOU/SM GFA
GHQ/IGHQ/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/IGHQ/HSBC@HSBC; Peter GEORGEOU/SM GFA
GHQ/IGHQ/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 -----
To: Bob MARTIN/HSBC

CC: mark.martinelli@us.hsbc.com

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
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 auditor'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
From: BRENDAN MCDONAGH/HSBC
To: JANET L BLURAK/HSBC
Subject: Fw: 2nd Half Costs

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

From: Michael F GEOGHEGAN
Sent: 07/23/2008 03:17 AM GDT
To: Sandy Flockhart; Stuart T GULLIVER; Emilson ALONSO; Brendan MCDonagh; Dyfrig D J JOHN; Clive C R BANNISTER; Youssef NASSR
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 cut some of it for the next five months.

One thing for me that sticks out is our annual $500m 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!
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

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Page 2
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
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
Status reports on any items disclosed in previous Compliance Certificates and still outstanding at the beginning of the reporting period:

- Office of Foreign Assets Control (OFAC) Pre-Penalty Notice (RED #6779) On 04JUN09, HBUS responded to OFAC "Prepenalty Notice", FAC No. [REDACTED] dated 08MAY09, from the OFAC Penalties Division.

- [Redacted by the Permanent Subcommittee on Investigations] OCC-PSI-00783419
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, in Paris (HBUS customer) and 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 (HBUS 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), and 5895 (Burma). There are no further updates to this matter.
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 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 HSBC's 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 2FEBIO 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 HBMY; 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金融机构 in Uruguay, Paraguay, Ecuador, El Salvador (including HSBC affiliates as well as the

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 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 11/30 at which time they have indicated that they will provide more specifics around their concerns.  

Janet
Denis

I have a lot of other email from Dhaka and all related to this case I am sure some of the info event nut 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 SHOHIDUZZAMAN/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, Mahbub 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
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

Hersel Mehani/HBUS/HSBC

HRUS
01/26/2007 02:59 AM
Mail Size: 28303

To
Muhammad SHOHIDUZZAMAN/IB DAK/HSBC@HSBC

CC
Steve BANNER/CEO DAK/HSBC@HSBC, Alan T Ketley/HSUS/HSBC@HSBC, Sharyn Malone/HSUS/HSBC@HSBC, Gillian E Bachstein/HSUS/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 oust 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.

Page 2
Regards

Hersel Mehani
Senior Vice President
Global Payments and Cash Management

Alan T Ketley/HSBC
29/09/06 03:49 PM

To

Hersel Mehani/HSBC, Sharyn Malone/HSBC, Gillian E Bachstein/HSBC

CC

"Andrew Rizkalla" <andrew.rizkalla@us.hsbc.com>, "George Tsugranes" <george.tsugranes@us.hsbc.com>, Princely P Muro/HSBC, Pechely P Muro/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/HSBC on 09/29/2006 03:44 PM -----
We asked all the question listed in your email:
Social Investment Bank - International Islamic Relief Organization which is on the OFAC list today is 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/NBUS/HSBC
Tel: 212-525-6147
09/26/2006 01:52 PM
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
senior vice president
Global Payments and Cash Management

----- Forwarded by Hersel Mehani on 09/26/2006 08:40 AM -----
ialam@hsbc.com.bd
Tel: 09/26/2006 03:19 AM

To
hersel.mehani@us.hsbc.com, richard.c.boyle@us.hsbc.com,
mshohiduzzaman@hsbc.com.bd

Subject
>Call Report: Social Investment Bank - KYC

Page 5
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=%7BACE6056B-AC19-4944-9780-2122A78606F9%7D

[attachment “callReport.pdf” deleted by Hersel Mehani/HSBC]

Redacted by the
Permanent Subcommittee on Investigations
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
Global Transaction Banking
Office: (302) 327-2665
Mobile (BB): 

----- 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. 212-382-9373
Email. jonathan.dean@us.hsbc.com

Page 2
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/HSBC  
10/20/2008 10:02 AM  
To  
Mary A Caskin/HSBC@HSBC02  
CC  
Judy P Stoldt/HSBC@HSBC02

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
Albert Halley/HBUS/HSBC  
30/20/2008 09:53 AM  
To  
Anthony Julian/HBUS/HSBC@HSBC02  
cc  
Emilio Ruiz/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.dus.hsbc.com  

Anthony Julian/HBUS/HSBC  
10/17/2008 08:23 AM  
To  
Albert Halley/HBUS/HSBC@HSBC02  
cc  
Emilio Ruiz/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...
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 regular 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

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
From: DANIEL JACK/HBUS/HSBC
Sent: 5/12/2009 3:52:39 PM
To: DENIS E O'BRIEN/HBUS/HSBC02
CC: DENISE A REILLY/HBUS/HSBC02; RICHARD ANNICHARICO/HBUS/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.

