

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

NEW YORK STATE BANKING DEPARTMENT  
NEW YORK, NEW YORK

Written Agreement by and among

PHILIPPINE NATIONAL BANK  
Pasay City, Philippines

PHILIPPINE NATIONAL BANK  
NEW YORK BRANCH  
New York, New York

FEDERAL RESERVE BANK OF  
SAN FRANCISCO  
San Francisco, California

FEDERAL RESERVE BANK OF NEW YORK  
New York, New York

and

NEW YORK STATE BANKING DEPARTMENT  
New York, New York

Docket Nos. 09-051-WA/RB-FB  
09-051-WA/RB-FBR

WHEREAS, Philippine National Bank, Pasay City, Philippines (the “Bank”), a foreign bank as defined in section 1(b)(7) of the International Banking Act (12 U.S.C. § 3101(7)), and its New York branch (the “New York Branch”) are taking steps to address deficiencies in the New York Branch’s operational risk controls and compliance by the New York Branch with applicable federal and state laws, rules, and regulations relating to anti-money laundering (“AML”), including the Bank Secrecy Act (“BSA”) (31 U.S.C. § 5311 *et seq.*); the rules and regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. Part 103);

the AML requirements of Regulation K of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. §§ 211.24(f) and 211.24(j)); and those of the New York State Banking Department (the “Department”) (3 N.Y.C.R.R. Parts 116 and 300);

WHEREAS, the New York Branch provides money remittance and wire-transfer services for U.S.-based foreign nationals, and examiners have identified compliance and risk management deficiencies at the New York Branch in these operational areas;

WHEREAS, it is the common goal of the Board of Governors, the Federal Reserve Bank of San Francisco, the Federal Reserve Bank of New York, the Department, the Bank, and the New York Branch to ensure that the Bank and the New York Branch fully address all deficiencies in the New York Branch’s operational risk controls and BSA/AML compliance; and

WHEREAS, on April 24, 2009, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Omar Byron T. Meier and Jesus Capalad to enter into this Written Agreement (the “Agreement”) on behalf of the Bank and the New York Branch, respectively, and consenting to compliance with each and every applicable provision of this Agreement by the Bank, the New York Branch, and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(4) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u) and 1818(b)(4)).

NOW, THEREFORE, the Federal Reserve Bank of San Francisco, the Federal Reserve Bank of New York, the Department (collectively, the “Supervisors”), the Bank, and the New York Branch hereby agree as follows:

**Primary Contact**

1. Within 10 days of this Agreement, the Bank and the New York Branch shall designate an officer to be responsible for coordinating and submitting to the Supervisors the

written programs, plans, policies, procedures, and engagement letters required under the terms and conditions of this Agreement.

## **OPERATIONAL RISK**

### **Board Oversight**

2. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Supervisors a written plan to strengthen board oversight of the management and operations of the New York Branch. The plan shall, at a minimum, address, consider, and include:

- (a) The actions that the board of directors will take to improve the New York Branch's condition and maintain effective control over, and supervision of, the branch's senior management and major operations and activities, including but not limited to, the accounting system, information security ("IS") and information technology ("IT") environments, and physical security;
- (b) a description of the information and reports that will be regularly reviewed by the board of directors in its oversight of the operations and management of the New York Branch;
- (c) steps to strengthen the audit of the New York Branch's operations and the effectiveness of the Bank's Audit Committee in carrying out its oversight responsibilities; and
- (d) an evaluation of staffing needs of the accounting, IS, and IT operational areas, and the qualifications of current staff in those areas.

### **Internal Audit**

3. Within 120 days of this Agreement, the Bank and the New York Branch shall jointly submit to the Supervisors an acceptable written plan to strengthen the New York Branch's internal audit function that is appropriate for the size and complexity of the branch. At a

minimum, the plan shall address, consider, and include the scope and frequency requirements of standard 2010.A1 of the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing and the Interagency Policy Statement on the Internal Audit Function and Its Outsourcing, dated March 17, 2003 (SR 03-5).

