*United States Senate*
*PERMANENT SUBCOMMITTEE ON INVESTIGATIONS*
*Committee on Homeland Security and Governmental Affairs*

*Carl Levin, Chairman*
*Tom Coburn, Ranking Minority Member*

# E X H I B I T S

**Hearing On**

# U.S. Vulnerabilities to Money Laundering, Drugs, and Terrorist Financing: HSBC Case History

**July 17, 2012**

*199 Russell Senate Office Building, Washington, D.C. 20510*

*United States Senate*
*PERMANENT SUBCOMMITTEE ON INVESTIGATIONS*
*Committee on Homeland Security and Governmental Affairs*

*Carl Levin, Chairman*
*Tom Coburn, Ranking Minority Member*

# EXHIBIT LIST

**Hearing On**

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

**July 17, 2012**

1. a. *Matters Requiring Attention (MRAs) and Recommendations in OCC Supervisory Letters for HSBC Bank USA, N.A.*, chart prepared by the Permanent Subcommittee on Investigations.
   b. *HBMX Compliance Failures*, chart prepared by the Permanent Subcommittee on Investigations.
   c. *Disclosed v. Undisclosed Iranian U.S. Dollar Payments Sent by HSBC Foreign Affiliates to U.S. Banks, Including HSBC Bank USA*, chart prepared by the Permanent Subcommittee on Investigations.
   d. Excerpts from emails of David Bagley re HBUS awareness of Iranian transactions, 2003-2004.
   e. *Ratings Used in OCC Report of Examinations*, chart prepared by the Permanent Subcommittee on Investigations.
   f. *31 USC §5318(h) - Anti-Money Laundering Programs*.

**General Documents**:

2. a. HSBC Group News, HSBC Group Chief Stuart Gulliver letter to all HSBC employees.
   b. HSBC Group Circular Letters (GCL), *GCL 120014 - HSBC Global Standards*. [PSI-HSBC-75-0001]
   c. *HSBC Group Standards Manual, Chapter 5 Legal, Compliance and Reputation*.

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]

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-0065332-334]

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]

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

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]

**Documents Related to HBMX and HSBC Mexico**:

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]

9. HSBC internal email, dated August 2002, re: *HIGH NOON*, attaching copy of *Group Internal Audit, Due Diligence Review - Project High Noon).* [HSBC OCC 8873843-855]

10. HSBC internal email, dated November 2002, re: *Compliance Due Diligence Trip by John Root, Bital (Mexico City),- 4-8NOV02.* [HSBC OCC 8877800-807]

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]

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]

13. HSBC internal email, dated December 2005, re: *OFAC (Some Western authorities allege more sinister purposes, e.g. the funding of terrorist Hizbollah activities ....).* [HSBC OCC 8876612-613]

14. HSBC internal email, dated March 2007, re: subject redacted by HSBC *(There 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]

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]

16. HSBC internal email, dated April 2007, re: *GROUP AUDIT COMMITTEE - APR 07 (Lack of a compliance culture, evidenced (in the most seri*[ous] *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]

17. HSBC internal email, dated April 2007, re: *Managerial Letter: HBMX (...process he initiated over a month ago following the seizures of the arms and money from our customers's premises .... * * * Not a happy story.).* [HSBC OCC 8875010-014]

18. a. HSBC Bank USA internal memorandum, dated May 1, 2007, re: *Wall Street Journal Article Regarding Wachovia (Sigue Corp. - A money service business that allegedly processed $24.7 million in suspicious money remittances related to drug-trafficking proceeds*.). [OCC-PSI-01358514-517]
    b. Excerpt from Sigue Corporation Deferred Prosecution Agreement, January 24, 2008.

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]

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]

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 8873338-342]

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]

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]

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]

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]

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]

27. HSBC internal email, dated February 2008, re: *CNBV (...Mexico is suffering a major problem with drugs dealers and the Government is being very robust ....).* [HSBC-PSI-PROD-0198508-509]

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]

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 8966014–020]

30. HSBC internal email, dated March 2008, re: *HBMX (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]

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 8873487-489]

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 drugs* [sic] *cartels.).* [HSBC OCC 8874829-833]

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]

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]

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]

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

37. a. *HBUS Banksnotes NY - USD Bought from or Sold to Customers in Mexico: 3 Month Period (Nov-06 to Feb-07).* [OCC-PSI-00151506]
    b. *BANKNOTES-NY Selected Customers' Activity Alerts & Traders' Explanations for USD Purchases & Sales from 2005-2009*, prepared by OCC. [OCC-PSI-00005890-904]

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

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]

**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]

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]

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]

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]

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]

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]

46. HSBC internal email, dated October 2003, re: *Iran - Strategy Discussion Paper (...there remains serious political and reputational risks within the USA if they proceed with this ....).* [HSBC OCC 8873941-947]

47. HSBC Document, *Iran - Strategy Discussion Paper*, undated, (*The Iranian market offers substantial untapped potential for the HSBC Group.).* [HSBC OCC 8873949-956]

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]

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]

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 3407517-522]
    b. HSBC internal email, dated June 2004, 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" they payment was rejected, per our policy, due to concerns about evasion issues under the OFAC regulations.).* [HSBC OCC 8873922-928]
    c. HSBC internal email, dated May 2005, re: *Wire Payments Suspended (Wire payments suspended re "Iran" - USD 6,912,607.82).* [HSBC OCC 8874710-712]
    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]

51. HSBC internal email, dated March 2004, re: *BankMarkazi Payment (...I remain extremely uncomfortable with the practice of amending Iranian payment orders for whatever means.).* [HSBC OCC 8873979-982]

52. HSBC internal email, dated March 2004, re: *Bank Markazi 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]

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]

54. HSBC internal email, dated June 2004, re: *Iran (...there are very compelling 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]

55. HSBC internal email, dated June 2004, re: *Iran (...our interpretation was that we were being asked to 'fudge' the nature of the payments to avoid the U.S. embargo and seizure ....).* [HSBC OCC 8873999]

56. HSBC internal email, dated July 2004, re: *HBEU Iranian Payments Business (...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]

57. HSBC internal email, dated November 2004, re: *U-turns (...initially there were concerns about potential intentional removal of wording "off limit payments" from these payments.).* [HSBC-PSI-PROD-0096165-167]

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]

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]

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]

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]

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]

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]

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]

65. HSBC internal email, dated June 2008, re: OFAC processing in GCS'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]

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]

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]

68. Excerpt from Deloitte Review of OFAC transactions, *Results of the Transactions Review - UK Gateway, March 29, 2012*. [HSBC-PSI-PROD-0197919, 930-931, 940, 968-969, 976, 980]

69. Excerpt from *March 29, 2012 Presentation,* prepared by Sullivan Cromwell LLP and Cahill Gordon & Reindel LLP on OFAC compliance by HSBC Bank USA. [HSBC OCC 8966113, 118, 143]

70. HSBC Group Circular Letters (GCL):
    a. *GCL 050047 - Compliance with sanctions (28/Jul/2005)* [HSBC OCC 3407560-561];
    b. *GCL 060011 - US Dollar Payments (06/Apr/2006)* [HSBC OCC 3407587];
    c. *GCL 060041 - US OFAC Sanctions against Iran - U-Turn Exemption (25/Oct/2006)* [HSBC OCC 3407606];
    d. *GCL 070049 - Sanctions Against Iran (24/Sep/2007).* [OCC-PSI-00141530-531]

71. Documents related to other countries:
    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]
    b. *Information Requested in Connection With: North Korea, Cuba, and Myanmar (We were notified that there are relationships with Cuban and North Korean customers.),* HSBC document prepared May 2007. [HSBC OCC 8876093-095]
    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]

d. Excerpt from Deloitte *Transaction Review Progress and Results Reporting, 18th & 19th October 2011 (Correspondent and other accounts ....).* [HSBC-PSI-PROD-0096628, 649]

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

72. HSBC internal email, dated January 2005, re: Al Ra[jh]*i Trading/Al* Ra[jh]*i 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.).* [72]

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

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]

75. HSBC internal email, dated August 2005, re: *Al Rajhi (We've gotten push back from OCC on Al* Ra[jh]*i Trading, which is less controversial than the bank.).* [OCC-PSI-00343527]

76. Excerpt from *HBUS Global Banknotes - Purchases & Sales USD - 2008 vs 2009.* [HSBC OCC 5364770, 793, 794]

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 out banknote trading relationship ....).* [HSBC OCC 3280505]

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-00150795]

79. HSBC internal email, dated November 2006, re: *Alrahji* [sic] *(To cancel the Amanah business is much bigger than not dealing with banknotes.).* [OCC-PSI-00150798]

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.).* [HSBC OCC 2830874-879]

82. HSBC internal email, dated November 2007, re: *Islami Bank Bangladesh Limited (...the money is there and we should go for this account.).* [HSBC OCC 0739987-991]

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-0001-003]
    b. Social Islami Bank Ltd. responses to questions from the U.S. Senate Permanent Subcommittee on Investigations, July 10, 2012. [PSI-SIBL-01-0001-004]

**Documents Related to Hokuriku Bank: Cashing Bulk Travelers Checks**:

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-00409214-215]

89. HSBC internal email, dated November 2008, re: *Hokuriku Bank (The 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-00808695]

90. HSBC internal email, dated December 2008, re: *Hokuriku Bank - information needed (They have been good enough to provide information so far but as you may understand from bank secrecy view point, they should not or cannot disclosure 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-00888526]

92. Hokuriku Bank, Ltd. responses to questions from the U.S. Senate Permanent Subcommittee on Investigations, June 26 and 29, 2012. [PSI-HokurikuBank-01-0001-016 and PSI-HokurikuBank-01-0001]

**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]

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]

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]

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

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-00214880]
    b. HSBC internal email, dated June 2007, re: [redacted] *Family (This is too important a family in Peru for us not to want to do business with.).* [OCC-PSI-00215211]

**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]

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]

✧ ✧ ✧

## Matters Requiring Attention (MRAs) and Recommendations in OCC Supervisory Letters for HSBC Bank USA, N.A.
## January 2005 - July 2009

| | | | | | Internal Control Pillar Issues | | | | | | Training Pillar | Independent Testing Pillar | BSA Officer Pillar | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| # of BSA Exams | Supv. Letter Date | Business Line/Area Examined | # MRAs* | # Rec.* | Bank Not Following Policies | Weak Monitoring Procedures | Weak CDD/EDD Procedures | Insuff. Staff Levels | Backlogs Noted | Policies Need Revision | Staff Needs Training | Independent Testing Problems | BSA Officer Inadeq. | OFAC Issues | Sum of MRAs |
| 1 | 1/26/2005 | 4Q04 USA Patriot Act Exam | 6 | 0 | x | | x | | | x | x | | | | 6 |
| 2 | 6/20/2005 | 1Q05 Global Banknote Exam | 6 | 0 | x | x | x | | | x | x | | | | 12 |
| 3 | 8/9/2005 | Embassy Banking Exam | 0 | 0 | | | | | | | | | | | 12 |
| 4 | 1/17/2006 | 3Q05 Foreign Corresp. Banking Exam | 7 | 0 | x | x | x | | | x | x | | | | 19 |
| 5 | 1/23/2006 | 3Q05 Wire Transfer Exam | 5 | 0 | x | x | x | | | x | x | x | | | 24 |
| 6 | 1/30/2006 | 4Q05 Embassy Banking Exam | 4 | 0 | | x | | x | | x | | | | | 28 |
| 7 | 1/31/2006 | 3Q05 Intn'l Private Banking Exam | 7 | 0 | x | x | x | | x | x | x | | | | 35 |
| Provisions of the 2003 Written Agreement were terminated 2/6/2006 with the above similar/systemic findings from the first seven BSA/AML exams. | | | | | | | | | | | | | | | |
| 8 | 4/12/2006 | 1Q06 Domestic Private Banking Exam | 3 | 0 | | x | x | | | x | | | | | 38 |
| 9 | 4/27/2006 | 1Q06 GIB Exam | 0 | 1 | | | | x | | | x | | | | 38 |
| 10 | 6/14/2006 | 1Q06 Compliance Review Unit (CRU) Exam | 4 | 0 | | | | x | | x | | x | | | 42 |
| 11 | 7/13/2006 | 1Q06 Trade Services Operations | 0 | 3 | | | x | | | x | | | | | 42 |
| 12 | 9/26/2006 | 2Q06 London Global Banknote Exam | 3 | 0 | x | x | x | | | x | x | | | | 45 |
| 13 | 10/19/2006 | Retail Services Compliance Exam | 1 | 0 | | x | | | | | | | | | 46 |
| 14 | 12/1/2006 | Metris Exam (Credit Cards) | 5 | 0 | | x | x | | | x | | | | | 51 |
| 15 | 1/8/2007 | Taxpayer Financial Services Compliance Exam | 0 | 2 | | | | | | | | | | | 51 |
| 16 | 3/8/2007 | Corporate and Institutional Banking Exam | 4 | 1 | x | | x | | | x | | x | | x | 55 |
| 17 | 3/19/2007 | 3Q06 GIB Exam | 3 | 0 | | x | | x | | x | | | | | 58 |
| 18 | 3/27/2007 | 3Q06 Retail Banking Exam | 3 | 7 | | x | x | | | x | | | | | 61 |
| 19 | 3/29/2007 | 4Q06 CAMP Review | 1 | 0 | | | | | | | | | | | 62 |
| 20 | 5/22/2007 | OCC Visit to India | 0 | 0 | | x | | | | | | | | | 62 |
| 21 | 6/17/2007 | CAMP Follow-up | 0 | 0 | | | | | | | | | | | 62 |
| 22 | 6/20/2007 | 1Q07 Corporate Trust Exam | 0 | 0 | | | | | | | | | | | 62 |
| 23 | 8/6/2007 | 2Q07 Internal Audit and CRU Follow-up Exam | 0 | 1 | | | | | | | | x | | | 62 |
| 24 | 8/21/2007 | 3Q07 London Banknote Follow-up Exam | 0 | 0 | | | | | | | | | | | 62 |
| 25 | 8/21/2007 | 3Q07 GIB Follow-up Exam | 0 | 0 | | | | | | | | | | | 62 |
| 26 | 9/13/2007 | Pouch Services and Middle Market Exam | 5 | 0 | x | x | | | | x | x | x | | | 67 |
| 27 | 9/21/2007 | Investment Banking Exam | 3 | 0 | | x | x | | | x | | | | | 70 |
| 28 | 9/21/2007 | Taxpayer Financial Services Follow-up Exam | 1 | 0 | x | | | | | | | | | | 71 |
| 29 | 10/15/2007 | Retail Services Compliance Exam | 0 | 1 | | | | | | | x | | | | 71 |
| 30 | 2/11/2008 | Card Services Compliance Exam | 0 | 3 | | x | | | | x | | | | | 71 |
| 31 | 4/9/2008 | 1Q08 Audit and CRU Exam | 2 | 1 | | | | | | | | x | | | 73 |
| 32 | 4/21/2008 | 4Q07 PCM Exam | 3 | 0 | | x | | | | x | x | x | | | 76 |
| 33 | 6/2/2008 | Singapore/Hong Kong Banknotes Exam | 0 | 2 | | | | | | | | | | | 76 |
| 34 | 7/10/2008 | Taxpayer Financial Services Compliance Exam | 1 | 0 | | | | | | | | | | | 77 |
| 35 | 9/4/2008 | 2Q08 and 3Q08 GIB Exam | 2 | 0 | x | x | x | x | x | x | | | | | 79 |
| 36 | 1/20/2009 | 4Q08 OFAC Exam | 0 | 1 | | | | x | | | | | | | 79 |
| 37 | 1/22/2009 | 3Q08 Pouch Follow-up Exam | 0 | 0 | | | | | | | | | | | 79 |
| 38 | 3/3/2009 | 4Q08 Correspondent Banking Exam | 0 | 2 | | | | x | | | | | | | 79 |
| 39 | 3/18/2009 | 4Q08 Private Banking Exam | 2 | 1 | | x | | | | x | | | | | 81 |
| 40 | 3/18/2009 | 4Q08 PCM Exam | 0 | 1 | | | | x | | | | | | | 81 |
| 41 | 5/27/2009 | Taxpayer Financial Services Compliance Exam | 0 | 0 | | | | | | | | | | | 81 |
| 42 | 6/24/2009 | 2Q09 GIB Follow-up Exam | 1 | 3 | | x | | | | x | x | x | | | 82 |
| 43 | 7/7/2009 | Compliance Management Exam | 1 | 0 | | | | | | | | x | x | | 83 |
| | | TOTALS | 83 | 30 | 10 | 19 | 13 | 8 | 2 | 21 | 11 | 9 | 1 | 1 | |

Prepared by the U.S. Senate Permanent Subcommittee on Investigations, July 2012.

Permanent Subcommittee on Investigations

EXHIBIT #1a

# HBMX Compliance Failures

**2002** "There is no recognisable compliance or money laundering function"

**2005** "Fabricated records of certain mandatory anti-money laundering meetings"

**2007** "What is this, the School of Low Expectations Banking?"

**2008** "There were allegations of 60% to 70% of laundered proceeds in Mexico [going] through HBMX"

**2008** "What I find most frustrating is the way in which new issues constantly emerge however much time is spent with HBMX."