This bank (an SCC) had a long-standing relationship (25+ years) with Banknotes-London until we closed the account in Feb-05 due to TP & 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

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/HSBC02
CC: Denise A Reilly/HBUS/HSBC02, Richard Annicharico/HBUS/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
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. 646-250-7412
Email. denis.e.o'brien@us.hsbc.com

----- Forwarded by Denis E O'Brien/HSBC/HSBC on 05/12/2009 02:33 PM ------

Andrei X Novikov/HSBC/HSBC
05/12/2009 11:14 AM

To
Denis E O'Brien/HSBC/HSBC, Nerissa P Hall/HSBC/HSBC

cc
Anastasiya Shron/HSBC/HSBC

Subject
Al-Rajhi Banking And Investment Corporation, Saudi Arabia

FYI

We have only banknotes account.

Best Regards,
Andrei Novikov
COBAM - KYC
HSBC Securities (USA) Inc.
Tel (212) 525-8379 Fax (212) 525-6856

Attachment: Al Rajhi Bank in SA (May-08 to Apr-09).xls.zip
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 ISIC-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.
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%
HE 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, 0.2503%; Dr. Bedri Cemel Rodopul, 0.0019%; Adbel Fattah M. Farah, 0.0003%; Dr. Adalet Djabiev, 0.0961%; Dr. Youssef Shaheed Yousef, 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 Haque, 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
- Kamal Uddin Ahmed
- Taslima Akhtar
- Munshi Akhtaruzzaman
- M. Shah Alam
- Zohra Alam
- Alhaj Ali
- Mohammad Azam
- Fatema Begum
- Mahmood Chowdhury
- Noor A-Alam Chowdhury
- Anisul Haque
- Alhaj M. Alzal Hossain
- A.K.M. Imran Khan
- Humayun Kabir Khan
- Umme Kulsum
- Nargis Mannan
- Alhaj Nasiruddin
- Abdul Awal Patwary
- Sayedur Rahman
- A. R. Rashidi
- Mohammed Shamsuzzaman
- Ahmed Akbar Sobhan
- Sadat Sobhan
- Abu Sadek Sohel

Social Investment Bank Website
According to the Social Investment Bank website, www.siblbd.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)

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
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 tie 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 4/10/2007 of Dhaka, Bangladesh is classified as a terrorist member of Alleged Jammat-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 Dinajpur, Bangladesh arrested and sent to jail for alleged involvement in a money laundering scheme along with individuals Malek Ansari and Abdul Kalam 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 fined 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 Lutfozzaman 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 6

VerDate Nov 24 2008   09:24 Nov 27, 2012   Jkt 076646   PO 00000   Frm 01302   Fmt 6633   Sfmt 6633   P:\DOCS\76646.TXT   SAFFAIRS   PsN: PAT
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 $2 million, 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 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-Qaeda 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, 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
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.
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 ________________ on ________________.
|   | (Name of Reviewer) (date) |
|   |   | I have reviewed this Report of Findings and comments were required and have been summarized above. Signed on ________________ 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 Saudi­based 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
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 Shad ek 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.
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 Jamaatul 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:

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# •••••

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 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 do 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.
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
brother-in-law, Mohammed Jamal Khalifa, headed the Philippine branch of the IIRO in the 1990s. The Philippine government has charged that the group contributed to terrorist causes there. IIRO opened its U.S. branch (under the same 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 Islamiah was established in 1987. It has been stated that Lajnat al-Birr Al Islamiah 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 1980s.
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 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.
Attendees:

Stephen J Allen
Gordon Brown*
Lynda Cassell
Kevin Dicken
David Illing
Dan Jack * (via phone link)
Chris Jenkins*
Jonathan MacMull*
Chris Mosley
Ciara O’Connell
Andrew Rizkalla
Susan Salas
Ronald Schmick (via phone link)
Tina Tipping

* 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,
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 CI 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 by the Permanent Subcommittee on Investigations] to the High Risk category. Equally some countries such as [Redacted by the Permanent Subcommittee on Investigations] 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.
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 EIOOs, 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.