### **Accounting and Internal Controls**

4. (a) Within 30 days of this Agreement, the Bank and the New York Branch shall engage a qualified independent firm (the "Accounting Consultant") acceptable to the Supervisors to assist management in reviewing the New York Branch's accounting practices and procedures, internal controls, and books and records reporting (the "Accounting Review"), and to prepare a written report of findings and recommendations (the "Accounting Consultant's Report").

(b) Within 10 days of the engagement of the Accounting Consultant, but prior to the commencement of the Accounting Review, the Bank and the New York Branch shall jointly submit to the Supervisors for approval an engagement letter that sets forth the terms of the engagement. The letter shall provide, among other things, that:

(i) the Accounting Consultant's Report be completed within 60 days of the approval of the engagement letter;

(ii) within 10 days of the completion of the Accounting Review, the Accounting Consultant's Report be simultaneously submitted to the Bank, the New York Branch, and the Supervisors; and

(iii) supporting material associated with the Accounting Review be made available to the Supervisors upon request.

5. Within 30 days of receipt of the Accounting Consultant's Report, the Bank and the New York Branch shall jointly submit to the Supervisors acceptable written accounting and internal control policies and procedures for the New York Branch. The policies and procedures shall, at a minimum, address, consider, include, and provide for:

(a) Measures to ensure that all reconciliations are properly completed, including, but not limited to, a consolidated reconciliation listing that includes the general ledger account, frequency of reconciliation, and the designation of the area or person responsible for preparing reconciliations;

(b) documenting the annual review of inactive accounts;

(c) measures to reduce the number of non-reconciled, aged ACH items; and

(d) measures to assess the effectiveness of the New York Branch's recent enhancements to its general ledger application and financial information reporting.

### **Information Security and Technology**

6. Within 120 days of this Agreement, the Bank and the New York Branch shall jointly submit to the Supervisors an acceptable written plan to improve the New York Branch's IS and IT environments that addresses the deficiencies noted the report of the examination of the New York Branch conducted jointly by the Federal Reserve Bank of New York and the Department and the accompanying transmittal letter, dated December 18, 2008 (collectively, the "Report of Examination"), and that ensures that the New York Branch's IT environment conforms to the standards set forth in the applicable Federal Financial Institutions Examination Counsel Information Technology Examination Handbooks. At a minimum, the plan shall include and provide for:

(a) Adequate security for e-mail;

- (b) appropriate segregation of the IS and IT functions and administration;
- (c) descriptions of the roles of staff responsible for IS and IT administration;
- (d) the adequate documentation of the IT policies enumerated in the Report of Examination;
- (e) procedures to identify and monitor critical vendors;
- (f) a requirement for regular communications and management reporting between the New York Branch's IS staff and the Bank's IS staff; and
- (g) an information security awareness program for New York Branch employees.

### **Physical Security**

7. Within 120 days of this Agreement, the Bank and the New York Branch shall jointly submit to the Supervisors an acceptable written plan to improve the physical security of the branch's premises that, at a minimum, addresses the deficiencies in physical security noted in the Report of Examination.

### **BSA/AML COMPLIANCE**

#### **Management Review and Oversight**

8. (a) Within 120 days of this Agreement, the board of directors of the Bank shall direct and oversee a review of the effectiveness of the New York Branch's corporate governance, control infrastructure, and compliance, operational, and business line accountability with respect to BSA/AML compliance for the New York Branch's money remittance and funds-transfer services (the "Management Review"). The purposes of the Management Review shall be to enhance the Bank's oversight of the New York Branch's BSA/AML compliance program in these business lines and to ensure the adequate staffing by qualified and trained personnel that

is required for an effective control environment. The Management Review shall, at a minimum, address, consider, and include for the New York Branch's remittance and funds-transfer business lines:

(i) the duties and responsibilities of each officer and staff member regarding BSA/AML compliance, including reporting lines and business line accountability; and

(ii) a plan to train, recruit, hire, or appoint, as necessary, additional officers and staff with the requisite ability, experience, and other qualifications to competently perform their assigned duties.