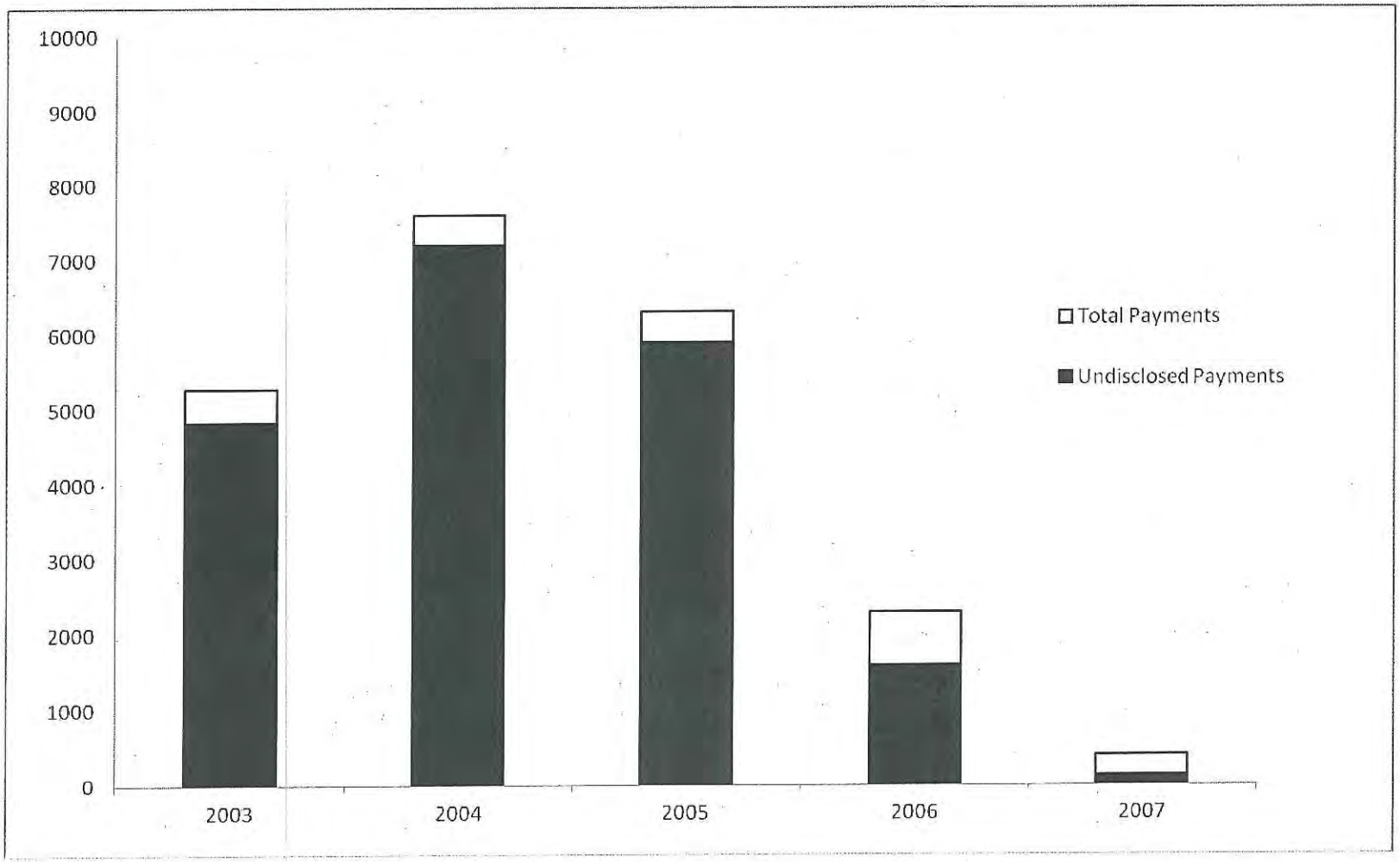
**2009** "[I]nherent AML risk in Mexico is still very high"

Prepared by the U.S. Senate Permanent Subcommittee on Investigations, July 2012

Permanent Subcommittee on Investigations
EXHIBIT #1b

Permanent Subcommittee on Investigations
EXHIBIT #1c

# Disclosed v. Undisclosed Iranian U.S. Dollar Payments Sent by HSBC Foreign Affiliates to U.S. Banks, Including HSBC Bank USA




Original Source: Deloitte March 29, 2012 presentation, HSBC OCC 8966143.
Prepared by U.S. Senate Permanent Subcommittee on Investigations, July 2012

# Excerpts from emails of David Bagley re HBUS awareness of Iranian transactions, 2003-2004

"I am not sure that HBUS are aware of the fact that HBEU are already providing clearing facilities for four Iranian banks, presumably including USD clearance."

--HSBC email, 10/21/2003, Exhibit 46, HSBC OCC 88733947

"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 email, 03/11/2004, Exhibit 52, HSBC OCC 8873986

"I suspect that HBUS are not aware that payments may be passing through them. Do not believe that we can allow this situation to continue very much longer…"

--HSBC email, 04/19/2004, Exhibit 53, HSBC OCC 8873994

Permanent Subcommittee on Investigations
EXHIBIT #1d

# RATINGS USED IN OCC REPORT OF EXAMINATIONS

## Composite Uniform Financial Institution Rating

Component Ratings:

- Capital
- Asset Quality
- Management
- Earnings
- Liquidity – Asset/Liability Management
- Sensitivity to Market Risk

## Uniform Rating System for Information Technology
## Composite Uniform Interagency Trust Rating
## Uniform Interagency Consumer Compliance Rating
## Community Reinvestment Act Rating

Permanent Subcommittee on Investigations
EXHIBIT #1e

# 31 USC § 5318 (h)

"(h) ANTI-MONEY LAUNDERING PROGRAMS.—

"(1) IN GENERAL.—In order to guard against money laundering through financial institutions, each financial institution shall establish anti-money laundering programs, including, at a minimum—

"(A) the development of internal policies, procedures, and controls;

"(B) the designation of a compliance officer;

"(C) an ongoing employee training program; and

"(D) an independent audit function to test programs."

Permanent Subcommittee on Investigations
EXHIBIT #1f

# HSBC to testify at U.S. Senate hearing

10 Jul 2012

Group news

*In this letter to all employees, Group Chief Executive Stuart Gulliver explains why we have been asked to testify about past compliance failures and what we have done since to strengthen compliance and risk management.*

Dear Colleague,

I am writing to you today as you may have seen reports that HSBC has been asked to testify before the U.S. Senate's Permanent Subcommittee on Investigations (PSI) on Tuesday 17 July.

The hearing relates to ongoing investigations by the PSI into our compliance with U.S. regulations including Anti-Money Laundering laws, the Bank Secrecy Act and the Office of Foreign Assets Control sanctions.

While we have previously disclosed these proceedings in our Annual Report and Accounts, the PSI hearing will be the first time that the details of these investigations are made public. It will certainly be the first time that the majority of employees have heard about these issues and I realise it will be a disappointment to you and your teams.

While we have been cooperating with the relevant U.S. authorities since 2010 to improve the way we manage risk and ensure compliance, the PSI hearing may attract significant attention. It is also likely that there will be further enforcement actions from other U.S. authorities over the coming months.

I wanted to ensure that you and your teams had enough information about these issues to be able to answer the questions that you may be asked by your customers, colleagues, friends and family.

While we do not yet know the full details of the PSI investigation, the hearing on 17 July will undoubtedly reveal that in the past we fell well short of the standards that our regulators, customers and investors expect.

During the hearing, we will acknowledge and apologise for our past mistakes. Between 2004 and 2010, our anti-money laundering controls should have been stronger and more effective, and we failed to spot and deal with unacceptable behaviour.

It is right that we be held accountable and that we take responsibility for fixing what went wrong. As well as answering the subcommittee's questions, we will explain the significant changes we have already made to strengthen our compliance and risk management infrastructure and culture.

First, with a new strategy and leadership team, we have put in place a structure that makes HSBC easier to manage. The creation of four global businesses and ten global functions to replace a federated structure allows a coordinated and consistent approach to every part of our business, including compliance.

Second, we have decided to apply high and consistent global standards wherever we work. The Group Standards Committee co-chaired by Group Chief Legal Officer Stuart Levey and Group Chief Risk Officer Marc Moses is working towards ensuring that the highest standards required in any part of the business will apply to every part of the business.

Third, we are driving a change in culture so that our conduct matches our values. We have integrated our values into performance management, judging senior leaders on what they achieve and how they achieve it, because both matter to our reputation and share price.

Permanent Subcommittee on Investigations
EXHIBIT #2a

Alongside these changes, we will continue to invest in a best-in-class compliance function. We have increased the amount spent on compliance globally from US$200m in 2010 to US$400m today. Some 3,500 colleagues now work in HSBC compliance worldwide, with more than 1,000 of them in the U.S.

There is no doubt that the coming weeks and months will be challenging, as past practices and compliance failures in certain parts of the firm come under serious scrutiny from regulators, investors, media, customers and employees. I know this will be a disappointment to the vast majority of you who have worked so hard to build and maintain our reputation throughout the turbulence of the past few years, and for that I apologise. I can also assure you that we will also keep you fully informed of these matters via the global staff website and other internal channels.

While we cannot undo past mistakes, we will be judged on how we respond to this issue and demonstrate that we have learnt from it. You have my commitment that we will face up to our past mistakes, show our stakeholders what we have done to address the problems, and never let up in our absolute commitment to ensuring that every part of the firm meets the highest global standards and lives up to our values in the future. As the illicit actors seeking to exploit the financial system are constantly adapting their approach, we will need to be tireless in our own efforts to stop them.

We will do this not just because regulators and authorities expect it of us, but more importantly, because we expect and demand it of ourselves.

This is a fundamental part of achieving our strategy and becoming the world's leading international bank and remains a top priority for the Board and senior management team.

**Stuart Gulliver**
Group Chief Executive

# Contact Global Communications

**Pierre Goad** **Charles Naylor** Global Co-Heads of Communications

**Larry Campbell** Head of Publishing and Knowledge Management

**Jezz Farr** Global Head of Communications, Global Banking and Markets

**Medard Schoenmaeckers** Global Head of Communications, Global Private Banking

**Tim Harrison** Global Head of Communications, Commercial Banking

**Malcolm Wallis** Global Head of Communications, Retail Banking and Wealth Management

**Susanna Wilson** Head of Communications, Corporate Sustainability

**Phil Askham** Global Head of Global Functions Communications

**Margrit Chang** Regional Head of Media Relations, Asia Pacific

**Andy Berry** Regional Head of Media Relations, UK and Europe

**Jo Alexander** Regional Head of Employee Communications, UK and Europe; Head of Group COO Communications

**Enrique de la Madrid** Regional Head of Communications, Latin America and Mexico

**Lisa Sodeika** Regional Head of Communications, North America

**Tim Doyne** Regional Head of Communications, Middle East and North Africa

# GCL 120014 - HSBC Global Standards

**Background**
A year ago, we articulated a clear strategy to be the world's leading international bank. In order to make the firm more cohesive and better connected, we established Global Businesses and Global Functions and gave them the authority to manage the firm on a global basis with consistent policies, standards and processes. We also articulated a set of HSBC values to guide our behaviour.

Our ability to achieve our ambition ultimately depends on our reputation, not just for financial strength, but also for trustworthiness and integrity. Too often, we have fallen short of our own expectations and that must change. We now have the structure to help us reduce complexity and run the firm more effectively on a global basis, but structure is not enough. To preserve and enhance our reputation, we must also lead our industry in formulating and implementing global standards and controls to ensure that our conduct matches our values.

**What does this mean in practice?**
Amongst other things, this means we must:

- adopt and enforce the adherence to a single standard globally that is determined by the highest standard we must apply anywhere. Often, this will mean adhering globally to US regulatory standards, but to the extent another jurisdiction requires higher standards, then that jurisdiction's requirements must shape our global standard
- maximise the sharing of information for risk management purposes amongst Group companies and amongst Global Businesses and Functions
- apply a globally consistent approach to knowing and retaining our customers. When we conclude that any customer or potential customer poses an unacceptable reputational risk (or otherwise does not meet our standards), we should exit or avoid the relationship globally
- ensure that our banking services are not used to facilitate tax evasion anywhere or to hide the proceeds of corruption or crime
- maintain ethical sales practices

Setting and implementing standards and controls is not solely the job of our control functions such as Risk, Legal, Finance and Internal Audit. All of us – across all businesses, all geographies, and all levels of the firm – have a personal responsibility to make this happen. While the Group is made up of many legal entities around the world, we have only one reputation and we are all guardians of it.

**Steering Committee on HSBC Global Standards**
This will be an ongoing and continuous effort, impacting all of our businesses all over the world. As you all know, much of this work is already well underway. To facilitate comprehensive oversight of these matters, identify additional areas requiring attention, and to determine best practices, I have asked the Group Chief Risk Officer Marc Moses, and Chief Legal Officer Stuart Levey to co-chair a Steering Committee on HSBC Global Standards. This Committee will operate under the supervision of the Group Risk Management Meeting to define the HSBC Global Standards and to ensure that those Global Standards are implemented.

Yours faithfully,

**Stuart Gulliver**
Group Chief Executive



Permanent Subcommittee on Investigations
EXHIBIT #2b

# GCL 120014 - HSBC Global Standards

**Background**
A year ago, we articulated a clear strategy to be the world's leading international bank. In order to make the firm more cohesive and better connected, we established Global Businesses and Global Functions and gave them the authority to manage the firm on a global basis with consistent policies, standards and processes. We also articulated a set of HSBC values to guide our behaviour.

Our ability to achieve our ambition ultimately depends on our reputation, not just for financial strength, but also for trustworthiness and integrity. Too often, we have fallen short of our own expectations and that must change. We now have the structure to help us reduce complexity and run the firm more effectively on a global basis, but structure is not enough. To preserve and enhance our reputation, we must also lead our industry in formulating and implementing global standards and controls to ensure that our conduct matches our values.

**What does this mean in practice?**
Amongst other things, this means we must:

- adopt and enforce the adherence to a single standard globally that is determined by the highest standard we must apply anywhere. Often, this will mean adhering globally to US regulatory standards, but to the extent another jurisdiction requires higher standards, then that jurisdiction's requirements must shape our global standard
- maximise the sharing of information for risk management purposes amongst Group companies and amongst Global Businesses and Functions
- apply a globally consistent approach to knowing and retaining our customers. When we conclude that any customer or potential customer poses an unacceptable reputational risk (or otherwise does not meet our standards), we should exit or avoid the relationship globally
- ensure that our banking services are not used to facilitate tax evasion anywhere or to hide the proceeds of corruption or crime
- maintain ethical sales practices

Setting and implementing standards and controls is not solely the job of our control functions such as Risk, Legal, Finance and Internal Audit. All of us – across all businesses, all geographies and all levels of the firm – have a personal responsibility to make this happen. While the Group is made up of many legal entities around the world, we have only one reputation and we are all guardians of it.

**Steering Committee on HSBC Global Standards**
This will be an ongoing and continuous effort, impacting all of our businesses all over the world. As you all know, much of this work is already well underway. To facilitate comprehensive oversight of these matters, identify additional areas requiring attention, and to determine best practices, I have asked the Group Chief Risk Officer Mark Wiseley and Chief Legal Officer Stuart Levey to co-chair a Steering Committee on HSBC Global Standards. This Committee will operate under the supervision of the Group Risk Management Meeting to define the HSBC Global Standards and to ensure that those Global Standards are implemented.

Yours faithfully,

**Stuart Gulliver**
Group Chief Executive

## Contact Global Communications

Bruce Goad
Charles Naylor
Global Co-Heads of Communications

Lorry Campbell
Head of Publishing and Knowledge Management

Jane Farr
Global Head of Communications, Global Banking and Markets and Global Private Banking

Malcolm Wells
Global Head of Communications, Retail Banking and Wealth Management

Lucy Haddrill
Regional Head of Communications Middle East and North Africa

Susanna Wilson
Head of Communications, Corporate Sustainability

Pip Ashburn
Global Head of Global Functions Communications

Cindy Tang
Regional Head of Communications Asia Pacific

Ruth Nutsey
Regional Head of Employee Communications, Asia Pacific

Margrit Chang
Regional Head of Media Relations, Asia Pacific

Jo Alexander
Regional Head of Employee Communications, UK and Europe, Head of Group COO Communications

Enrique de la Madrid
Regional Head of Communications, Latin America and Mexico

Tim Harrison
Global Head of Communications Commercial Banking

Lisa Socolow
Regional Head of Communications North America

# Chapter 5 Legal, Compliance and Reputation

## Legal

The Global Legal Function is responsible for providing and managing legal services to members of the HSBC Group, thereby facilitating its business and for protecting the Group from legal risk as well as its integrity and reputation. The Group General Counsel maintains a close relationship with the Chief Risk Officer (CRO).

The Global Legal Function operates through individual legal departments in more than 50 countries. Regional General Counsel for North America; Latin America; Europe; Middle East; Asia Pacific; the Global Head of Global Banking and Markets, Legal; the Head of GBL LGA and the Chief Operating Officer, GBL LGA together with the Group General Counsel form the Group Legal Executive Committee. The Group Legal Executive Committee has primary responsibility for providing leadership and guidance across the function, while the responsibility for providing legal support to the business rests with the individual country departments.

Legal risk is a combination of a variety of risks. In particular:

**Contractual Risk** is the risk that the rights and/or obligations of a Group member within a contractual relationship are defective;

**Dispute Risk** is made up of the risks that a Group member is subject to when it is involved in or managing a potential dispute or actual dispute;

**Legislative Risk** which is the risk that a Group member fails to adhere to the laws of the jurisdictions in which it operates; and

**Non-Contractual Rights Risk** which is the risk that a Group member's assets are not properly owned or are infringed by others or the infringement by a Group member of another party's rights.

For additional detail on legal risk and HSBC's policies to control such risk, please refer to the Legal and Compliance FIM.