= Redacted by the Permanent Subcommittee on Investigations
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 and 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, which 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.
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 our subsidiary, we started working with them in the fourth quarter of 2004. 2005 is a full year’s figures there, as supossed 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:
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 15 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 4/6 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 9% 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.
Saudi Arabia:
the other client we deal with
Volume figures are down year on year, because we lost Al Rajhi, as a consequence we
concentrated our efforts with , 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:
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
buying large amounts of USD.
We also picked up some business from _Bank. DI advised there is a plan visit to the
country.

4. SCCs

Major wholesale competitor of ours, volume figures are not that large, they are self sufficient.
Total figures were down 46%.

Each 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 less visible within the branch. Unfortunately HSBC Pic is in charge of this change and we cannot do much about this.

15% increase year on year. We picked up a bit of business USD. our competitor so we do not see much business from them.

Our biggest UK customer in terms of volume, previously they dealt with
We meet regularly 4/5 times a year to discuss business strategy together, we have been able to organise deliveries to their branches at and on a daily basis, which their competitors are not doing.

Figures almost exactly the same, steady business, they buy 1 million USD a month from us.
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:

GB (Gibraltar), Gibraltar

Georgia

JM and GB to arranged to send letters to the listed clients.

Although we have a backlog of call reports, approximately 18, 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.
MINUTES OF KYC REVIEW MEETING
12 JULY 2005
(Covering 2nd 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.

OJ: 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...
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 Ruktalla comes from the OCC where he has been involved in some recent interesting cases such as 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 CIB 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...
Two prospects:

- Ron to ask Lynda for her level of comfort with this customer.
- 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:

- Some problem with Lynda and (still trying to complete).
- Moving onto the Yemen soon.

CO Approval:

- Lynda to come back to us on the status.

Deactivated 3 clients:

- We don't deal with them in London.
- Lynda said we could not trade with them.
- 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. **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. We picked up further business with the . During the 2nd part of last year they didn't buy anything from us because we had a problem with some documentation. We have solved this problem now. We have another customer potentially, 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 on the sales side for 2005 quite considerable rise from 17 to $26m. The other one would be . They both have had these changes for different reasons:

- Has gained corporate customers, and
- Retained business for supplying corporates with dollar cash at low margin. 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 in one transaction sold 16million Euro.

Kyrgyzstan:

New customer - Volumes are modest.

Lebanon:

--- Redacted by the Permanent Subcommittee on Investigations
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 ___ 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.

SGC - UK
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 ____. 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. AI 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 ___ is a similar situation to Libya. ___ does all of the banknote transactions on behalf of all the commercial banks, all commercial banks are obliged to buy or sell from the ____. 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:

--- Redacted by the Permanent Subcommittee on Investigations ---
This is a combination of deals from the

![Image](148x112 to 465x645)

Both 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. We traded in the last quarter 108 million 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 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 back from which has been the biggest gain for us, also we have improved our pricing and understanding there with a couple of visits the past year. We've managed to get business back from for USD and 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. 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. 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 - and we are seeing a bigger share of their business. The one we still want is . The weren't 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. 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.

SIC:
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. has its own subsidiary in Kuwait. 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 has decreased (they fell out with 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 tourists don't tend to go there on holiday as much as they would in January to March. We have not done any business with for over 2 months now purely as a result of us reviewing our rates we give to them, they've been seen to have disappeared from the market and 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. has been taken over by which has 8 offices there, so there is a fair amount of competition have been offering to pay silly prices to everybody even down to the little exchange houses.

Jordan:
was dropped for KYC reasons – a client known to us for many years. discussed this issue with Alan Kerr the GRM, and he advised that perhaps Compliance were...
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 our contacts about the market. Allan Kerr has other products to offer to this client, but the Bank won't trust us again. The __ branch has cash demand for USD, they recently wanted Sterling rather than USD, is steady as long as we keep the prices steady, they also deal with Sterling, a matter of keeping everyone happy - approximately one deal a week.

Kenya:
took over the branch in Kenya. It 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, we don't deal anymore. We usually 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. Their volumes have gone up this year because they have renewed an old client who had USD volume and now we are seeing that through __. They've increased their bought limits from ¾ 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. __ is now approved. __ shows a drop because they have stopped all the small moneychangers that operate in Nairobi. __ 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 bank 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 __ 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 stockpile it into one shipment and send it out to us. Example of __, we have not done anything because their volumes tend to be 200 thousand a month and that's not worth sending internationally at all. They clear it out locally and send it back to us as and when is big enough. __ does exactly the same - if it gets a million USD from these coffee growers it will ship it 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 -
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 -
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 Coffee has gone into the market, they are buying foreign exchange houses and are quoting favourable rates, this is affecting companies like __.