(b) At the conclusion of the Management Review, the Bank shall submit a written report to the Supervisors that includes the findings and conclusions of the Management Review, and a description of specific actions that the Bank proposes to take, or has taken, to strengthen the management and oversight of the New York Branch's money remittance and funds transfer business lines.

(c) Within 30 days of the submission of the written report required by paragraph 8(b), the Bank shall implement measures to ensure appropriate oversight of the New York Branch's BSA/AML compliance program in the money remittance and funds transfer business lines, including, but not limited to, periodic management information reports sufficient to enable Bank management to assess the adequacy and effectiveness of the BSA/AML control infrastructure and compliance with applicable laws and regulations.

### **BSA/AML Compliance Review**

9. (a) Within 10 days of this Agreement, the Bank and the New York Branch shall retain an independent consultant acceptable to the Supervisors (the "Compliance Review Consultant") to conduct an independent review of the New York Branch's BSA/AML

compliance program, suspicious activity reporting, and customer due diligence program (collectively, the “BSA/AML Compliance Review”), and to prepare a written report of findings, conclusions, and recommendations (the “BSA/AML Compliance Report”). The purpose of the BSA/AML Compliance Review shall be to conduct a comprehensive review of the New York Branch’s BSA/AML compliance program, suspicious activity reporting, and customer due diligence program and make recommendations that will enable the New York Branch to establish effective compliance and monitoring programs that are commensurate with the New York Branch’s size, products and services, customers, and the customers’ geographic locations.

(b) Within 10 days of the engagement of the Compliance Review Consultant, but prior to the commencement of the BSA/AML Compliance Review, the Bank and the New York Branch shall jointly submit to the Supervisors for approval an engagement letter that sets forth the terms of the engagement. The letter shall provide, among other things, that:

(i) the BSA/AML Compliance Review be completed within 60 days of the retention of the Compliance Review Consultant;

(ii) within 10 days of the completion of the BSA/AML Compliance Review, the BSA/AML Compliance Report be submitted simultaneously to the Bank, the New York Branch, and the Supervisors; and

(iii) supporting material associated with the BSA/AML Compliance Review be made available to the Supervisors upon request.

10. Within 60 days of the submission of the BSA/AML Compliance Report, the Bank and the New York Branch shall jointly submit to the Supervisors an acceptable written BSA/AML compliance program for the New York Branch that incorporates the findings and recommendations of the BSA/AML Review and is designed to improve the New York Branch’s



internal controls to ensure compliance with all applicable provisions of the BSA and the rules and regulations issued thereunder, the requirements of Regulation K of the Board of Governors, and the requirements of 3 N.Y.C.R.R. Parts 116 and 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 issued thereunder. At a minimum, the program shall include:

(a) Improvements to the New York Branch's system of internal controls for mail-in remittance and funds transfer activities, including controls to ensure compliance with all recordkeeping and reporting requirements;

(b) policies and procedures designed to ensure identification and verification of the identity of account holders and transactors in accordance with applicable regulations;

(c) controls designed to ensure compliance with all requirements relating to correspondent accounts for non-U.S. persons;

(d) an assessment of legal and reputational risks associated with each of the New York Branch's activities, including mail-in remittance, correspondent banking, funds transfer activities, and new products and services; and

(e) adequate resources for the BSA/AML compliance officer, including sufficient staffing levels, to implement and maintain an effective program for compliance by the New York Branch with all applicable BSA/AML requirements and the institution's internal policies and procedures.

### **Suspicious Activity Reporting and Customer Due Diligence**

11. Within 60 days of the submission of the BSA/AML Compliance Report, the Bank and the New York Branch shall jointly submit to the Supervisors an acceptable written customer due diligence program designed to reasonably ensure the identification and timely, accurate, and

complete reporting of all known or suspected violations of law against or involving the New York Branch and suspicious transactions at the New York Branch to law enforcement and supervisory authorities as required by applicable suspicious activity reporting laws and regulations. At a minimum, the program shall include:

(a) A methodology for assigning risk levels to the New York Branch's customer base that considers factors such as type of customer, type of product or service, and geographic location;