## Compliance

The structure of the Group's Compliance function is designed to fit closely with the structure of the business and is divided according to geographic units (each country or jurisdiction is headed by an Area Compliance Officer who functionally reports to the relevant Regional Compliance Officer) and Global Businesses (which are typically subject to oversight by a Global Business Compliance Officer). Furthermore for major Group companies, typically those with a dedicated audit committee, a Global Head of Compliance will exist to co-ordinate Local Compliance Officers both within that company's domestic and overseas offices.

Group Compliance in Group Headquarters is the centre of the Compliance function, setting Group-wide policy and supporting the regional/product networks as well as advising Group executives on all regulatory matters. The Head of Group Compliance reports to the Chief Risk Officer, but also has close association with the Group General Counsel so a holistic view of risk across the Group's functions can be obtained.

Given the geographical spread of the Group and the number of financial markets in which it operates, the breadth and depth of legislation and regulation to which the Group is subject is enormous. The penalties for contravening rules and regulations are also increasing in severity. Compliance risk is closely bound with reputational risk and the perception of the Group by customers and others can be readily damaged by

Permanent Subcommittee on Investigations
EXHIBIT #2c

a failure to comply with relevant laws. Any wilful or negligent contravention by a Group operation will be regarded very seriously.

For full details of the globally-applicable Compliance policies in place to safeguard the HSBC Group against regulatory risk, refer to the Compliance section of the Legal and Compliance FIM. In some cases, such policies will be supplemented at Global Business level by the appropriate business FIM.

The following Compliance Policy Statement was adopted by the Board of HSBC Holdings plc on 12MAR93 and is required to be adopted formally by all major operating subsidiaries within the Group:

"It is the policy of the HSBC Group (the Group) to observe high standards of integrity and fair dealing in the conduct of its business and to act with due skill, care and diligence.

To those ends, 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; and
- ensure that any irregularities which arise are promptly resolved in a manner which minimises financial loss and protects the good name and reputation of the Group."

Management at all levels must ensure they, or their executives with delegated managerial responsibilities, are fully acquainted with the rules and regulations applying to the operations for which they have responsibility and that arrangements for ensuring compliance with legal/regulatory requirements are an integral part of the operational procedures of the business. Where managers become aware of breaches of laws or regulations, they must advise their Local Compliance Officer.

Published: 27/Feb/2012

INTERNAL

**DISCLAIMER:** Information held within the Group Manuals system should not be disseminated externally without the document owner's consent and should be treated as Internal.
Restricted or Highly Restricted information, including price or commercially sensitive information, should not be displayed within the Group Manuals system unless password protected.
© HSBC Holdings plc, 2012. All Rights Reserved.

HSBC-OCC_E 0056298.txt

From: DAVID DEW/HBUS/HSBC
Sent: 9/4/2008 4:22:57 PM
To: LESLEY MIDZAIN/HBUS/HSBC@HSBC02
CC:
Subject: Re: FW: Kyc hires

Lesley

I am out next week but would a couple of temps for two months do the trick?

David

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

Lesley Midzain/HBUS/HSBC
09/04/2008 03:57 PM

To
David Dew/HBUS/HSBC@HSBC02
cc
Andrew P LONG/IBEU/HSBC@HSBC, Chris P DAVIES/HBUS/HSBC@HSBC02, Michael B Gallagher/HBUS/HSBC@HSBC02
Subject
Re: FW: Kyc hires

David,

I think we are keeping our view and our plans firmly focused on the future, but are still grappling with some of the grim realities of the present - the upcoming OCC exam in November being one of those grim realities. But I am happy to explore other suggestions for providing 'quick fixes' for the situation, whether those are business-related or compliance-related, and think a meeting is a very good idea (early next week perhaps?). I will also pull together the additional Compliance information you've requested and forward.

Lesley

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

Phone 212-525-6410
Fax 212-525-5769
Mobile [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations



Permanent Subcommittee on Investigations
EXHIBIT #3

Confidential & Non-public OCC Information





Email Lesley.Midzain@us.hsbc.com

---

David Dew/HBUS/HSBC
09/04/2008 12:23 PM

To
Lesley Midzain/HBUS/HSBC@HSBC02
cc
Andrew P LONG/IBEU/HSBC@HSBC, Chris P DAVIES/HBUS/HSBC@HSBC02, Michael B Gallagher/HBUS/HSBC@HSBC02
Subject
Re: FW: Kyc hires

Thanks Lesley.

I do think that collectively we need to step back and consider the full financial impact of what we are proposing for our PCM business at a time when the business is being asked to consider carefully its strategic objectives, both from a customer perspective and also from a OneHSBC perspective.

The proposal on the table is to add a total of 8 fte to support compliance related activity. I appreciate that they are not all additional positions from a budget standpoint but nevertheless there will be a significant impact on total operating expenses at a time when we are also tasked with keeping costs flat to 1H08.

Therefore, I would still like my earlier questions answered but with the analysis amended to account for the additional Compliance staff in your area which are of course charged back to the business. One further example of where we would benefit from additional clarity: you correctly say that the Cash Letter process is very paper intensive so the function cannot move offshore. What is the profitability of this business and what automation plans do we have because perhaps we should be considering eliminating some of the manual activity?.

I think that we must also use this opportunity to accelerate the HNAH centralization initiative. As you say, the request by PCM is effectively to add resource to an operational team. We should be looking to put such resource into a central utility at every opportunity as is envisaged in the ICRM report. If you can do the same with the routine compliance monitoring activity, then economies of scale should result.

I appreciate that this is not the response that you are collectively looking for but in the current environment I feel we must at least ask some harder questions and not simply approve additional headcount. Equally, I am mindful that we have an alert backlog in the PCM business and I should be grateful for an update as to where we stand with this.

---

Happy to get together if a meeting will help.

Regards

David

David Dew



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB02545487

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0616353

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

Lesley Midzain/HBUS/HSBC
09/03/2008 03:09 PM

To
David Dew
cc
Chris P DAVIES/HBUS/HSBC@HSBC02, Andrew P LONG/IBEU/HSBC@HSBC, Charles G DelBusto/HBUS/HSBC@HSBC02, "Ian MACALESTER" <ian.macalester@hsbc.com>, Michael B Gallagher/HBUS/HSBC@HSBC02, denise a reilly, alan p williamson
Subject
FW: Kyc hires

David,

We would support the request. PCM has an operational team that does client on-boarding and file review in Delaware and we understand they have had some outstanding vacancies. The team was created in response to an OCC comment several years ago and focused on high risk customers and financial institutions. The team was successful and PCM extended their remit to additional customer types in response to an audit comment and to ensure consistency across the business unit. Consistent with the Bank's strategic direction, the team looks to Compliance for advice and guidance but do the actual file reviews and document collection themselves.

These activities are independent of Compliance advisory and monitoring work and resources. On the latter point, we had been in process of trying to hire for 3 additional approved positions (per your approval from late JUN), 2 for targetted monitoring and one more senior LCO. In recent weeks, a couple of events happened that affected our progress:
- the freeze for hiring in global businesses was put into effect. We were advised that this applied in the PCM world, and so we suspended our hiring efforts;
- two members of the Compliance staff in Delaware resigned (one to take a position with the business).

As a result we reviewed our staffing proposal and concluded that we would use this as an opportunity to reduce the 5 vacant compliance positions (3 as approved + 2 recent departures) to 4, all outside of New York. Attached is the one-pager we had just prepared which explains and supports that analysis. Given the hiring freeze in global businesses, I understand that it may also need approval by Paul Lawrence, but this has continued to be an area of notable risk and regulatory attention and which needs some stabilization for Compliance resources. In making the proposal, we continue to seek the most efficient and cost-effective means of providing some needed support. My staff has consulted with Michael in this process and understands that he is supportive.



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB02545488

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0616354

[attachment "PCM Opens - Summary Request 3SEP08.doc" deleted by Lesley Midzain/HBUS/HSBC]

Lesley

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

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

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Forwarded by Lesley Midzain/HBUS/HSBC on 09/03/2008 02:41 PM -----

David Dew/HBUS/HSBC
09/03/2008 10:11 AM

To
Chris P DAVIES/HBUS/HSBC@HSBC02
cc
Andrew P LONG/IBEU/HSBC@HSBC, Charles G DelBusto/HBUS/HSBC@HSBC02, "Ian MACALESTER" <ian.macalester@hsbc.com>, Michael B Gallagher/HBUS/HSBC@HSBC02, Lesley Midzain/HBUS/HSBC@HSBC02
Subject
Re: Kyc hires

Chris

As we all know, PCM is a high risk business from a BSA/AML perspective and we need to ensure that we have sufficient qualified resource to meet regulatory requirements. As such , I have asked Compliance for their views on this request.

That said, I will need more detailed information. A proposed increase of 4 FTE is significant. What precisely is driving this increase? What is the volume growth of the business in terms of number of customers and who are these customers from a risk profile perspective? Do they fit in with our overall strategy? What is the underlying profitability of this projected growth?

What is the current number of Compliance FTE in the business and how are they deployed? What exactly will the additional 4 people be doing? What progress are we making in terms of further offshoring and utilizing the Global Centres of Excellence? What scope do we have for further cost reductions in other areas, eg payments operations following the centralization under Tom Kaiser?

Finally, I note Michael's comments concerning cost saves but will the business be able to meet the overall corporate goal of keeping 2H expenses flat to 1H?

Thanks

David

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

Chris P DAVIES/HBUS/HSBC
09/03/2008 08:49 AM

To
Michael B Gallagher/HBUS/HSBC@HSBC02
cc
Andrew P LONG/IBEU/HSBC@HSBC, David Dew/HBUS/HSBC@HSBC02, Charles G DelBusto/HBUS/HSBC@HSBC02, "Ian MACALESTER" <ian.macalester@hsbc.com>
Subject
Re: Kyc hires

I ask for davids guidance with respect to compliance resource.

As regards adds within pcm, as previously discussed, operational integrity is clearly a high priority, however fte adds in this climate will need to be offset by reductions elsewhere in your business in order for a flat cost profile to be achieved.

I know we will be discussing this point at 9 30.

Thanks

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

From: Michael B Gallagher
Sent: 09/03/2008 08:08 AM EDT
To: Chris P DAVIES
Cc: Andrew P LONG; David Dew; Charles DelBusto
Subject: Kyc hires

Chris,

As you are aware, I have expressed considerable concern for some time over the lack of resources both in compliance and within pcm to adequately support kyc and related regulatory requirements.

I can not speak to what compliance is doing to add further support to their team, however I wish to ensure that pcm does what it needs to. To this end we have requested 4 adds to staff with immediate effect.

The occ will be here in q4 and we must ensure that resources are sufficient to give comfort to the occ that we take this seriously.

I would appreciate guidance on how/when we can remedy the situation.

Mbg



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB02545490

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0616356

**30 Day Observations and Recommendations Report from AML Director**

To: Curt Cunningham
From: Wyn Clark
Date: Thursday, October 15, 2009

**Profile of HSBC**

Extremely high risk business model from AML perspective:

Risk: High
- Compliance:
- Reputation:
- Regulatory:
- Financial:
- AML:
  - Products/Services
  - Transactions
  - Client
  - Geographic

**Current Observations**

AML Director has the responsibility for AML compliance, but very little control over its success

Operate under "crisis" mode, actions are reactive rather than forward thinking

AML Director unable to manage at high level

Several AML Directors/BSA Officers in a short period of time

Systems and controls not adequate for risk profile of organization:
- OFAC misses and backlog
- Large # of MRAs
- Training
- Barton Adams
- Threat of repeat MRA in GIB

Where are concerns with control environment?
- Reporting lines
- Business and AML Expertise
- Technology
- Head count

Permanent Subcommittee on Investigations
EXHIBIT #4

Independence
MIS

Appear to have lost urgency of AML compliance since previous enforcement action was lifted

AML risk profile of HBIO vs. HBUS are extreme opposites

Decentralized functions creates inefficiencies, inconsistencies and a greater potential of things falling through the cracks or missed all together

Commingling of general compliance with that of AML

Not clear on why AML Director is in COE

**Proposed Organization (CTP)**

AML Director has responsibility for AML compliance as delegated by the BoDs (HBUS, NA BOD and North America BOD) but very little control, oversight or direct authority over its success.

**Proposals**

AML Compliance should have its own channel within HNAH compliance

Groups supporting AML to have direct reporting into AML Director (see draft org. chart)

To ensure that AML Compliance is maintained throughout the entire North America region it is critical that there is a lead/head in the following key areas. These heads should report directly to the AML Director or advisors in the AML Director's office that oversee these key areas for all of HNAH:

Policy/Dep Director
FIU
- Surveillance/Monitoring
- Investigations
- SAR Reporting

Sanctions
KYC/CDD/EDD
Training
Regulatory Exam/Internal Audit
MIS/Metrics

Reporting-Non SAR

Represented in AML Governance Council:
Business Line AML Officers/Heads
LCOs w/ AML component

**Questions**

Is there a budget for AML?

**Priorities**

1) FIU report to AML Office
2) Report AML risks and issues to BoD
3) Structure and staffing of AML Office
    a. Oversight, SME, Policy,
    b. Operations – FIU primarily
4) Fix OFAC – drill down to determine ultimate root cause and fix, then fix other issues
5) Norkom implemented in GIB
6) Full scope assessment of AML risk vs. control and system environment
7) AML/OFAC risk assessment process
8)

From: DEBRA L BONOSCONI/HBUS/HSBC
Sent: 10/19/2009 5:21:45 PM
To: WYNDHAM S CLARK/HBUS/HSBC@HSBC02
Subject: Re: Fw: OFAC resources

Oh, this was express time. Trust me on that. Usually the response is "no."

----- Original Message -----
From: Wyndham S Clark
Sent: 10/19/2009 05:19 PM CDT
To: Debra L Bonosconi
Subject: Re: Fw: OFAC resources

Clearly a positive, although I understand these were requested quite a while ago. I hope that isn't the typical response time.

----- Original Message -----
From: Debra L Bonosconi
Sent: 10/19/2009 05:49 PM EDT
To: Wyndham S Clark
Subject: Re: Fw: OFAC resources

Well, not really. Yes good that we got new positoons but not good in that we don't get the staffing levels we need.

----- Original Message -----
From: Wyndham S Clark
Sent: 10/19/2009 04:26 PM EDT
To: Debra L Bonosconi
Subject: Re: Fw: OFAC resources

Good.

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

Debra L Bonosconi/HBUS/HSBC
10/19/2009 02:33 PM

To
"Wyndham S Clark" <wyndham.s.clark@us.hsbc.com>
cc

Subject
Fw: OFAC resources

Fyi



Permanent Subcommittee on Investigations
EXHIBIT #5

----- Original Message -----
From: Lesley Midzain
Sent: 10/19/2009 02:23 PM EDT
To: Alisha Marshall; Debra L Bonosconi
Cc: Curt Cunningham
Subject: OFAC resources

Janet has approved the 3 resources (2 transaction monitoring, 1 analyst). She has to take this to Paul Lawrence, but we can start the search for the 3 in order not to lose time.

Lesley

Lesley Midzain
Executive Vice President & Chief Compliance Officer | HSBC Bank USA
452 Fifth Ave, New York, NY - 7th Fl.

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

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: WYNDHAM S CLARK/HBUS/HSBC
Sent: 2/26/2010 12:02:08 PM
To: DEBRA L BONOSCONI/HBUS/HSBC@HSBC02
CC: ANNE LIDDY/HBUS/HSBC@HSBC02;JANE E MARTIN/HBUS/HSBC@HSBC02
Subject: Re: Fw: Received a call from Kathy G this am....

remember my words....absolutely nothing migrates into the FIU or AML Office without proper resourcing, and a full accounting of risk and ultimate consequences of doing so. (Please feel free to quote me on this to anyone you please)

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!!!!

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: Debra L Bonosconi/HBUS/HSBC
To: Wyndham S Clark/HBUS/HSBC@HSBC02
Cc: Anne Liddy/HBUS/HSBC@HSBC02, Jane E Martin/HBUS/HSBC@HSBC02
Date: 02/26/2010 11:52 AM
Subject: Re: Fw: Received a call from Kathy G this am....

yes...it is.

Debra L Bonosconi
HSBC North America | Sr. VP - Director, Financial Intelligence Unit
1130 Connecticut Ave NW, 12th Floor
Washington, DC 20036

Phone. 202-496-8766
Mobile. [redacted]
Email. debra.l.bonosconi@us.hsbc.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Wyndham S Clark/HBUS/HSBC
02/26/2010 11:51 AM

To
Anne Liddy/HBUS/HSBC@HSBC02
cc
Debra L Bonosconi/HBUS/HSBC@HSBC02, Jane E Martin/HBUS/HSBC@HSBC02
Subject
Re: Fw: Received a call from Kathy G this am....



Permanent Subcommittee on Investigations
EXHIBIT #6

time to push back. any idea who made this decision? is this the same function that takes .3 of an FTE to perform?

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: ANNE LIDDY/HBUS/HSBC
Sent: 2/27/2010 10:47:26 AM
To: WYNDHAM S CLARK/HBUS/HSBC@HSBC02;DEBRA L BONOSCONI/HBUS/HSBC@HSBC02
Subject: Re: Fw: Bco Nac Angola

I re-read this a few times and at first thought it was a bit rambling/venting but that is probably what we need at this point. It is on point, just don't know how we are going to get there. I would point out that we do push back on opening/maintaining relationships that are strategic Group relationships and have been able to hold our ground but it is extremely difficult at times - we expend a lot of energy pushing our point and holding our ground and certainly Group member referred relationships/transactions have increased our HBUS risk.