SCC -
Large exchange operation in the UK, small increase in business on the quarter (13%). They opened 6 or 7 branches at __ Airport last year and we are supplying them directly there as well as __ 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
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 —
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 — 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.
AML Oversight Committee Meeting
Minutes from May 6, 2010

Committee:
- Wyn Clark (Chair)
- Anne Liddy
- Deb Bonocconi
- Jon Holderman
- John Hong
- Paul O’Sullivan
- Cam Hughes (Regents)
- Valerie Pease (Secretary)

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 Bonocconi and Greg worked together at GE Money.

Greg noted that the Fraud Dept. files about 15,000 SAR’s per year. He further noted that he believes that a large part of the AML SAR’s are related to fraud within the businesses. Greg noted that he is 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 Netcom and Scion Version 6 which is the most updated version.

Greg noted that they see EWS (Early Warning System) on a couple of their portfolios for application fraud and 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 determined and when the SAR gets filed. It is a little difficult to put some full-time 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/monitoring. 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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OCC-PSI-00860859
• 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 overwhelmed with backlogs but have close to 900 outstanding account due 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 3rd quarter.
  John noted that there was an internal audit on the AML exam. 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 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.
From: Boss, Joseph
To: De La Garza, Elsa;
Subject: RE: SK Trading Co update
Date: Wednesday, September 03, 2008 1:22:28 PM

Just for your information, it is MaryAnn Caskin.

From: De La Garza, Elsa
Sent: Tuesday, September 02, 2008 2:47 PM
To: Boss, Joseph
Subject: SK Trading Co update

Tory -

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 transactions 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 - $1 Million; 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.
Elsa Y. de la Garza, CAMS
Large Bank East - HSBC
New York, NY
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Fax: 301-433-9321

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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 1934. This is contrary to what I was told when Teresa Pesce was BSA/AML officer. At the time the bearer share issue came up, Ms. Pesce had informed me that all but one bearer share account at HSBC had been closed.

Joe
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 ROC 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 in Hongkong.
7. Concern related to the RDC activities for

Thanks for the information on who might attend.

Hope this helps.

Joe
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 ROC in which some of the issues, we were sure of at that time, were documented. However, again, that was with lower level management.

See you on the 13th.

Joe

Joe: In light of the desire to include ROC 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 Domer and this will be something they've not heard from us up to this point. We have an AML update with the bank at 12pm on Monday (9/13); perhaps we can go over the ROC exam conclusions (preliminary) with them also at that time. Can you be available?

Thanks. Sally
Attorney Client Privilege Work Product

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.

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 November and we will let you know what we find out.

Teresa

<< File: TRAC Final Report - IPB Ny.doc >>

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OCC-PSI-00894871
From: Vivenzio, James  
Sent: Wednesday, October 06, 2010 2:57 PM  
To: Straus, Lee; Roeder, Doug; Dailey, Grace; Stilp, Sally; Morse, Kerry; Mukri, Kevin; Stipano, Dan; Steams, Richard; Frese, Monica; Onsager, Erica; Wagner, John; Jaedicke, Ann  
Cc: HSBC FAQs  
Subject: HSBC FAQs  

Attached are the FAQs pertaining to the HSBC Order. Regards, JimV.
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:

- 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;
- During mid-2006 through mid-2009, the Bank did not perform BSA/AML monitoring for bulk cash transactions with its Group Entities (foreign affiliates);
- 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;
- 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);
- 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 regulations. 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 NYSBD 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 31st 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 risk 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

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 casas de cambio 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...

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OCC-PSI-00898854
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 fonus 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 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 a 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.
In the Matter of:

HSBC Bank USA, N.A.
McLean, Virginia

UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
COMPTROLLER OF THE CURRENCY

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 5, 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.
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.
(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 those 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 in place 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.

-7-

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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(e); 
(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:

-10-

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OCC-PSI-00904707
(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 dispositioning 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.
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 risk.
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.
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.

/Grace E. Dailey/
Deputy Comptroller for Large Bank Supervision
Office of the Comptroller of the Currency
STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER


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:
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. § 359.10(j)(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(c)(4) for the purposes of 12 C.F.R. Part 24
2471

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(k)(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,
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);
ARTICLE IV

CLOSING

(1) The provisions of this Stipulation shall not inhibit, stop, 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 hereto set her hand on behalf of the Comptroller.