(b) a risk-focused assessment of the New York Branch's customer base that:

(i) identifies the categories of customers whose transactions and banking activities are routine and usual; and

(ii) determines the appropriate level of enhanced due diligence necessary for those categories of customers that pose a heightened risk of conducting potentially illicit activities at or through the New York Branch;

(c) for each customer who requires enhanced due diligence, procedures to:

(i) determine the appropriate documentation necessary to verify the identity and business activities of the customer;

(ii) understand the normal and expected transactions of the customer;

and

(iii) periodically review the adequacy of the customer files documentation;

(d) enhancements to the customer identification program to ensure compliance with the requirements of 12 C.F.R. § 211.24(j)(2) and 31 C.F.R. § 103.121;

(e) for correspondent accounts established, maintained, administered, or managed in the United States for a non-U.S. financial institution (including any non-U.S. branch or affiliate of the Bank), procedures that are designed to ensure compliance with applicable due diligence and other requirements (including the provisions of 31 C.F.R. §§ 103.176 and 103.177) and that, at a minimum, provide for:

(i) obtaining and maintaining appropriate information about the respondent, its business operations, markets served, customer base, and its AML procedures, particularly with regard to its customer relationships that may present a heightened risk of money laundering or other concerns; and

(ii) ensuring that remittance and correspondent banking services provided by the New York Branch are reviewed and approved by appropriate levels of management, and are subject to appropriate ongoing review; and

(f) establishment of procedures and appropriate monitoring criteria to ensure proper detection and timely reporting of all known or suspected violations of law and suspicious transactions, including, but not limited to:

(i) effective monitoring of customer accounts and transactions, including mail-in remittance transactions, wire transfers, and transactions conducted through correspondent accounts;

(ii) appropriate participation by New York Branch senior management in the process of identifying, reviewing, and reporting potentially suspicious activity;

(iii) adequate escalation of information about potentially suspicious activity through appropriate levels of management;

(iv) adequate procedures to ensure the timely and complete preparation and filing of Suspicious Activity Reports and Currency Transaction Reports; and

(v) maintenance of sufficient documentation with respect to the investigation and analysis of potentially suspicious activity, including the resolution and escalation of concerns.

### **Independent Testing**

12. Within 60 days of this Agreement, the Bank and the New York Branch shall jointly submit to the Supervisors an acceptable written plan for independent testing of the New York Branch's compliance with all applicable BSA/AML requirements. At a minimum, the plan shall include:

(a) Procedures to evaluate the adequacy and effectiveness of the New York Branch's compliance with the BSA, the rules and regulations issued thereunder, and all other applicable AML requirements, including monitoring of customer activity to ensure reporting of suspicious activity;

(b) provisions for independent testing to be performed on a regular basis by qualified parties (which may include internal audit) who are independent of the Bank's and the New York Branch's business lines and compliance function;

(c) procedures for the review of independent testing results by senior Bank and New York Branch management and escalation to the board of directors of the Bank in appropriate circumstances; and

(d) procedures to ensure that senior Bank and New York Branch management institute and complete appropriate actions in response to the independent testing results.

## **Transaction Monitoring System**

13. (a) Within 30 days of this Agreement, the Bank and the New York Branch shall engaged a qualified independent consultant (the “Transaction Monitoring Consultant”) acceptable to the Supervisors to assist management in improving the New York Branch’s current transaction monitoring system.

(b) Within 90 days of the approval of the engagement, the Bank and the New York Branch shall jointly submit to the Supervisors acceptable written policies and procedures for the branch’s monitoring of customer accounts and transactions that are designed to effectively manage legal and reputational risks and ensure compliance with regulatory requirements.

(c) The acceptable policies and procedures shall take effect upon the determination by the Transaction Monitoring Consultant that the improved transaction monitoring system is fully effective. Documentation to support the determination that the improved transaction monitoring system is fully effective shall be retained for subsequent supervisory review.