HANA is really HNAH.

Also, think you mean to say you can't think of one exception.

Call me if you want. [redacted]

----- Original Message -----
From: Wyndham S Clark
Sent: 02/27/2010 08:58 AM CST
To: Anne Liddy; Debra L Bonosconi
Subject: Fw: Fw: Bco Nac Angola

I'm about to send this to Curt and Lesley w/ a cc to Janet and wanted your opinion. Is this on point and accurate, or do I sound like a rambling lunatic?

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

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: Wyndham S Clark
Sent: 02/27/2010 08:54 AM CST
To: Wyndham S Clark
Subject: Fw: Fw: Bco Nac Angola

Lesley and Curt,
This rings to the heart of one of my major issues here. We don't appear to be on the same page as to who owns the risk. My view is the businesses own this risk and should be articulating to their leaders and compliance as to why they are comfortable with it and provide a clear justification how the risk can be effectively managed within the risk tolerances that have been articulated by our BOD. The same goes to group and our affiliates. It does not hold water that we have to open accounts or process transactions just because we are expected to support group mandates. Just like the businesses, my view is that HANA owns the risk, not group, and we have to start acting that way or we will continue to run into problems with no end in sight. If you own the risk, and receive compensation based upon the risk/reward concept, then you have to be prepared to make the decisions necessary to manage it.
(Based upon the very upsetting "rewards" process we recently went through in compliance, we are clearly not being compensated on a risk/reward basis in our group.)

The email below, as well as the recent PSI report are good examples. We are spinning our wheels with this PSI report performing scrubs and filing reports where necessary. My view is we should instruct the businesses to review this



Permanent Subcommittee on Investigations
EXHIBIT #7

report themselves, and report back as to where they have exposure, the risk, and what their action plan is. This should include the highest levels of management in the impacted businesses, and our organization, approving the actions and accepting the risk. Its not what actions compliance is taking, its what actions the risk owners are taking.

At this point the businesses are not accepting that they own the risk, I can think of one exception, making the difficult decisions and taking the necessary steps to mitigate their risk. My view is the risks are being ignored by the business, and they are simply waiting for compliance to tell them what the risks are and to convince them as to what actions need to be taken. If they don't know what the risks are, then why are they opening accounts or continuing with the relationship? They are essentially pushing the risk to compliance, this is not where it resides.

I am happy to discuss this anytime. I'm convinced that our biggest challenges are internal (risk ownership is just one example, my list is lengthy), and until we realize this and get them addressed, we are not going to have an effective AML and/or compliance program. Its time to have an honest discussion with the most senior levels of management in this organization about the issues, until then we're only fixing the symptoms.

I have no problem with either of you sharing this email with those that you feel appropriate. I'm very transparent and candid in my approach, and feel that dealing with issues head on is the best approach.

Thanks,

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: Christopher O'donnell
Sent: 02/26/2010 08:01 PM EST
To: Ali Kazmy; Wyndham S Clark
Cc: Anne Liddy; Camillus Hughes; Charles DelBusto; Denis O'brien; James G Holderman; Judy Stoldt; William M Wong
Subject: Re: Fw: Bco Nac Angola

Ali/Wyn:

I appreciate the responses and the ongoing analysis, however, we need to be evaluating this and other Angolan clients broadly, versus the specific transaction(s) highlighted in our monitoring. As described in the note from Balance Sheet Management below, we have other businesses who do not have direct relationships with this and other Angolan accounts. They are concerned about their exposure to the counterparties and, as a result, are seeking our guidance.

Whereas, its important to highlight all issues and concerns associated with this activity to the business and seek their concurrence, we need to be providing the guidance that is being sought. I don't think anyone involved doesn't already appreciate the risk associated with this business, they are looking for our view. We need to articulate our position and get the view out immediately.

Please let me know as soon as this review is completed. I'm happy to

participate in any discussion so we can coordinate this view across functions.

CO
---
HSBC CIBM IT USA.

----- Original Message -----
From: Ali S Kazmy
Sent: 02/26/2010 05:51 PM EST
To: Wyndham S Clark
Cc: Anne Liddy; Camillus Hughes; Charles DelBusto; Christopher O'donnell; Denis O'brien; James G Holderman; Judy Stoldt
Subject: Re: Fw: Bco Nac Angola

Wyn,

Thanks for your note.

After completion of the analysis [redacted] we intend to highlight all issues/concerns, as applicable, to the business for their confirmation that they are comfortable with the risk.

Shall keep you apprised of developments.

Regards,

Ali S Kazmy
Vice President/Senior Manager - Anti-Money Laundering Policy | HSBC BANK USA, National Association
452 Fifth Avenue, 7th Floor, New York, NY 10018

Phone. 212-525-5560
Fax. 212-525-6994
Mobile. [redacted]
Email. ali.s.kazmy@us.hsbc.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Wyndham S Clark/HBUS/HSBC
To: Ali S Kazmy/HBUS/HSBC@HSBC02, Christopher O'donnell/HBUS/HSBC@HSBC02
Cc: Anne Liddy/HBUS/HSBC@HSBC02, Camillus P Hughes/HBUS/HSBC@HSBC02, Charles G DelBusto/HBUS/HSBC@HSBC02, Denis E O'brien/HBUS/HSBC@HSBC02, James G Holderman/HBUS/HSBC@HSBC02, Judy P Stoldt/HBUS/HSBC@HSBC02
Date: 02/26/2010 05:45 PM
Subject: Re: Fw: Bco Nac Angola

Ali,
I would advise that we also obtain approval from the head of this business (PCM ?) that they are comfortable with the risk. I presume the business has some sort of risk committee that would review/approve these sorts of accounts/clients.

Thanks,

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: Ali S Kazmy
Sent: 02/26/2010 05:11 PM EST
To: Christopher O'donnell
Cc: Anne Liddy; Camillus Hughes; Charles DelBusto; Denis O'brien; James G Holderman; Judy Stoldt; Wyndham S Clark
Subject: Re: Fw: Bco Nac Angola

Many thanks for your note.

The AML Monitoring Team has been advised [redacted] They are being reviewed from AML perspective. Moreover, we have spoken with Charles Delbusto and asked that pursuant to established procedures the RM responsible for BNA should be contacted with a request [redacted] After completion of the review/analysis [redacted], appropriate necessary action, as applicable, will be taken.

Regards,

Ali S Kazmy
Vice President/Senior Manager - Anti-Money Laundering Policy | HSBC BANK USA, National Association
452 Fifth Avenue, 7th Floor, New York, NY 10018

Phone. 212-525-5560
Fax. 212-525-6994
Mobile. [redacted]
Email. ali.s.kazmy@us.hsbc.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Christopher O'donnell/HBUS/HSBC
To: Wyndham S Clark/HBUS/HSBC@HSBC02, Camillus P Hughes/HBUS/HSBC@HSBC02, Ali S Kazmy/HBUS/HSBC@HSBC02
Cc: James G Holderman/HBUS/HSBC@HSBC02
Date: 02/26/2010 12:56 PM
Subject: Fw: Bco Nac Angola

All:

Please see email trail below. I want to first make sure you are aware, [redacted] you please provide some guidance on how we are addressing, should be be turning this away, etc.

----- Forwarded by Christopher O'donnell/HBUS/HSBC on 02/26/2010 12:35 PM -----

From: Blair Selber/HBUS/HSBC

To: Christopher O'donnell/HBUS/HSBC@HSBC02
Cc: Ronald E Hollmann/HBUS/HSBC@HSBC02
Date: 02/25/2010 03:39 PM
Subject: Fw: Bco Nac Angola

Chris,

In case we miss each other today, I was calling to discuss if BSM (Money Desk) has any specific instructions when it comes to dealings with Banco Nacional Angola, or for that matter Banco Africano de Investimentos. [redacted] I discussed with Charlie DelBusto, who assured me that PCM is not under any restrictions relating to the account, and that he did make Compliance aware of this particular transaction.

Historically, these banks have [redacted] While we have not dealt recently, what should our procedures be if we are contacted?

Obviously with the headlines around these accounts I just want to ensure we are communicating in both directions with Compliance and following protocol.

Please advise.

Thanks and regards.

Blair Selber
Managing Director- Balance Sheet Management | HSBC Bank USA
452 Fifth Avenue, 3rd Floor
New York, NY 10018

Phone. 212 525 6622
Fax. 646 366 3251
Mobile. [redacted]
Email. blair.selber@us.hsbc.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Forwarded by Blair Selber/HBUS/HSBC on 02/25/2010 03:27 PM -----

From: Charles G DelBusto/HBUS/HSBC
To: Blair Selber/HBUS/HSBC@HSBC02
Cc: Ronald E Hollmann/HBUS/HSBC@HSBC
Date: 02/25/2010 11:39 AM
Subject: Re: Bco Nac Angola

Blair,

I am not aware of any additional reporting requirements, however I did mention this [redacted] to Compliance (who happens to be down here with the 9 examiners) and he will look into [redacted]

Charles del Busto
Global Transaction Banking
(T) 302 327 2100
(F) 302 327 2128

From: Blair Selber/HBUS/HSBC
To: Charles G DelBusto/HBUS/HSBC@HSBC02
Cc: Ronald E Hollmann/HBUS/HSBC@HSBC
Date: 02/25/2010 11:22 AM
Subject: Bco Nac Angola

Charlie,

One more follow-up re: the account above.
Does PCM or anyone make Legal/Compliance at least aware of [redacted] Since I am harping on good communication back to us, I want to ensure that we are also communicating material changes to them. I would think this is in addition to any "typical" [redacted] reporting.

Is there someone responsible for that, and was it done in this case?

Thanks again
Regards

Blair Selber
Managing Director- Balance Sheet Management | HSBC Bank USA
452 Fifth Avenue, 3rd Floor
New York, NY 10018

Phone. 212 525 6622
Fax. 646 366 3251
Mobile. [redacted]
Email. blair.selber@us.hsbc.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: David W J BAGLEY
Sent By: Marion O ROACH
Date Sent: 07/10/2002 12:17
To: John F ROOT/HGHQ/HSBC@HSBC
Copy To: Sandy Flockhart/HBUS/HSBC@HSBCAMERICAS, Richard E T BENNETT/HSBH/HSBC@HSBC
Subject: BITAL

John

I have now met with Sandy Flockhart to discuss the way forward.

The key points are as follows:-

I attach a structure chart (by hard copy), which shows the current, and rather unsatisfactory structures within Bital.

Sandy acknowledges the importance of a robust compliance and money laundering function, which at present is virtually non-existent.

Before proceeding very far with the search for expatriate resource, Sandy would like someone to visit Mexico with a view to scoping current resources, the extent of the problem, and the major issues. Particularly he is looking to see if there is any local resource which can either be used or groomed to perform the ACO/MLCO role.

Two possible candidates are the existing in-house lawyer at HSBC, and the current ACO. Could you please talk to Carolyn Wind and get her assessment at least on the ACO if not on the in-house lawyer.

There is no recognisable compliance or money laundering function in Bital at present, and this therefore increases the likelihood that there will be no obvious existing resource which we can use.

Sandy thinks it is important to look both at issues affecting Mexico City, but also closer to the border where there appears to be substantial cross-border flows of monies, including USD in cash.

Sandy is looking for someone to visit mid October onwards, and would like the initial scoping of the extent of the task to be completed prior to closing in early December.

Could I ask you to consider the due diligence, to schedule a trip to Mexico, and once you have some broad dates, contact Sandy with a view to discussing who you would meet, timing etc.

[redacted]

I am happy to discuss further when you have had a chance to consider.

Many thanks

Regards

Permanent Subcommittee on Investigations
EXHIBIT #8

Redacted Material
Confidential - FOIA Treatment Reques

David

*Encl. by hard copy*

---

e-Documents Note

This is an image of an email that has been filed to e-Documents.

Any attachments are not accessible from within this image, they can be accessed by navigating to the Document Profile using a browser.

**From:** David W J BAGLEY
**Sent:** Tue Aug 13 15:48:13 2002
**To:** Carolyn M Wind
**Subject:** HIGH NOON
**Importance:** Normal
**Attachments:** image_0.gif; High Noon Report.pdf; ReportAnnex (2).pdf; 5E51E5A545A3CED480256C1400513AC5.rtf


- 5E51E5A545A3CED480256C1400513AC5.rtf

Permanent Subcommittee on Investigations
**EXHIBIT #9**

SECTION 3.22

## COMPLIANCE

### Background

A review was performed of the fundamental purpose, current responsibilities and ongoing activities of GFB's Compliance related efforts, with the overall objective being to ascertain the extent of GFB's existing and potential Compliance related risks. A determination was made to access the effectiveness how GFB's Compliance related efforts are spread throughout the company, including its retail banking network, Cayman Islands and New York City branches, and non-banking units. In addition, GFB has Internet facilities where its clients can perform some banking transactions.

Documentation reviews and staff interviews were undertaken to ascertain GFB's overall effectiveness with Compliance activities and issues. Most of the meetings and interviews were held with Audit officials Rocío Mendoza Ramos, Raymundo Vázquez, Luis Javier Varela Rubio and Arturo Salvador Reyes Figueroa.

### Scope

The principle focus of the compliance review included :-

- Administrative duties and reviews for opening accounts.
- Know Your Customer practices.
- Money laundering prevention, detection, monitoring and reporting.
- Processes established to adhere with Comisión Nacional Bancaria y de Valores ("CNBV") Circular 1506, which by September 2002 requires all Mexico banks to have internal control policies and procedures to monitor, control and report certain banking risks.
- Policies and procedures congruous to HSBC's Special Categories of Clients.
- Code of Conduct.
- Conflicts of Interest.
- Personal Investment Policies.
- Investor Suitability.

During 1997 and 1998, an account executive was found to have established and operated a money laundering scheme. GFB's case documentation and records were reviewed.

A review was also undertaken relating to GFB's Departamento de Jurídico (Legal Department). Refer to the Legal section for a summary of GFB's major lawsuits and client complaints.



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

Findings

Structure

- GFB does not have a Compliance Department. Rather, Compliance work is contained within the scope of activities of the Departamento de Auditoria (Audit Department - INA), which currently has a staff of 100. INA is headed by Flavio Augosto Franyutti Barreda, who was not interviewed as part of the due diligence effort. Rocio Mendoza Ramos, an INA director, oversees a staff of 30 people, whose responsibilities include Compliance related issues, including operations at the New York agency and assets and liabilities booked at the Cayman Islands branch. Sra. Mendoza said that her area's annual plans include a target goal to review 400 of GFB's 1,389 domestic branches.

Accounting Opening Procedures and Permissible Categories of Clients

- The CNBV issued a regulation in 1998 that requires all Mexico banks to obtain fundamental Know Your Client information. Banks had until 01/01/2001 to bring all accounts opened prior to 05/1997 into adherence with the regulation. INA claimed that all domestic accounts have been brought into adherence with the regulation.
- GFB collects the majority of Know Your Client information from clients. However, new customers are not asked to provide information about their sources of wealth or initial deposit funds. Also, the GFB does not document any information about the expected use of the account or anticipated transaction volume or frequency.
- GFB does not use World-Check list or any other third party databases for new account screening. Also, new client names are not checked against the US Treasury Department's OFAC SDN List.
- GFB does not have a client restriction policy similar to Special Categories of Clients. It has created an internal blacklist called Boletinado. Certain government officials, known or highly suspected criminals and criminal enterprises, and persons from the FATF non-cooperative countries comprise the list (although the documentation provided did not have the current FATF list of non-cooperative countries, the list being well over one year old.) GFB's core client information systems compare new accounts with the Boletinados and prevents activation of those accounts.
- GFB has a department called Banco Gobierno. This department has as clients selected political individuals; local, state and federal government agencies; and the major political parties. There was no information found indicating whether this department receives any special Compliance related coverage. HSBC would regard the individual and political party clients of Banco Gobierno as high risk SCCs.
- GFB's Casa de Bolsa does not obtain investor suitability information. Clients are required to state their maximum investment volumes based as a percentage of the income information they provide.

Recent reviews of account opening documentation

- FRBNY review in 12/2000 identified that 82 of the 248 accounts reviewed lacked full documentation.



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

- A review in 1Q02 (28% sample review of documentation of accounts booked at the target's Cayman Islands branch) found that 41% of the accounts reviewed (92 of 224 reviewed) lacked full client information. 37 files had no client information.
- During 1Q02, INA reviewed electronically inventory records of 73,391 domestic account files. 49,527 (67.5%) of the files contained all of the required documentation. GFB has a 100% goal for 31/12/2002.
- During 1Q02, INA found that the GFB had opened 2,000 USD denominated accounts outside La Franja Fronteriza, violating Circular 2019 of Banixco. The deposit client information system now blocks attempts to open USD accounts outside of the area encompassing land located within 20 kilometers of the US border.

Monitoring Activities

- GFB's main account monitoring efforts are conducted through a system named Monitor. It is a Hogan Tool Kit based system that was built and refined by GFB's INA and IT departments. Monitor's current primary function is to identify accounts whose transactions exceed the equivalent of USD50k in any single day. Upon identifying an account that exceeds the daily threshold, the system sends alerts that reach the account executive level, where account managers are to review the alerts and notify INA of any alerts believed to be unusual or suspicious. If an account executive replies that a case is unusual or possibly suspicious, an INA employee opens an investigation and reviews the account's most recent 3 months' of transactions. Discussions are held with the referring account executive as deemed necessary. A case deemed worthy to be sent to the Secretaría de Hacienda y Crédito Público para la Prevención de Actividades Ilícitas, is first sent to the central Comité de Analysis de Operaciones con Recursos Ilicitos ("CAPORI"). The CAPORI has the decision responsibility whether or not to send suspicious activity reports to the government. During 2001, 281 of the 286 cases referred were sent to the government, the residual being considered as not having sufficient merit to report.
- Monitor has columns reporting whether client current account files are documented fully. It reports the information in percentage terms by business division, branch and account executive populations. At the account level, Monitor states whether the fundamental Know York Client information elements are on file. However, account officers enter this information in Monitor and normally this data is verified only when INA visit a branch, when sample reviews are conducted for file documentation. The system is being enhanced to flag daily activities of more than USD10k for certain accounts.