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:

__________________________________________  9/24/10
\underline{\text{Niall S. K. Booker}}

__________________________________________  9/24/10
\underline{\text{William R. P. Dalton}}

__________________________________________  9/24/10
\underline{\text{Anthea Disney}}

__________________________________________  9/24/10
\underline{\text{Irene M. Dorner}}

__________________________________________  9/24/10
\underline{\text{Robert K. Herdman}}

__________________________________________  9/24/10
\underline{\text{Louis Hernandez, Jr.}}

__________________________________________  9/24/10
\underline{\text{Richard A. Jalkut}}

Confidential & Non-public OCC Information

OCC-PSI-00904726
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
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. 5111 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") (2 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

Confidential & Non-public OCC Information
OCC-PSI-009376803
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 1813(u) of the Federal Deposit Insurance Act, as amended, (12 U.S.C. 1813(u)) with 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 31 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.

Confidential & Non-public OCC Information
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 I of the Board of Governors (12 C.F.R. 208.62) and 1 N.Y.C.R.R. Part 100. 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 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 31 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 products, work product drafts and interim reports relating to the Review available to the Reserve Bank and the Department upon request.

Approvals 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.

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 10041

(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. Toohey
    Senior Executive Vice President and General Counsel
    HSBC Bank USA
    One HSBC Center
    27th Floor
    Buffalo, NY 14203

Confidential & Non-public OCC Information

OCC-PSI-00987809
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, enjoin 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.
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 30th day of April, 2003.

HSBC BANK USA

By: 
Volcker
President & Chief Executive Officer

FEDERAL RESERVE BANK OF NEW YORK

By: 
Sarah D'Amato
Senior Vice President

NEW YORK STATE BANKING DEPARTMENT

By: 
Barbara Kent
Acting Superintendent of Banks
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 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 Joe

From: ALI S KAZMY@HBU/HSBC Sent: 2/23/2010 6:31:04 PM To: JON K JONES@HBU/HSBC@HSBC02 CC: PSRR@HSBC02; CAMILLUS P HUGHES@HSBC02; JUDY P STOLDT@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. Email. ali.s.kazmy@us.hsbc.com

From: Jon K Jones@HBU/HSBC To: Ali S Kazmy@HBU/HSBC@HSBC02 CC: PSRR@HSBC02 Date: 02/03/2010 04:33 PM Subject: Islami Bank Bangladesh Ltd - Pass 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 moneymo chilling 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
From: Tabor, Teresa
Sent: Wednesday, September 08, 2010 3:42 PM
To: Boss, Joseph
Subject: RE: IPS Miami (Edge)

I will forward the report to him.

From: Boss, Joseph
Sent: Wednesday, September 08, 2010 3:44 AM
To: Tabor, Teresa
Cc: Boss, Joseph
Subject: RE: IPS Miami (Edge)

I guess you will let him know. Right?

From: Bass, Joseph
Sent: Wednesday, September 08, 2010 11:41 AM
To: Tabor, Teresa
Cc: Boss, Joseph
Subject: RE: IPS Miami (Edge)

Duh.....

It wouldn't hurt.

From: Bass, Joseph
Sent: Wednesday, September 08, 2010 11:40 AM
To: Tabor, Teresa
Cc: Boss, Joseph
Subject: RE: IPS Miami (Edge)

Who?

From: Bass, Joseph
Sent: Wednesday, September 08, 2010 11:37 AM
To: Tabor, Teresa
Cc: Boss, Joseph
Subject: RE: IPS Miami (Edge)

I agree. Do we have to notify MJ?

From: Bass, Joseph
Sent: Wednesday, September 08, 2010 11:36 AM
To: Tabor, Teresa
Cc: Boss, Joseph
Subject: RE: IPS Miami (Edge)

That's all I would say. I do not think they would combine the two.
Subject: FIE: IPB Miami (Edge)

Since it is the Edge, I would assume that these are in addition to the 610 mentioned in the NY IPS report. Do you believe so as well?

I have attached an audit of IPS Miami (Edge). Refer to page 25 where it talks about 925 bearer share accounts.

<< File: 10307 AUP: IPB Miami Final Report.doc >>

Teresa Tabor, CRO, 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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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.