## **Training**

14. Within 60 days of this Agreement, the Bank and the New York Branch shall jointly submit to the Supervisors an acceptable written plan to improve the training of all appropriate personnel at the New York Branch including, but not limited to, employees involved in the cash remittance and customer contact personnel. The training should extend to all aspects of regulatory and internal policies and procedures related to the BSA and the identification and report of suspicious transactions and be updated on a regular basis to reasonably ensure that all

personnel are trained in the most current legal requirements and the New York Branch's risk management processes.

### **Approval, Implementation, and Progress Reports**

15. (a) The Bank and the New York Branch shall jointly submit written plans, policies, procedures, programs, and engagement letters that are acceptable to the Supervisors within the applicable time periods set forth in paragraphs 3, 4(b), 5, 6, 7, 9(b), 10, 11, 12, 13(b), and 14 of this Agreement. An independent firm and independent consultants acceptable to the Supervisors shall be retained by the Bank and the New York Branch within the period set forth in paragraphs 4(a), 9(a), and 13(a) of this Agreement.

(b) Within 10 days of approval by the Supervisors, the Bank and the New York Branch shall adopt the approved plans, policies, procedures, programs, and engagement letters. Upon adoption, the Bank and the New York Branch shall implement the approved plans, policies, procedures, and programs and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans, policies, procedures, programs, and engagement letters shall not be amended or rescinded without the prior written approval of the Supervisors.

16. Within 10 days after the end of each month following the date of this Agreement, the Bank and the New York Branch shall jointly submit to the Supervisors 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 responses to any audit reports covering BSA/AML matters prepared by internal and external auditors shall be included with the progress reports. The Supervisors may, in writing, discontinue the requirement for progress reports or modify the reporting schedule.

## Notices

17. All communications regarding this Agreement shall be sent to:
  - (a) Mr. Daniel Muccia  
Senior Vice President  
Federal Reserve Bank of New York  
33 Liberty Street  
New York, New York 10045
  - (b) Mr. Stanley M. Crisp  
Vice President  
Federal Reserve Bank of San Francisco  
101 Market Street, MS 905  
San Francisco, California 94105
  - (c) Mr. David S. Fredsall  
Deputy Superintendent  
New York State Banking Department  
One State Street  
New York, New York 10004
  - (d) Mr. Omar Byron T. Meier  
President and CEO  
Philippine National Bank  
Financial Center  
Pres. Diosdado Macapagal Boulevard  
1300 Pasay City, Philippines
  - (e) Mr. Jesus Capalad  
General Manager  
Philippine National Bank  
New York Branch  
30 Broad Street  
New York, New York 10045

## Miscellaneous

18. The provisions of this Agreement shall be binding on the Bank, the New York Branch, and each of their institution-affiliated parties in their capacities as such, and their successors and assigns.

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

20. Notwithstanding any provision of this Agreement, the Supervisors may, in their sole discretion, grant written extensions of time to the Bank and the New York Branch to comply with any provision of this Agreement.

21. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Supervisors, or any other federal or state agency from taking any further or other action affecting the Bank, the New York Branch, or any of their current or former institution-affiliated parties or their successors or assigns.

23. Pursuant to section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under section 8 of the FDI Act (12 U.S.C. § 1818).



24. This Agreement is enforceable by the Department 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 8<sup>th</sup> day of May, 2009.

PHILIPPINE NATIONAL BANK

FEDERAL RESERVE BANK OF  
SAN FRANCISCO

By: /s/Omar Byron T. Meier  
Mr. Omar Byron T. Meier  
President and  
Chief Executive Officer

By: /s/Stanley M. Crisp  
Mr. Stanley M. Crisp  
Vice President

PHILIPPINE NATIONAL BANK  
NEW YORK BRANCH

FEDERAL RESERVE BANK OF  
NEW YORK

By: /s/Jesus Capalad  
Mr. Jesus Capalad  
General Manager

By: /s/Daniel Muccia  
Mr. Daniel Muccia  
Senior Vice President

NEW YORK STATE BANKING  
DEPARTMENT

By: /s/David S. Fredsall  
Mr. David S. Fredsall  
Deputy Superintendent