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

The system's merits are that it captures and reports transactions with satisfactory detail. However, its overall application is rather limited :-

- The system does not have any capacity to aggregate transaction activity for any period other than a given day;
- It cannot issue alerts or reports based on weekly, monthly or 3 months' of activity;
- Account officers are responsible to identify and report transactions they believe to be unusual or suspicious. There is no independent review of the over USD50k of activities;
- Monitor is connected only with current accounts on GFB's ledgers. Client Casa de Bolsa and other non-banking transactions are captured by Monitor only if a current account is affected;
- Monitor does not identify high risk clients as such;
- Monitor does not identify the accounts of the Banco Gobierno as such;
- Private banking operations per sé, are not identified.

If acquired, it is considered a system such as CAMP Retail would have to be installed and implemented at GFB.

CNBV Circular 1506

- In October 2001, the CBNV issued Circular 1506. The circular requires all Mexico banks to implement internal control policies, procedures and practices by September 2002. The main risks identified are operational, liquidity, credit and money laundering. GFB has developed elaborate policies, procedures and systems to comply with the Circular. All affected areas will have to control, monitor and report regularly their associated risks to the central CAPORI, some areas will have to report monthly. The overall effort is very ambitious, and GFB will be very challenged to be able to adhere to its sophisticated plan.

Money Laundering Case

- GFB was involved in Operation Casa Blanca, a US government undercover sting operation undertaken to combat drug trafficking and money laundering activities in the US and Mexico. A former GFB account executive was found willing to establish fictitious accounts and moved illegal money through them. Despite the fact only the former employee was found guilty of any crimes, because of his actions GFB forfeited USD3,148,884.40 to the US government in 1998.
- [redacted]



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

- [redacted]
- INA conducted a full investigation during September 1998 and reported its findings to the Secretaría de Hacienda y Crédito Público para la Prevención de Actividades Ilícitas in December 1998.
- GFB forfeited nearly USD3.2m of funds held at three US correspondent banks to the US government in 1998, and [redacted] The US government implicated a second individual, [redacted] who was a management trainee at the time. [redacted] was found to have known about the matter, and he did nothing to stop it or report it to management. However, he was found not to have conducted, or approved, any of the transactions, so GFB was not found guilty by virtue of [redacted] actions.
- INA has since conducted money laundering related review work and we are advised by them that no further problems have been found.

Other Compliance Issues

Regulatory Inspections and External Audit Reports

CNBV conducted two inspection visits during 2001. The regulator cited four principle shortcomings with the target bank's money laundering program.

1. No money laundering audits or reviews were performed at the trust area.
2. The overall status of client file documentation was found to be less than satisfactory.
3. Information was missing for 25% of the over USD50k transactions reviewed by the CNBV inspectors.
4. The administration and content of the money laundering training program needed improvement.

GFB management replied that improvement measures would be taken to address each issue noted. However, some issues remain outstanding and not fully addressed (e.g. ML training programme on the Intranet).



Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.
HSBC OCC 8873849

The December 2000 Arthur Andersen Management Letter addressed three Compliance issues.

1. Administration and control of credit facilities and contracts with related parties was weak.
2. GFB did not file financial reports and schedules with regulatory authorities in a timely manner.
3. GFB failed to fully implement its risk administration program as called for in its policies and procedures.

Management replied that they had taken the steps necessary to clear each item, but the following should be noted.

1. The 2001 CNBV inspection report listed two large insider loans, and reference to preferential treatment for both which were found to be problem situations. (Refer to the Commercial Credit section 3.3 for further details)
2. GFB has still not fully automated the accounting systems that produce the regulatory reports and schedules.
3. A December 2001 KPMG review of GFB's risk control policies and procedures found that the organization was in compliance with all 31 elements of CNBV Circular 1423, which requires Mexico banks to monitor and control liquidity, credit, markets and operating risks. Banks had to implement procedures to control these risks by 01/01/2001.
4. The 2001 Arthur Andersen Management Letter did not repeat any of the three issues. It did state, however, that the organization needed to implement certain measures to comply with Circular 1423, unlike the opinion rendered by KPMG. We have not received an explanation as to why KPMG were appointed over and above the involvement of Andersens.

Also, the management letter stated that GFB did not have a Treasury Compliance function.

Transactions over the Internet

GFB established an Internet web site in 1996. The bank and Casa de Bolsa have some transactional web site pages. Consumers, small business and corporate banking customers can conduct some account transactions over the Internet, including:

- Purchases of mutual funds shares.
- Tax and other bill payments, including 700 identified service providers and 2 mobile telephone companies.
- Credit card payments.
- Inter-account transfers (business clients only).

GFB has not, however, established web site pages where clients can open new accounts.

During April 2002, some MXP7.7m (USD770k) of unauthorized third party wire transfers were conducted through the Internet, causing a loss to GFB of MXP1.5m (USD150k). To date, the bank has not been able to identify any suspects. We have not seen confirmation that the inherent control weaknesses have been rectified.



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

Other Matters

GFB has a Code of Conduct, but it covers very few matters, its overall content being sparse. Conflicts of interest are addressed, but no examples are given and employees are not instructed how to respond to a situation presenting a potential conflict. Other issues, such as outside employment, receiving gifts from clients and service providers, and guidance on responding to attempts of influence, receive little or no attention. All employees were required to attest to understanding the Code and all new hires must also so attest.

GFB does not have a policy relating to employees' personal investment activities, like HSBC's Staff Dealing Rules. If employees purchase stock of GFB they must hold the shares for three months, and one week for other stocks. Employees at the level of director and above must provide personal asset and liability information on an annual basis.

GFB does not have a policy for anti-boycott measures or contract clauses.

GFB apparently does not employ separation of duties between departments for sensitive client transactions, such as the principals of Chinese Walls for investment banking and merger and acquisitions activities. During some interviews with other DD team members, some GFB officials referred to the concept of Chinese Walls, however, it appeared that they were using the term to note separation of duties between front and back offices.

**Conclusions**

The GFB Compliance effort is weak, and it appears that the target organization does not have a strong Compliance culture.

- GFB does not, in reality, have a Compliance Department and one would have to be established and implemented, with possibly some local staff being transferred from INA. It is likely that, in the event of the acquisition proceeding, HSBC would need to import an experienced Compliance official establish a formal department.
- Reviews of account opening procedures and client documentation are sporadic, and the reviews normally do not encompass large populations of client files or activities. This effort needs to be strengthened.
- Client transaction and activity monitoring is very limited. The reliance on account managers to identify and report unusual and suspicious transactions of their clients is a serious internal control shortcoming. Historical analysis of possible suspicious situations are performed only at the recommendations of account officers. High risk clients receive no special monitoring coverage. The organization permits accounts of individuals and organizations that are considered high risk by some banking organizations and simply not permitted by others. Yet, there are no special efforts to monitor activities or perform special reviews of these clients. Enhanced transaction monitoring, especially for high risk clients and unusual activities, would have to be injected to the effort. Quite likely the increased monitoring activities would require additional staff.



Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8873851

- Internal and external audit recommendations, and issues raised in regulatory reports do not receive proper respect and action. Many replies to exceptions and recommendations are merely perfunctory, and committed improvements are often slow in forthcoming. At times management has not responded at all to issues and recommendations cited in Internal Audit reports. For example, we identified no records where INA or another department performed any follow up reviews to the matter cited by the FRBNY examiners. Business lines and support areas would have to dedicate efforts to address and resolve audit and regulatory issues and recommendations.
- The shortcomings with monitoring account opening practices, client transactions, unusual operations, and the lack of follow up to exceptions and recommendations cited in audit and regulatory reports, present the potential to have another employee or group of employees become involved in another money laundering operation.
- Measures to promote and ensure staff discipline are not satisfactory. GFB's Code of Conduct lacks content, detail and spirit. There is no policy to promote prudence with employees' personal investment activities. Appropriate staff related policies would have to be implemented immediately as part of the overall effort to install a dedicated Compliance and internal control culture throughout the organization.



Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8873852

From: David W J BAGLEY
Sent By: David W J BAGLEY
Date Sent: 13/08/2002 15:46
To: Carolyn M Wind/HBUS/HSBC@HSBCAMERICAS
Copy To:
Subject: HIGH NOON

Carolyn,

As promised.

Could I leave you to pass this on to Paul in a secure fashion.

Regards

----- Forwarded by David W J BAGLEY/HGHQ/HSBC on 13 Aug 2002 15:44 -----

Memo
13 Aug 2002 14:48

From: Matthew J W KING/GGM INA GHQ/HGHQ/HSBC

Tel: 790 59247
44 20 7260 9247
Mail Size: 930109

Sent by: Liz A TESTER

To: David W J BAGLEY/HGHQ/HSBC@HSBC
cc:
bcc:

Subject: HIGH NOON

Copy of report as requested.

Matthew King

High Noon Report.pdf ReportAnnex (2).pdf

## e-Documents Note

This is an image of an email that has been filed to e-Documents.

Any attachments are not accessible from within this image, they can be accessed by navigating to the Document Profile using a browser.

From: John F ROOT
Sent By: John F ROOT
Date Sent: 25/11/2002 09:37
To: Richard E T BENNETT/HSBI/HSBC@HSBC, Matthew J W KING/GGM INA GHQ/HGHQ/HSBC@HSBC
Copy To:
Subject:

Attached please find a report on my visit to Bital, a report which Sandy Flockhart has already seen.

There is very little of what we would call a Compliance function. Also, I have left out personal evaluations because of the sensitivities involved. I did not encounter anybody at Bital who I thought immediately capable of buiding a Compliance department. However, I met with Ramon Garcia Gibson, Director of Anti-Money Laundering at Banamex (Citigroup), and I agree with Matthew (and Susan Wright) that he would be a good candidate to head Compliance in Mexico.

Kind regards,

John Root



Bital Visit 4-8NOV02.do

---

**e-Documents Note**

**This is an image of an email that has been filed to e-Documents.**

**Any attachments are not accessible from within this image, they can be accessed by navigating to the Document Profile using a browser.**

Permanent Subcommittee on Investigations
EXHIBIT #10

COMPLIANCE DUE DILIGENCE TRIP BY JOHN ROOT

BITAL (MEXICO CITY) – 4-8NOV02

*NOTE:* ***The information in this report was obtained through management interviews and has not been independently verified.***

**Background**

The Mexican economy is largely cash-based. Workers even have the right to receive wages in cash.

Prior to 1996, no identification was needed to open an account. One HSBC Mexico manager opines that, in Mexico, a false driver's ID can "be obtained in two hours". The same manager notes that "Mexicans don't like to disclose financial information" and that they "will open an account in the name of the maid".

As more than one senior manager opined, there is a lack of a "control culture" at Bital.

**Laws**

A number of banks are currently working together on drafting a compendium of banking laws, which would be useful for the Compliance Chart.

*Action:* the Bital Chief Legal Counsel to participate in the working group and obtain a copy of the compendium for the Compliance Chart. Target date: to be determined.

There is no law requiring "public interest" loans – be they for agricultural or other favoured sectors, or for poorer regions or urban areas. However, last month the Banco de Mexico requested that Bital make a USD 1.5 billion deposit with them at a preferential rate.

**Government Relations**

One of Grupo Bital's chief regulators, Mr Carlos Provencio Munoz, an Assistant Director General at Hacienda (the Treasury), was extremely critical of Grupo Bital. Perhaps it is best to quote at some length Mr Provencio's own words.

Mr Provencio said that controls ("la area normativa") "do not exist" – an assertion which he repeated a number of times and in which he included legal and internal audit controls. They "carry no weight" and "do not pass the rest". There is "an unacceptable level of client complaints" (*See* the section immediately below on "Client Complaints"). The regulators themselves receive "many complaints". He suspects that Banco Bital "was bilking the clients for liquidity" [sic] and that its "record was worse than other banks".

Banco Atlantico is a "complicated situation". Banco Bital does not accept Atlantico bank customers or their problems, Mr Provencio continued, even though it has the legal responsibility to do so.

Mr Provencio reserved some of his harshest criticism for Grupo Bital's Legal Department, which he averred was "not guilty of bad faith but extreme mediocrity". He stressed the need for better controls of civil cases, where the group's lawyers were often unprepared and missing the proper documents. He cited several examples but said they were "not isolated cases". One case in particular bothered Mr



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

Provencio (besides the well-known lawsuit of the Banco Atlantico client whose interest payments spiralled out of control and reached the millions). The current head of the Legal Department told Mr Provencio that a cashier had paid money out to a complaining client – and the hapless department head therefore considered the "case closed". Unfortunately, Bital apparently couldn't produce a proper time-stamped receipt, and the client continued to complain to the regulator, who blamed a "bad teller system" which, "while not reaching the level of institutional robbery, can't say what went out to whom and when."

There's a bit more. "Bital needs a proactive strategy." It also needs "sweeping changes in management". "There is a lot of work to do." "There is nil ability to prevent problems." "Today there is no balance between the client and the bank."

Mr Provencio ended with a warning about the need to plan very carefully any systems migration.

Senior management's defence is that relations with the regulators have been soured by two issues in particular: Bital's capital needs and the Atlantico acquisition.

*Action:* Faced with such a troubled regulatory relationship, it is suggested that senior management make a concerted effort to meet frequently with Mr Provencio to keep him informed of progress made in controls, particularly in the Legal Department. Bital's Head of Compliance, when designated, should be the person responsible for co-ordinating such an effort. Target date: continuous.

**Client Complaints**

Complaints increased significantly in 2002, averaging 4-5 thousand a month.

There is a centralised system of client complaints called Servital. It can sort complaints by type, region, and client category (A,B,C…).

Major causes of complaints are: ATM malfunctions, payroll errors, bad service, delays in the credit process, check frauds (including for tax payments), and late credit card statements.

The level of client complaints can affect significantly the variable portion of managerial salaries.

Regulators have been highly critical of Bital's client service. (*See* the section immediately above on "Government Relations")

**Litigation**

Despite a high level of complaints, there is relatively little litigation against the bank. The Legal Department oversees mostly the collections procedures in the courts.

A few states are known to be particularly debtor-friendly: Chihuahua, Morelos, Tamaulipas, and Durango. This is a problem because, while banking is regulated on the Federal level, collection procedures are governed by state and local regulations.

IPAB, the Institute for the Protection of Banks Savings, audited Fobaproa notes (Fobaproa is a predecessor bank savings protection fund which purchased certain assets of Mexican banks after the 1994 crisis) and returned ones it deemed in contravention of the bail-out regulations. Legal proceedings were instituted against the government fund by Bital, Banamex (owned by Citigroup), Bancomer (owned by BBVA) and Banorte. A settlement is considered imminent.

**Fines**

Bital was fined USD 400, 000 and Atlantico USD 300, 000 for failure to respond adequately and on time to government requests for information on 1994 crisis programmes. One difficulty had been the



Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8877803

reconciliation of discount/interest rates applicable in such programmes.

There have also been fines for the closing of branches.

The bonding company Fianzas has had a historically high level of fines.

**Money Laundering Controls**

Senior management, perhaps because of recent liquidity concerns, can monitor client transactions, including cash deposits and withdrawals, through an IT system called Cierre Diario (Daily Closing).

Cierre Diario contains previous-day information, and is updated in a batch process (i.e., not in real-time).

The system can filter accounts and transactions in different ways (by account, region, branch, amount, etc.). It can scan all accounts.

Senior management's practice is to monitor transactions greater than MXP 4 million (USD 400,000).

The minimum legal requirements for money-laundering controls are three-fold:

1) a system to identify the clients of high-risk transactions
2) quarterly reporting of monthly cash deposits of at least USD 10,000 or the equivalent
3) a monitoring system for lower-income clients who deposit at least USD 10,000 monthly

A senior HSBC Mexico manager has some doubts as to how closely the regulators investigate reported transactions, as HSBC Mexico receives few substantive comments or questions on the information submitted.

Cierre Diario was developed as an MI tool rather than for money-laundering prevention. The main IT system used by Bital to comply with the above minimum legal requirements is called "Monitor". Monitor is a customised system built with the Hogan Tool Kit.

Primary responsibility for the detection of unusual transactions through Monitor rests with the Direccion de Auditoria de Segmentos, an area within Internal Audit. The Capori committee (see below) is informed, and the account executive is asked to investigate and take appropriate action. This self-regulation is a significant weakness in controls.

Monitor filters and records all daily client transactions that total USD 50,000 or more.

In 2001 281 suspicious transactions were reported to the authorities totalling over MXP 1.75 billion (USD 175 million). YTD 2002, 162 suspicious transactions were reported, totalling over MXP 900 million (USD 90 million).

A committee called Capori (Comite de Analysis de Operaciones con Recursos Ilicitos) monitors suspicious transactions. This committee, which is composed of a representative nominated by each of the heads of Audit, Legal, Operations, Fraud Prevention, and Banking, meets monthly. The Committee secretary is a member of the Segmentos area of Internal Audit.

The Capori committee also monitors the implementation of the internal control requirements of CNBV Circular 1506. (The CNBV, Comision Nacional Bancaria y de Valores, is a regulator. Its prime responsibilities include the regulation of securities.) The main risks identified in this circular are operational, liquidity, credit, and money laundering.