Teresa Taboas, CROX, CAME, AMEP  
Bank Examiner  
Large Bank Supervision  
10 East 40th St, 14th Floor  
New York, NY 10016  
(212) 552-7517 (Direct)  
(877) 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.
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Total count = 39
Mr. Anthony J. DiLorenzo  
Examiner in Charge  
Large Bank Supervision  
Comptroller of the Currency  
10 East 40th Street - 14th 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.
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.
Please feel free to contact me if you have any questions about the responses provided above.

Yours sincerely,

Teresa A. Price
Executive Vice President / Anti-Money Laundering Director

Confidential & Non-public OCC Information

OCC-PSI-01358808
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
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 Forfeiture-2010)
- 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)
- 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
Questions??

OCC-PSI-01768523
## Notable BSA/OFAC Penalty Cases

<table>
<thead>
<tr>
<th>Bank/Company</th>
<th>Year</th>
<th>Penalty</th>
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<tr>
<td>Royal Bank of Scotland (forfeiture)</td>
<td>2010</td>
<td>$500,000,000</td>
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<tr>
<td>Wachovia Bank, N.A. (DOJ/OCC/FinCEN) (forfeiture and CMPs)</td>
<td>2010</td>
<td>$160,000,000</td>
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<tr>
<td>Credit Suisse (Zurich) (DOJ/NYAG) (forfeiture)</td>
<td>2009</td>
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<tr>
<td>Lloyds TSB Bank plc (London) (DOJ/NYAG) (forfeiture action)</td>
<td>2009</td>
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<td>United Bank of Africa (Federal Branch), NY, NY (OCC/FinCEN)</td>
<td>2008</td>
<td>$15,000,000</td>
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<td>Union Bank of California, San Francisco, CA (DOJ/OCC/FinCEN) (forfeiture action and CMPs)</td>
<td>2007</td>
<td>$21,600,000</td>
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<td>American Express Bank International, Miami, FL (FRB/OFAC/FinCEN) (forfeiture action and CMPs)</td>
<td>2007</td>
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<td>ABN/AMRO, Chicago, IL (FRB/OFAC/NYSBD/Illinois)</td>
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<td>Riggs Bank N.A., Washington, D.C. (DOJ/OCC/FinCEN)</td>
<td>2004</td>
<td>$25,000,000</td>
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Bulk Shipments of Cash, Pouch, Wire Transfers

1. Smuggling: U.S. cash is smuggled into Mexico.

2. Placement: Cash placed in various casa de cambios in return for USD cash letter or wire transfers and cash accumulates/warehouses at the casas.

3. Integration: ROC/Cash Letter Instruments/Wires processed through U.S. Banks at the casa account level.

4. Repatriation: Mexican Bank(s) facilitate cash movement from the casas into U.S. at the wholesale level.

5. Shipment: Cash shipped by armored car/airplane to Federal Reserve for wholesale credit to the U.S. Bank that processed the cash letter instrument or paid out on the wire.

6. Layering: Wires from casa correspondent account may be forwarded to launderer accounts at other banks for settlement.

7. More Layering: Wires from casa correspondent account may be forwarded to launderer accounts in Europe or Asia.
How the Fraud Works

1. Malware coder writes malicious software to exploit a computer vulnerability and installs a trojan.

2. Victim infected with credential-stealing malware.


4. Hacker retrieves banking credentials.

5. Remote access to compromised computer.

6. Hacker logs into victim's online bank account.

7. Money transferred to mule.

8. Money transferred from mule to organizers.

Victims are both financial institutions and owners of infected machines.

Money mules transfer stolen money for criminals, shaving a small percentage for themselves.

Criminals come in many forms: Malware coder, Malware exploiters, Mule organization.

Victims are both financial institutions and owners of infected machines.
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 PR 04/14/09
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
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

8/27/09
Large Bank EIC Meeting
BSA/AML Panel

- Large Bank Analytics
  - Quality of Risk Management
  - High Risk Areas
  - MRAs
  - Violations
Interagency Coordination – How to Proceed

- OCC Exam Process and Enforcement Process
- DOJ Investigation
- FinCEN Enforcement Process
### Notable BSA/OFAC Penalty Cases

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<th>Name of the Defendant</th>
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<td>Wells Fargo Bank, No. 1 (DOJ/FTC/FinCEN)</td>
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Large Bank EIC Meeting
BSA/AML Panel

Questions?

John Wagner, Director, Compliance Policy (202-874-6073)

Jim Vivenzio, Senior Counsel, Chief Counsel’s Office (202-874-5200)
### BSA/AML MRA

Large Banks
Full Information System Extract (LBIS)

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