There are 5 regional Capori committees, which report to the central headquarters Capori. It is this Capori at Bital headquarters which determines which suspicious transactions will be reported to the regulators (Hacienda and CNBV).



Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8877804

There is a confidential "whistleblower" telephone number for unusual transactions. The programme, called Caporitel, has to date permitted the reporting to the authorities of 7 suspicious transactions totalling MXP 1 million (USD 100,000).

All account records must be kept a minimum of 5 years.

It is claimed that all staff received money-laundering training. However, the exact nature of this training must be verified. The CNBV noted in a 2001 inspection that the administration and content of the money-laundering training programme needed improvement. It does not appear that this recommendation has been fully implemented.

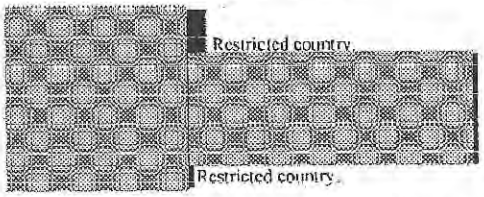
**Correspondent Banking**

Banco Bital has active correspondent banking relationships with 20 banks. These banks appear to be well-known and reputable institutions.

Banco Atlantico does not have separate correspondent banking relationships, except in Miami, where there is an account with Banco Bital itself.

Banco Bital has 83 correspondent banking relationships in total, most with well known banks - and none with banks in FATF non-cooperative countries.

Among those banks requiring further KYC are:




HBUS wants to exit the relationship.

*Action:* Bital's Head of Compliance, when designated, will monitor enhanced KYC on all correspondent banking relationships, but particularly on the above banks. In the absence of satisfactory KYC, the Compliance head will recommend to senior management the exiting of the relationship. Target date: 31MAR03.

An average of USD 200 million is wired out of the country every month in 8,300 operations. An average of USD 367 million is transferred to Mexico in 10,000 operations.

Each account executive has to sign off on the KYC documentation, including for the Grand Cayman operations.

All international wire payments are subject to the Monitor system, which does not currently block any transaction, or even use any filter other than the USD values described above. The suspicious activity reporting procedure is the same as elsewhere in the bank (*see* above "Money-Laundering Controls").

As indicated, Bital does not have as a filter the FATF non-cooperative country list. Mexican banks are "discussing a common position" on the issue.

There are automatic quarterly reports to the regulator (CNBV) of all transactions greater than USD 10,000.

*Action:* Bital's Head of Compliance, when designated, to develop, and Operations to implement, a group-wide filter for suspicious transactions, including the use of the FATF non-cooperative countries list and the Group high-risk countries list. Compliance will also develop and implement a process to investigate suspicious transactions and take remedial action without any tipping-off. This system will



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

be developed group-wide for *all* account activity, not just correspondent banking. Target date: 30JUN03.

As elsewhere, many correspondent banks do not identify the ordering party of a wire transaction. However, early next year Swift in Mexico will switch to Form 103, which does require such identification.

Bital's two main U.S. correspondent banks are [redacted].

Bital has total correspondent banking deposits of USD 1.5 billion, including offshore deposits of USD 700 million in Grand Cayman and USD 143 million in New York. The remaining USD 674 million is on deposit in Mexico.

*Action:* Bital's Head of Compliance, when appointed, will analyse all correspondent banking deposits, but particularly those in the Cayman Islands. Target date: 30JUN03.

Bital gave the requisite USA Patriot Act certification.

Foreign Exchange

Bank policy is not to transact business with foreign-exchange shops ("centros cambiares") which only exchange foreign currency – but do not transfer money. These "centros cambiares" – of which an estimated 5,000 exist in the country - are lightly regulated. On the other hand, Banco Bital does do business with bureaux de change ("casas de cambio") which transfer money and are better regulated.

Tax Payments

In Mexico the banks are obligated to process tax payments – which are made almost entirely by check. The banks obtain lucrative government business in exchange for their co-operation. (*See* the section on "Government Business")

The tax collection system is very inefficient and organised fraud is widespread. The banks have successfully lobbied the government to require Internet payments from legal entities and, for larger amounts, individuals (with earned income greater than MXP 1 million, or unearned income greater than MXP 300,000). In addition, certain other taxpayers (i.e., those required to make monthly withholding payments) must make electronic payments. Pending legislation will further expand electronic payments.

In order to reduce fraud, electronic payments should be maximised, where required or permitted by law, regulation, and the services contract signed between Bital and Hacienda.

*Action:* Bital Legal and Operations to review all pertinent legal and contractual provisions and develop further the electronic and Internet payments systems by taking advantage of every opportunity provided by law, regulation, or contract. Target date: 31MAR03.

Government Banking

Bital provides banking and payroll services to government at the Federal, state, and local levels. In addition to making loans to state and municipal entities, Bital processes payrolls for government employees (and deducts from their pay instalments on consumer and mortgage loans); advances funds for the payment of supplies; and manages government deposits – including large judicial deposits and deposits for state-controlled entities such as [redacted].

Clearly the preponderant role of the state in the banking sector means that any business proposal is one element in a vast and complex overall relationship. There is a lot of bargaining, in part because fees and commissions can be politically unpalatable (and the government does not have the appropriate line



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

item in its budget). Often the bank's remuneration for a service will be indirect, perhaps through a large deposit at a favourable rate or opportunities to market products to state employees on a captive payroll. (*See* sections such as "Laws", "Government Relations", and "Tax Payments")

**Private Banking**

Mexican law does not permit the solicitation of fund transfers abroad, although there are no restrictions *per se* on such transfers.

*Action:* Bital Legal to develop practical guidelines on what is and is not allowed in Private Banking. Target date: 31MAR03.

*Action:* Bital's Head of Compliance, when designated, to review all existing Private Banking, with particular attention to USD accounts and fund transfers to New York and the Cayman Islands.

**Trusts**

The trust area has experienced many difficulties. Formal documentation is often lacking. Proper accounting for tax payments is a problem (e.g. for foreigners who can only own property on the land borders and coastlines through a trust).

The area should improve with the recent installation of new IT systems.

**Labour Unions**

The main labour union is the Federacion de Sindicatos Bancarios, to which 6,500 Bital employees belong – "mostly tellers".

Labour relations are considered good. Three cases support this claim. First, the radical Barzon movement, which demonstrates – sometimes violently - for debt-relief for poor farmers, has not usually targeted Bital branches. Second, branches have been kept open longer throughout the country with little protest from the unions. Third, management convinced the unions to accept significant job losses when Atlantico branches were closed – in part because Bital was expanding so rapidly elsewhere.

**CCF**

One senior manager noted "a lot of walk-in CCF business". This is curious because CCF's formal involvement with Latin America ceased over two years ago and, as far as Group is aware, CCF never had much business in Mexico anyway.

*Action:* Bital's Head of Compliance, when appointed, to investigate all CCF-originated business. Target date: 31MAR03.



Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8877807

INFORME GENERAL DE AUDITORIA

HBMX GAQ 040026

COMPLIANCE - MONEY LAUNDERING

AUDITORIA INTERNA DEL GRUPO

MAYO 2004

| Riesgo | Auditoría Actual | Auditoría Anterior |
|---|---|---|
| Riesgo Intrínseco | High | N/A |
| Riesgo de Control | Below Standard | N/A |
| Riesgo General | High | N/A |



Permanent Subcommittee on Investigations
EXHIBIT #11

Confidential - FOIA Treatment Reques

HSBC OCC 8874376

## 1. RESUMEN EJECUTIVO

### 1.1. Antecedentes

El objetivo de este informe es el detallar las observaciones detectadas en la revisión de Lavado de Dinero realizada a HBMX.

En México las Instituciones de Crédito están obligadas a dar cumplimiento a las disposiciones de la Secretaria de Hacienda y Crédito Publico (SCHP) para prevenir, detectar y reportar operaciones con recursos de procedencia ilicita, establecidas principalmente en el articulo 115 de la Ley de Instituciones de Crédito (LIC), donde se definen:

- Operaciones relevantes. La que se realice en cualquier instrumento monetario por un monto igual o superior a USD 10,000
- Operaciones inusuales. Transacciones realizadas por personas fisicas o morales, que no sean congruentes con la actividad o giro comercial del cliente, por su monto, frecuencia tipo o naturaleza.

Dentro de la Dirección Ejecutiva de Compliance se encuentra la Dirección de Prevención de Lavado de Dinero a cargo de Carlos Rochin Alvarez desde hace 1 año. teniendo dentro de sus principales funciones:

- Asesoria y apoyo al grupo para el cumplimiento de las de la normatividad anti-lavado de dinero.
- Controlar cambios en prácticas y productos asegurando los controles de prevención de lavado de dinero.
- Controlar el cumplimiento de los procedimientos y controles de prevención de lavado de dinero.
- Apoyo en la capacitación en materia de lavado de dinero en el grupo.
- Proporcionar al personal del Grupo los medios y mecanismos para el reporte de las operaciones relevantes e inusuales.

El área se encuentra integrada por 1 director, 2 subdirectores, 5 gerentes y 5 analistas

### 1.2 Objetivos de Auditoría.

Evaluar que los mecanismos utilizados para el motinoreo y detección de operaciones relevantes e inusuales sean suficientes para proteger la buena reputación de HBMX.

Evaluar el control interno de la Dirección de Prevención de Lavado de Dinero verificando:

- Estructura.
- Análisis de procesos
- Manuales de politicas y procedimientos.



Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8874377

Evaluar que los mecanismos de reporte de operaciones a las autoridades sean oportunos y suficientes para cumplir con las regulaciones establecidas.

Identificar productos de riesgo y verificar que estos sean monitoreados adecuadamente.

Verificar que el grupo cumpla con las leyes y circulares establecidas para la prevención de lavado de dinero.

**1.3 Alcance de Auditoria.**

La auditoria se realizó al Grupo HBMX incluyendo HBMI y filiales, y consistió en:

Se verifico la estructura del área a través de organigrama y descripción de puestos

Se realizaron entrevistas con el personal del área identificando sus funciones, mismas que fueron analizadas y evaluadas.

Se evalúo el sistema MONITOR utilizado para le monitoreo de operaciones relevantes.

Se revisaron 17 expedientes de casos reportados por Banca.

Se evaluaron los procesos de:
- Reporte de operaciones a las autoridades.
- Análisis de operaciones inusuales reportadas por las sucursales.
- Monitoreo de operaciones
- Operaciones relevantes
- Atención de oficios de la CNBV

Se verifico el cumplimiento de las principales leyes y circulares aplicables:

Se analizaron los procesos de control para prevenir operaciones de lavado de dinero en las filiales: Casa de Bolsa, Seguros y Fianzas.

A través de entrevistas se identificaron los procesos en los que se consideró se tiene mayor riesgo de incurrir en operaciones de lavado de dinero y se evalúo en ellos los mecanismos de monitoreo, en las siguientes áreas o filiales:

- Fiduciario
- Cartera
- Operaciones Pasivas ( Remesas, Cobro inmediato, Ordenes de pago. Inversiones, Logística Monetaria y Aclaraciones)
- Banca por Internet
- Compra-Venta
- Cuentas Gran Caimán
- Casa de Bolsa HSBC
- HSBC Fianzas



Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8874378

- HSBC Seguros
- HSBC Pensiones
- Aseguradora Atlántico
- HSBC Vida

Se identificaron indicadores de los productos con riesgos de lavado de dinero.

Se dio seguimiento a las observaciones emitidas por las autoridades en el último año.

**1.4 Conclusiones**

HBMX has insufficient controls to detect money laundering transactions in all areas of the Group in a timely manner. The implementation of the CAMP system is in process yet it only includes the Bank's transactions that have been registered in the Hogan system and fails to monitor those registered in other IT systems / HBMX subsidiaries.

Dirección de Prevención de Lavado de Dinero [Direction of Money Laundering Deterrence] has identified high-risk areas of money laundering transactions, which are not being monitored.

The communication between LCOs and Compliance does not enable the timely detection of the needs and weaknesses of the areas and subsidiaries.

There are inadequate internal controls over the IT systems used to send information to the regulator on suspicious or relevant transactions to authorities.

In our opinion, based upon the foregoing, the Direction of Money Laundering Deterrence is operating with a **BELOW STANDARD** level of Control Risk.

Our principle conclusions are as follows:

**INTERNAL CONTROL**

The principle weaknesses identified in the administration of personnel include the inadequate segregation of duties as the departmental structure is top heavy (1 director, 2 sub-directors, 5 Managers and 5 Analysts).

The internal manual and regulatory circulars are not updated on a timely basis

There is inadequate handling and safeguard of relevant and suspicious transactions. The Sub-director and the personnel reporting to him share the password that is used to access the SITI system and send information to the authorities. The restricted area used to store records of suspicious transactions is not always kept safe.



Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8874379

## RELEVANT / SUSPICIOUS TRANSACTION MONITORING

HBMX monitoring tools in place do not ensure that all relevant / suspicious transactions are reported, since only the transactions registered in Hogan are monitored, this is not the case for transactions entered through the Bank's other IT systems. The information relating to subsidiaries is not validated before it is sent to the authorities. The information that was incorrectly included by the system has to be manually eliminated before it is sent to the authorities.

There is a high risk of exposure in the detection of suspicious transactions, for they are detected only through banking lines. The internal controls for money laundering deterrence do not include Group areas or subsidiaries. The auditors noted that MONITOR system, which is the only suspicious transaction indicator, has not received maintenance for the last 3 years and the information contained therein has not been used for money laundering deterrence.

Added-Value Recommendations:

- Although there is a project to implement the CAMP system in HBMI, it is also necessary to develop systems to monitor transactions in other businesses of the HBMX group using indicators and trends in high-risk products and areas and raising alerts in order to take immediate actions.

### 1.5. Recomendaciones Principales

**Recursos Humanos**
Vigilar que las funciones inherentes a la subdirección de medición y control se realicen de acuerdo a lo establecido por el área y caso de que el personal no cumpla con el perfil ponerlo a disposición de recursos humanos (3.1.1.).

Establecer una adecuada segregación de funciones.

**Manuales y circulares**
Incorporar en el manual de prevención de lava de dinero procedimientos para el tratamiento de clientes de alto riesgo, perfiles de transacciones de clientes y visitas domiciliarias. (3.1.2.)

**Sistema Monitor.**
La administración del sistema debe entregarse a la dirección de prevención de lavado de dinero.
Establecer validaciones del sistema que verifique la información capturada en las bitácoras
Establecer un registro de los usuarios que consultan la información del sistema
Establecer mecanismos que permitan identificar todas las operaciones relevantes.
Aun cuando se tiene el proyecto de implementar el sistema institucional CAMP, es



Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8874380

necesario establecer medidas que permitan monitorear las operaciones adecuadamente en lo que se termina el proyecto. **(3.2.1.)**

**Operaciones Relevantes**

Deben de establecerse sistemas que permitan reportar todas las operaciones relevantes del grupo

Realizar un análisis del Set de transacciones de Hogan verificando que todas las transacciones en efectivo estén incluidas en el reporte de operaciones relevantes.

Es importante que antes de que se reporten las operaciones relevantes de las empresas filiales se verifique la información. **(3.2.3.)**

**Operaciones Inusuales.**

Establecer las medidas necesarias para evitar la utilización de la red del Grupo con el objeto de lavar dinero ( GSM 5.7), estas deberán de considerar todas las filiales y procesos de HBMX.

Establecer junto con el área de operaciones mecanismos que permitan controlar y monitorear los usuarios y bienes de las cajas de seguridad.**(3.2.4.)**

**Nuevas Disposiciones en materia de lavado de dinero**

Establecer planes formales y fechas compromisos para dar cumplimiento a cada una de las resoluciones mencionadas en las Disposiciones.**(3.4.1.)**



Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8874381

**From:** Marion O ROACH
**Sent:** Fri Jan 21 16:08:02 2005
**To:** Stephen K GREEN
**Cc:** Richard E T BENNETT
**Subject:** COMPLIANCE EXCEPTION
**Importance:** Normal

Stephen

There are two matters which I should briefly draw to your attention given their seriousness and potential repercussions. These are:-

We have received a serious disclosure via the Group Disclosure Line where 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 and provided these to the local regulator, CNBV. It is alleged that, when asked for copies of evidence that the meetings had occurred as required by local regulation the relevant Compliance Officers realised that the meetings had not taken place, and fabricated attendance sheets purporting to be signed by relevant attendees for at least 4 meetings. After discussions with Sandy Flockhart it has been agreed that Graham Thomson, Head of Audit in HBMX will investigate the allegations in association with GHQ CMP (given the need to demonstrate that the Disclosure Line and procedures are being followed) and a report will be provided in due course. It is too early to reach any conclusions with regard to the allegations or the possible outcome of the investigations. HBMX are aware of the need to protect the identity and positions of those lodging the allegations.

As you are aware HBUS operates a Banknotes business through a variety of branches, including a branch in SGH. It appears that in December HBUS SGH booked two transactions for the physical purchase of US Dollars in the amount of USD2.9m from [redacted]. The transaction was slightly unusual in that whilst we had a selling relationship with [redacted] we had not previously purchased notes from them. When further explanations were sought we were advised that the [redacted] had received the notes on behalf of [redacted] who in turn had sold machinery to the [redacted] Myanmar is currently subject to OFAC regulations prohibiting any transactions by US persons relating to Myanmar counterparties. The individual relationship manager acted without knowledge of the branch manager, and the nature of the transaction, and the parties involved was identified as a consequence of routine compliance monitoring in January 2005.

There appears little doubt that the transaction is a breach of the relevant OFAC sanction on the part of HBUS, that it will need to be reported to OFAC and as a consequence there is a significant risk of financial penalty. It does not appear that there is a systemic issue, rather we are dealing with an individual incident, although given the potential seriousness of the breach external lawyers have been instructed to assist with the process of resolving matters with OFAC.

I will of course ensure that appropriate reports are included within GMB and GAC papers, although with regard to the first of the above two incidents I think it would be appropriate to await the outcome of the investigation before including details of the ongoing investigations so far as GMB is concerned. I will report in full to GAC in relation to both incidents at the February GAC meeting.

David Bagley

Permanent Subcommittee on Investigations
EXHIBIT #12

**From:** John F ROOT
**Sent:** Fri Dec 02 15:53:15 2005
**To:** David W J BAGLEY
**Cc:** Marlon O ROACH
**Subject:** Re: OFAC
**Importance:** Normal

[redacted] = Redacted by the Permanent Subcommittee on Investigations

David

Taking your queries in order:

Transactions of [redacted] government missions in the United States are exempt from the US [redacted] Transactions Regulations (commonly referred to as the "OFAC sanctions") provided that they are related to the import or export of goods and services which "are for the official business of the mission", or for the "personal use of personnel admitted to the United States under [a special immigration section]" *and* the transactions are "not otherwise prohibited by law". (31 CFR 560.512) There is no definition in the statute as to what constitutes "official business" of a mission or "personal use".

Ramon told me that only two embassies – out of all the embassies they do business with – have USD accounts in the Cayman Islands. They are: [redacted] He did not volunteer an explanation, but perhaps he didn't think that one was necessary. He seemed somewhat constrained so I did not press him further.

The challenge is to determine whether a transaction is for "official business". There have been a number of media reports in serious newspapers of [redacted] embassies misusing their diplomatic status for alleged funding of alleged terrorist activities – in particular through their "Islamic Interests" sections. Their defence is that the funding is for legitimate charitable Islamic purposes such as the funding of mosques. Some Western authorities allege more sinister purposes, e.g. the funding of terrorist Hizbollah activities in the case of [redacted] At the very least, Group risks being caught in the midst of a highly visible and passionate polemic, a polemic which sadly has already caused a lot of bloodshed and pain.

[redacted]

I hope the above helps. I would be glad to discuss further with you at your convenience.

Kind regards,

John Root

---

David W J BAGLEY/HGHQ/HSBC

**David W J BAGLEY/HGHQ/HSBC HGHQ Sent** **To** John F ROOT/HGHQ/HSBC@HSBC

Permanent Subcommittee on Investigations
EXHIBIT #13

Redacted Material
Confidential - FOIA Treatment Requ

by: Marlon O ROACH 02/12/2005 12:22 Phone No . 7991 8645
44 2079 918645 Mail Size: 3031

cc

Subject: OFAC

Entity: HSBC Holdings plc - HGHQ

John

As you may recall HBMX maintained accounts for the [redacted] in their Cayman branch.

It looks like I will be participating in a conference call involving HBMX, Jeremy Barton and myself early next. I suspect, although do not know, that this conversation will include some debate as to whether these accounts can be maintained, with presumably Jeremy Barton putting the case for retention based on relationships with [redacted] Whilst I understand this, in advance of the conversation I would like to be armed with the following information if at all possible:-

Are transactions [redacted] exempt under OFAC - or do we in the same as any other set of transactions involving [redacted] need to determine whether each individual payment is exempt, including judging for U-turn exemptions.

Without troubling Ramon further, are we aware of any particular reason why [redacted] - for example do they have a diplomatic presence there?

Unless I am missing something the maintenance of a USD account for an [redacted] raises challenges for us - am I missing something?

Regards

David Bagley

**From:** Graham THOMSON
**Sent:** Thu Mar 22 16:13:38 2007
**To:** David W J BAGLEY
**Subject:** Fw [redacted]
**Importance:** Normal
**Attachments:** image_0.gif; image_1.jpg; image_2.jpg; image_3.jpg; image_4.jpg; image_5.jpg; image_6.jpg; image_7.jpg; image_8.jpg; image_9.jpg; image_10.jpg; image_11.jpg; Doc Link.htm; [redacted]_AML_March2007.doc

Graham Thomson
Head of Group Audit Latin America & Mexico
Tel (52) 55 5721 6236
----- Forwarded by Graham THOMSON/HBMX/HSBC on 22/03/2007 10:14 a.m. -----

**Paul A THURSTON/HBMX/HSBC** 21/03/2007 08:02 p.m.

To Graham THOMSON/HBMX/HSBC@HSBC
cc
Subject Fw: [redacted]

Graham,

As promised.

Regards

Paul

----- Forwarded by Paul A THURSTON/HBMX/HSBC on 21/03/2007 07:45 p.m. -----

**Leopoldo R BARROSO/HBMX/HSBC** 20/03/2007 10:15 p.m.

To Paul A THURSTON/HBMX/HSBC@HSBC
cc Andrew PROSSER/HBMX/HSBC@HSBC, david.leighton@hsbc.com.mx, Rafael.Arana.Garza@hsbc.com.mx, Ramon GARCIA/HBMX/HSBC@HSBC, Sandy Flockhart/HBMX/HSBC@HSBC
Subject Re: Fw: [redacted]

Paul,

I am enclosing a draft of the aforementioned report in a document file; however, many of the events disclosed for executive purposes have not been quoted or included in their totality, thus a hard copy of the complete version with all necessary Annexes will be sent to your office, early tomorrow (9:00 AM).

Permanent Subcommittee on Investigations
EXHIBIT #14

I would like to have the opportunity to address some of your questions, which are partially responded throughout the document:

- The customer was not a referral from other part of the Group, since the account was opened during [redacted] before HSBC actually acquired Bital.
- The Money Laundering deterrence reporting history is well documented in the report.
- This was a Corporate entity, and as such it should had been managed by other business segment in our opinion; however, this issue has been discussed at the MLD Committee, not only concerning this case, but others that had been brought to the attention of said Committee, but a definition has not been attained, since the nature of the Committee limits its capacity to exercise a migration of customers from one segment to another, though, it has been stated that our detection, and AML enforcement rules might be biased by having entities recorded and managed by wrong types of business lines.
- The search across the group has been initially requested with the companies, and individuals, directly associated to the case. As for the other entities that could be associated as beneficiaries, or issuing parties of remittances, or other financial transactions are pending response from the operating areas in order to be identified, since this information is not available at our main operating platform, this should be completed tomorrow, and the report would be also updated.

Should you need any explanation of the enclosed report, please on call me at your earliest convenience.

Kind Regards

Leopoldo

[redacted]

Paul A THURSTON/HBMX/HSBC

**Paul A THURSTON/HBMX/HSBC** 20/03/2007 11:39 a.m.

To Leopoldo R BARROSO/HBMX/HSBC@HSBC

cc Sandy Flockhart, David Leighton, Rafael.Arana.Garza@hsbc.com.mx, Ramon GARCIA/HBMX/HSBC@HSBC, Andrew PROSSER/HBMX/HSBC@HSBC

Subject Fw [redacted]

Leopoldo,

David has forwarded your note to me this morning. 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.

By now, I would hope that you will have completed your analysis of the case and I would ask that you let me have a report by the end of the day. I would like to know, inter alia, how this account was opened (was it a referral from another part of the Group or a local account opening?), the activity on the account, the money laundering reporting history (including the names of the people in PFS who claimed to have detailed knowledge of the customer and declined to make a report), and the current status of contact with the authorities on this case. As this is a corporate entity, I am surprised that PFS management appear to be managing the relationship, and perhaps you could also clarify this.

I trust that we have already initiated a trawl across the Group for any other accounts held by this company, the connected individuals, and associated companies and/or individuals (including those who have sent remittances to, or received them from, this account), and I would like to know what we have found from this, thus far.

I would presume that BSE would be helping in this investigation, and hence I am also copying Andrew Prosser.

Please get back to me on this by the end of the day.

Thanks

Paul

---- Forwarded by Paul A THURSTON/HBMX/HSBC on 20/03/2007 11:02 a.m. ----

**Leopoldo R BARROSO/HBMX/HSBC** 16-03-07 10:50 AM

To david.leighton@hsbc.com.mx

cc ramon.garcia@hsbc.com.mx

Subject [redacted]

David,

As a consequence of an investigation initiated by the PGR (SIEDO) last [redacted]

This customer was reported to the authorities by HBMI during [redacted] event which in our opinion triggered all this process), and several attempts were made to report them recently, and eventually cancel the relationship as prospected by MLD at the MLD Committee (these observations, and enquires to the business are properly documented in the MLD Committee minutes); however, PFS argued that the customer was fine, properly documented, and known by the business and that a cancellation was not accepted, nor a new report to the authorities was desirable. As such the business assumed the full responsibility of any deriving effects as the one that unfortunately occurred yesterday.

I am building a more explicit and comprehensive note of our analysis of the case, and all of the events in a timeline that preceded this unfortunate act.

HSBC's name has not been printed yet in any media or press report, however, we might expect some more heat on this issue, though my

estimation is that we were not the only bank, they were operating with, since their balances with HSBC are not very high, specially when related to the amount of the seizure.

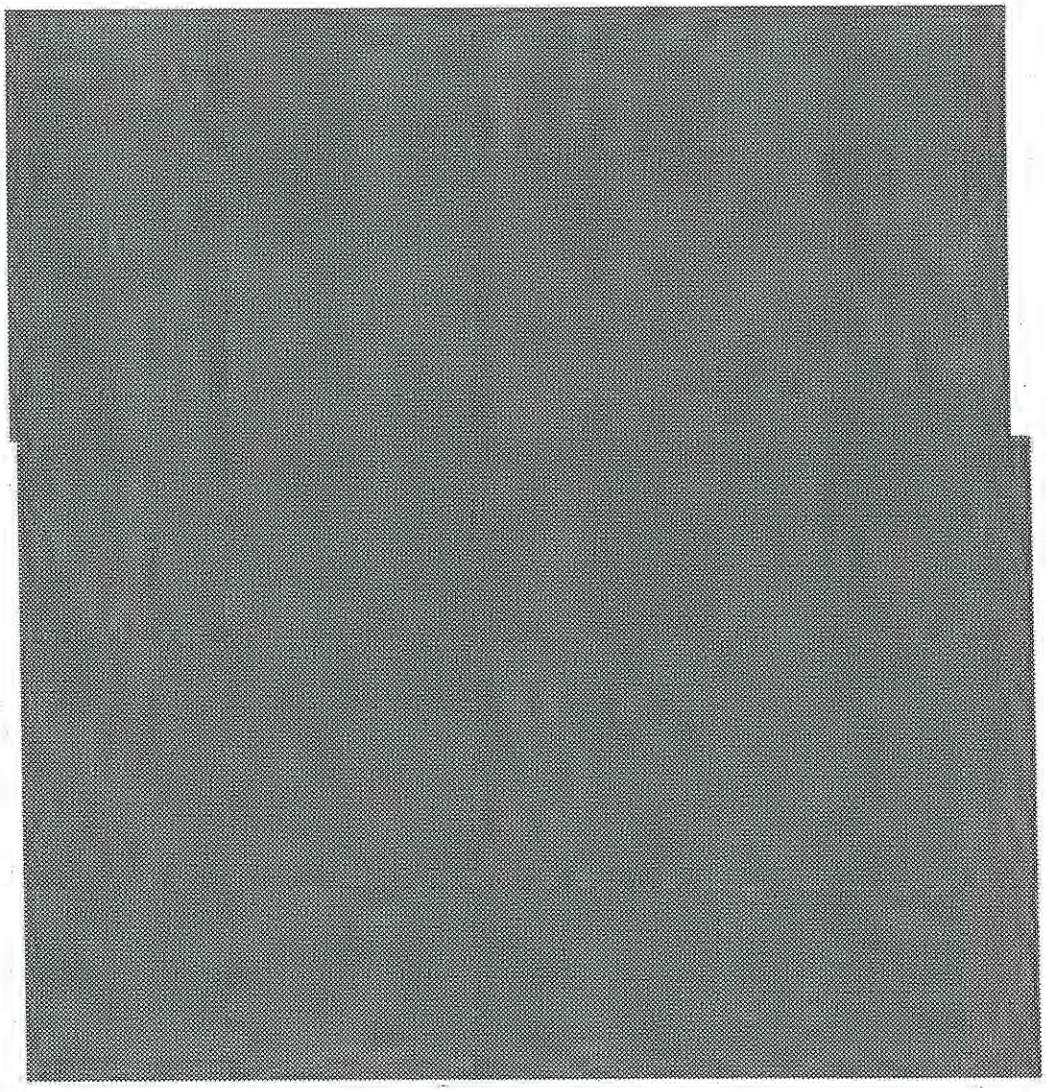
A copy of the official press release by the PGR in Spanish is attached to this Email, including pictures of the bill, and weapons seized.

Should you need me for an immediate debriefing, I am available at your earliest convenience.

Regards
Leopoldo

[redacted]

[redacted]



**From:** Susan A WRIGHT
**Sent:** Mon Mar 26 17:33:37 2007
**To:** Graham THOMSON
**Cc:** David W J BAGLEY; John F ROOT; Warren G LEAMING
**Subject:** Fw: Travellers Cheques
**Importance:** Normal
**Attachments:** Doc Link.htm; HBMX CMP PLD 018 04 - AML Procedures on Traveller Cheques.doc; HBMX CMP PLD 015 04 - [redacted]doc

Graham,

Further to my note last week I have in fact located the note from Ramon re [redacted] Attached for your info.

Regards Susan Wright
---- Forwarded by Susan A WRIGHT/HGHQ/HSBC on 26/03/2007 17:27 ----

Ramon GARCIA/HBMX/HSBC
HBMX
30/11/2004 00:52
Mail Size: 3147

To
John F ROOT/HGHQ/HSBC@HSBC
cc
Carlos ROCHIN/HBMX/HSBC@HSBC, David W J BAGLEY/HGHQ/HSBC@HSBC, Susan A WRIGHT/HGHQ/HSBC@HSBC
Subject
Re: Travellers Cheques
Entity
HSBC Holdings plc - HGHQ

John,

Please find attached a preliminary note on traveller cheques.

More information is being compiled and will be delivered soon.

By the way, you might find interesting a recent case involving traveller cheques, whose report is also attached.

Regards,

Ramon

Permanent Subcommittee on Investigations
**EXHIBIT #15**

Redacted Material
Confidential - FOIA Treatment Rec

John F ROOT
08/11/2004 02:47 p.m.
To: Ramon GARCIA/HBMX/HSBC@HSBC, Carlos ROCHIN/HBMX/HSBC@HSBC
cc: David W J BAGLEY/HGHQ/HSBC@HSBC, Susan A WRIGHT/HGHQ/HSBC@HSBC

Subject: Travellers Cheques

Ramon and Carlos,

I note that 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, and that is several orders of magnitude higher than any other non-UK entity, including Hong Kong and the US. In fact, it represents one-third of the Group's total global traveller's cheque business (with the UK representing another third).

Could you kindly prepare a report for GHQ summarising the money laundering procedures currently in place for such a booming business. Please include in this report KYC controls, number of SARs in the YTD, breakdown by region and branch, etc., etc.

Thank you.

Kind regards,

John Root

<<...>> <<...>> <<...>>

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8876646

**From:** Sandy Flockhart
**Sent:** Wed Apr 04 15:13:37 2007
**To:** Graham THOMSON; Matthew J W KING
**Cc:** Liz A TESTER; Paul A THURSTON; Sergio PINA
**Subject:** Re: GROUP AUDIT COMMITTEE - APR07
**Importance:** Normal
**Attachments:** Doc Link.htm

Graham,

I believe you need to show some light and shade ie the steps taken to improve documentation,the improvement in Fiduciario,the rationalisation of Fianzas,(in Fianzas we know the issue but in Fiduciario as we cannot lay of the risk there will always be uncertainty)the fact that in credit cards the principal issue is the updating of Falcon and growth pains and balancing of resources,the fact that our principal fraud reflected to prior years and that the cajero frauds were organised crime events and that prevention was very difficult unless staff spoke up and possibly there was pressure put on them.As for regulatory fines we have stopped fighting these which may be a mistake but a number were where the past administration decided to clear their books.

This type of analysis should be brought to the Audit Cmts attention.
I would appreciate if you could consider such an analysis as it will benefit members understanding of our environment.

Regards,

Sandy

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

From: Graham THOMSON
Sent: 04/02/2007 05:46 PM
To: Matthew J W KING
Cc: Liz A TESTER; Paul A THURSTON; Sandy Flockhart; Sergio PINA
Subject: Re: GROUP AUDIT COMMITTEE - APR07

Matthew

In response to your email I comment as follows:

The main systemic weaknesses in HBMX, which I believe remain outstanding, are as follows:

KYC as identified in branch and continuous audit reports.

The lack of adequate documentation and filing systems which remain from the former Bital days, evidenced most sharply in the legal cases in Bonds and the oustanding Trust cases, where we continue to be at risk.

Lack of a compliance culture, evidenced (in the most serious way) by the number of staff defalcations and (in a more widespread general negligence) in

Permanent Subcommittee on Investigations
**EXHIBIT #16**

the number of fines we receive from the regulators for avoidable errors - e.g. failing to report branch openings, or senior management appointments, on time.

User access control and passwords.

Inconsistent MI produced by Finance, the Business and CRM which has hindered early identification of problems as well as hampering effective decision making.

Regarding operating losses and credit card frauds I append the following comments:

Op Losses.- The trend in 4Q06 caught the attention of Management and action is being taken to mitigate losses. A working group is being established to improve the reporting (timeliness and completeness), accuracy of the Gordon database and analysis of events, based on recommendations made recently by GAQ.
Credit Cards.- A review of credit card frauds which was the most significant contributor to Op Loss, was recently completed by GHQ and the business is responding to the report's recommendations and are putting in place a series of steps to improve the quality of our card fraud prevention and management so as to reduce card fraud back to within local industry norms.

The foregoing was discussed with Paul Thurston. These comments will be included in my report to the next HBMX Audit committee

Regards

Graham Thomson
Head of Group Audit Latin America & Mexico
Tel (52) 55 5721 6236

Matthew J W KING/GGM INA GHQ/HGHQ/HSBC
Sent by: Liz A TESTER
02/04/2007 04:52 a.m.

To
Graham THOMSON/HBMX/HSBC@HSBC
cc

Subject
Re: GROUP AUDIT COMMITTEE - APR07

---

May I please have a response to the attached today as I need to finalise my GAC papers first thing tomorrow.

Regards,

Matthew King

Matthew J W KING/GGM INA GHQ/HGHQ/HSBC
GGM INA GHQ/HGHQ
Sent by: Liz A TESTER
28/03/2007 13:19
Phone No. 799 21176
+44 (0) 20 799 21176
Mail Size: 2495

To
Graham THOMSON/HBMX/HSBC@HSBC
cc

Subject
Re: GROUP AUDIT COMMITTEE - APR07
Entity
HSBC Holdings plc - HGHQ

Graham,

Thanks.

Could you summarise the main systemic weaknesses in HBMX which you believe remain outstanding. I appreciate these may already have been reported, but presumably some have been addressed. Where do we stand on the rising (I think) incidence of operating losses and credit card frauds?

Regards,

Matthew King

<<...>>

**From:** Graham THOMSON
**Sent:** Fri Apr 20 19:43:26 2007
**To:** Matthew J W KING
**Cc:** David W J BAGLEY; Liz A TESTER; Sandy Flockhart; Paul A THURSTON; Rafael.Arana.Garza@hsbc.com.mx@HSBC; Ramon.GARCIA@hsbc.com.mx@HSBC; philip.GRECKI@hsbc.com.mx@HSBC; Nick GILMOUR; Jose Manuel Dominguez
**Subject:** Re: Managerial Letter: HBMX - [redacted]
**Importance:** Normal
**Attachments:** Doc Link.htm

Matthew

I refer to your attached email, which was considered at yesterday's meeting of the [redacted] committee, chaired by Paul Thurston.

This meeting, the third chaired by Paul about [redacted] that involved GAQ, is part of the process he initiated over a month ago following the seizure of the arms and money from our customer's premises and his requests for separate reviews to be completed by CMP, PFS, PIF and GAQ. Reports from CMP and PFS had been considered at a previous meeting.

The meeting considered the recommendations detailed in GAQ's report. It received a verbal report from PIF (written interim report received post-meeting) on the results of its investigations to date into branch staff there were associated with the account. The investigations are still continuing.

Paul's summary of the meeting and its action points are detailed in the attached email. Other points are as follows:

1. The meeting acknowledged the difficulty in accurately completing KYC checks where customers deliberately tried to conceal the real intent of their business activities, as appears to have been the case with [redacted]

2. The meeting expressed reservations over the practicality of the new KYC requirements recently introduced by CNBV which required customers to project their transactional activity to allow individual benchmarks to be set that could be used to compare with actual activity.

3. PIF's investigations, which are continuing, confirmed that Alvaro Rocha had based his recommendation to the AML committee in AUG05 not to report [redacted] to the authorities, on incorrect representations made to him by staff, i.e. he had been lied to. PIF further confirmed that some of the KYC visits probably did not occur, that some of the staff involved had breached code of conduct requirements by making in some cases sizeable loans to each other although there was no indication at this time to suggest that any had benefitted directly from the [redacted] connection.

4. [redacted] indicated that the branch staff involved in completing inaccurate visit reports should be dismissed. Any further disciplinary action should await the findings of the completed PIF investigation.

5. Ramon Garcia confirmed that other banks ([redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #17

involved as bankers with [redacted] had not reported the customer to the authorities, despite hosting apparently unusual transactions similar in nature to those recorded by HBMX. [redacted] He did not believe HBMX would receive a censure.

A follow up meeting will be held to monitor progress in implementing the action points.

With regard to your offer to send someone to review the AML alert process, the following is planned:

a. CEO HBMX will review the need for any additional support from GHQ with Group Compliance, once the immediate action steps have been completed; and
b. GAQ has scheduled an audit for 3Q07 of this department as part of its 2007 annual plan. A focus of that audit will be on the re-engineered AML and CCC processes which will be implemented as a result of the above meeting. We shall also be strengthening our continuous and branch auditing focus on KYC although as you will recollect these weaknesses have been a repetitive theme of my comments to HBMX audit committee meetings.

Please let me know if you require any clarification on the foregoing, pending which summary comments will be tabled at LAM RAC, given that the case was discussed at yesterday's MAC meeting.

Regards

Graham Thomson
Head of Group Audit Latin America & the Caribbean
Tel (52) 55 5721 6236

----- Forwarded by Graham THOMSON/HBMX/HSBC on 20/04/2007 08:46 a.m. -----

Paul A THURSTON/HBMX/HSBC
19/04/2007 09:03 a.m.

To
Rafael Arana Garza/HBMX/HSBC@HSBC, Jose Manuel Dominguez/HBMX/HSBC@HSBC, Graham THOMSON/HBMX/HSBC@HSBC, Ramon GARCIA/HBMX/HSBC@HSBC, Leopoldo R BARROSO/HBMX/HSBC@HSBC, Nick GILMOUR/HBMX/HSBC@HSBC, Philip GRECKI/HBMX/HSBC@HSBC
cc
Sandy Flockhart/HBMX/HSBC@HSBC
Subject
[redacted]

Following our meeting yesterday, I am summarising the key action items that need to be progressed:

- The Audit report recommendations will be implemented as follows:

1. The representation at CCC to be reviewed and proposed membership submitted to CNBV for approval. (Garcia)

2. Business Heads must remind their CCC representatives of the importance of their role and of taking an independent view. They must be prepared to challenge their colleagues if they are not satisfied with the responses they receive. [redacted]

3. The analysis, assessment and reporting procedures need to be revamped. The key is to have appropriate escalation procedures to ensure that higher risk cases are brought to senior management attention, and where the CCC or CMP has any concerns, these are to be brought to the attention of the Customer Group Heads immediately. (Garcia)

4. The management processes of the CCC must be strengthened. The minutes of meetings should identify clearly the decisions taken, and there need to the be improved procedures to ensure that open items are always followed up at subsequent meetings. (Garcia)

5. PFS and CMB relationship managers should be given further training in the correct completion of KYC assessment reports. (Garcia, [redacted]

6. A review should be undertaken to identify all corporate entities that remain under management by PFS. these should be transferred to CMB without delay. [redacted]

7. Branch staff who completed false KYC reports should be dismissed, once the ongoing PIF investigation has been completed [redacted]

Please ensure that these items are followed up and provide a formal written response to me on the above points, confirming that these recommendations have been implemented by 18 May 2007.

- The detailed PIF review, which has been undertaken over the last 2 weeks will be completed, and a second interview will be arranged with one executive, and a report prepared, with recommendations for disciplinary action. [redacted]

- Although the PIF review has not found any evidence of direct linkage between the staff involved and the company (subject to the further interview to be arranged), it has surfaced evidence of breaches of policies in respect of intra-staff loans, and documentation signed in blank. [redacted] will prepare a CEO circular re-stating our policy and zero tolerance approach, and PFS/CMB Heads should personally reinforce this through their management teams. [redacted]

- The improvement of KYC procedures, account opening and file maintenance, which is currently comprised of a number of individual initiatives, needs to be brought into one coherent programme and given appropriate emphasis. The incoming COO HBMX will be tasked with reviewing these and putting an implementation plan in place.

- The review of other cases which have similar patterns, and all high risk cases, has been completed, and a special CCC meeting will be arranged within

[redacted] = Redacted by the Permanent Subcommittee on Investigations

a week to review these cases. (Garcia/Barroso)

- The review of other pharmaceutical companies which have had money laundering alerts is underway but needs to be completed. (Garcia/Barroso)

- We continue to await the list of other names from the federal authorities which they will require us to check. (Barroso)

- Contact must be maintained with the authorities, with whom we will continue to co-operate fully, to maintain our reputation with them. (Garcia)

I will arrange a further meeting to review progress on the above.

Regards

Paul

Matthew J W KING/GGM INA GHQ/HGHQ/HSBC
Sent by: Liz A TESTER
18/04/2007 04:29 a.m.

To
Graham THOMSON/HBMX/HSBC@HSBC
cc
David W J BAGLEY/HGHQ/HSBC@HSBC, Sandy Flockhart/HBMX/HSBC@HSBC
Subject
Re: Managerial Letter: HBMX - [redacted]

Graham.

Not a happy story. I note the recommendations will be discussed later today and no doubt subsequently. My initial reactions are set out below.

Please advise what action is taken in respect of [redacted] who appears to have vouched for this customer in AUG05, and then to have failed to fulfil his undertakings to the CCC Committee in DEC06. As a reasonably senior executive I would have expected a more committed approach to his responsibilities than appears from this saga.

The inconsistencies in the visit reports obviously raise some questions about whether staff were more closely involved with the customer than they should have been. How is this being addressed?

The fact that staff are producing reports that are unreliable is a serious issue in itself and needs to be taken into account in considering the appropriate disciplinary action.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

The weakness in the processes within MLD to analyse and monitor CAMP alerts, and to act as a check and balance on management, is obviously a general concern. Is it worth having someone come into look at processes from top to bottom (including at the CCC) to ensure they are robust?

Finally, are there any other customers where there is a similar fact pattern?

Regards,

Matthew King

<<...>>

# HSBC Bank USA, National Association

## Office Memorandum

TO: Denise Reilly

FROM: Judy Stoldt
Gloria Strazza

DATE: May 1, 2007

RE: **Wall Street Journal Article Regarding Wachovia**

CONFIDENTIAL
FOR INTERNAL USE BY HSBC PERSONNEL ONLY

This memorandum summarizes an article in the April 26, 2008 edition of the Wall Street Journal (WSJ) that discussed an investigation into Wachovia's casas de cambio business.

This memorandum also discusses the actions that HBUS has taken with respect to the casas de cambio mentioned in the article as well as other cambios that were not mentioned in the article.

Please note that HBUS does not hold any account for any casa de cambio mentioned in the WSJ article. The only HBUS connection to activity involving those named casas de cambio is activity that was conducted through our correspondent accounts, and most notably through our account with HSBC Bank Mexico (HBMX).

**1. Wall Street Journal Article**

Summary of Article:

- Federal prosecutors are investigating Wachovia as part of a probe of alleged laundering of drug proceeds by Mexican and Colombian money-transfer companies. Wachovia is allegedly one of "several large US banks" that have come under scrutiny for relationships with such companies. (The other "large US banks" were not named by the WSJ.) Wachovia built ties to casas de cambio in order to tap the Hispanic market. Wachovia held deposits for the foreign-exchange houses and provided back-office services to those entities. Wachovia is cooperating with investigators and, in December and January, severed relationships with Mexican foreign-exchange firms.

- Four casas de cambio were mentioned in the Journal article – two that are associated with Wachovia (**Casa de Cambio Puebla** and **Majapara Casa de Cambio**) and two that were mentioned in a side-bar (**Sigue Corp.** and **Ribadeo Casa de Cambio**. Sigue was fined by the Justice Department and Ribadeo laundered funds indirectly via Union Bank of California. The allegations involving Union Bank and Ribadeo resulted in an enforcement action against Union Bank.)



Permanent Subcommittee on Investigations
EXHIBIT #18a

Confidential & Non-public OC

These cambios are discussed below, along with investigations HBUS performed into these entities (both as a result of the Journal article and prior to the article) and other cambios.

2. **WSJ List of Casas de Cambios:**

- **Casa de Cambio Puebla** – Per the WSJ, Puebla is a Mexican chain of cambios and is subject to a federal court action in Miami, Florida in which federal agents seized more than $11 million in 23 Wachovia accounts belonging to this entity. Prosecutors allege the money was "being laundered".
- **Activity:** No accounts are held by HBUS; a former Banknotes account was closed in June 2007; funds involving this entity passed through correspondent accounts held by HBUS. (Reference comments below).
  - On June 15, 2007, HBUS [redacted] earned (though HBMX) of a seizure warrant issued by the Southern District of Florida at the request of the Drug Enforcement Administration seeking to freeze $11 million in 23 accounts at Wachovia. All banknote activity at HBUS was terminated in June 2007 as a result of the seizure warrant issued against Wachovia. In October 2007, at the suggestion of the OCC to perform a money service business review, HBUS commenced a review of wire activity over a 12 month period (October 2006 to September 2007) in the dollar range of $5,000 to $25,000. (This review will be referred to as the "*October 2007 Review*").
  - On November 8, 2007, a news article was published in the Miami Herald that alleged that drug funds were being laundered through Puebla. Upon receipt of the article, HBUS confirmed that it had no account relationship with Puebla.
  - The October 2007 Review revealed that wires involving Puebla had passed through its correspondent accounts. On November 30, 2007, HBUS [redacted] reporting that approximately 650 wire transactions had cleared through the HBMX correspondent account where Puebla was either the originator or beneficiary of the wire from January 1 through October 31, 2007. On November 16, 2007, HBUS added the name "Casa de Cambio Puebla" to its Internal Watch List to ensure that no accounts could be opened for this entity. On January 23, 2008, HBUS added the name "Casa da Cambio Puebla" to its internal wire filter system. The internal wire filter causes all wire transactions that are attempted to be processed through HBUS to be scanned against the names in the "filter". The filter will stop any wire that includes a "filtered" name (in this case "Casa da Cambio Puebla"). An HBUS wire room employee would then reject the payment.
  - HBMX, which held an account for Puebla, "froze" its account after the November news article was published. HBMX provided HBUS with a list of 91 parties presumed to be related to Puebla. Eighty-one (81) parties were HBMX customers, whose accounts were frozen by HBMX. A wire search was performed (for the period January 1 through October 31, 2007) on these 91 names that resulted in 523 potential transactions. After review, 170 wire transactions totaling $7,370,508 were found to have been conducted by 6 individuals or entities whose names exactly matched names on the list of 91. [redacted]. (It is noted that all of these wires originated by individuals and entities from accounts held at Wachovia. A search revealed that none had accounts at HBUS.)
  - In February 2008, HBUS conducted a follow-up analysis of the cambios identified by HBUS in its October 2007 Review that were deemed to require follow-up review. The February 2008 review examined wires processed between October 2007 and December 2007 in amounts ranging from $5,000 to $25,000, and it was revealed that only 3 transactions were processed through HBUS correspondent accounts.

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**



onfidential & Non-public OCC Information

**Redacted By The Permanent Subcommittee on Investigations**

- **Sigue Corp.** – A money service business that allegedly processed $24.7 million in suspicious money remittances related to drug-trafficking proceeds. It forfeited $15 million and agreed to spend $9.7 million to upgrade its anti-money laundering program as part of a deferred prosecution agreement reached with the Department of Justice.
  - **Activity:** No account relationship is held with this entity; funds involving this entity passed through correspondent accounts held at HBUS. (Reference comments below.)
  - On January 12, 2008, HBUS noted a news article that reported Sigue Corp., a California money service business (MSB), was entering into a record $25 million settlement with the Justice Department for money laundering violations related to the manner in which it handled remittances to Latin America. The penalty assessed against Sigue set a record for a settlement with the Justice Department by a money service business. The allegations focused on anti-money laundering deficiencies that permitted arguably suspicious transactions to occur primarily between customers in the US in the Dominican Republic and Mexico.
  - Based on the article, HBUS conducted a review of its accounts (which confirmed that no relationships were held with Sigue), an independent investigation into Sigue and a review of wire transfer activity.
  - The independent investigative search on Sigue and its founder (Guillermo de la Vina) was conducted to determine whether either were the subject of any other negative news or law enforcement activity. That investigation revealed that a Sigue employee was indicted for assisting drug traffickers to launder drug proceeds but Sigue itself was not indicted. Sigue was mentioned in another article as having allowed $295,000 to be transferred from an account at Arvest Bank to an illegal alien in Mexico. (These allegations arose out of an



nfidential & Non-public OCC Information

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Immigration and Customs Enforcement action against the illegal alien's employer. Sigue, again, was not implicated.)

- The wire review revealed 161 transactions for $492.5 million were sent over a 12 month period (January 1 through December 31, 2007). HBUS contacted HBMX (the beneficiary bank) for information about its customer and these wire transactions. HBMX stated that its relationship with Sigue is conducted within certain internal parameters (such as limiting Sigue to conducting transactions for individual customers to $2,000 USD per transaction).
- [redacted] Sigue had, between January 1 and December 31, 2007, sent 159 wire transfers totaling $484,499,916 to its own account at HBMX. [redacted] Sigue was not added to the wire filter as Sigue entered into a written agreement with the Department of Justice to enhance its AML program and was not (per the investigative search) the subject of any other money laundering investigations.

# Redacted By The Permanent Subcommittee on Investigations

3. Enforcement Actions Mentioned in WSJ Article:

- As mentioned, the WSJ article's side-bar discussed 3 enforcement actions against financial institutions as follows:
  - **Union Bank of California** – Alleged to have allowed a casa de cambio to launder drug funds through its accounts
    - [redacted]
  - **American Express International Bank** – allegedly failed to report $55 million laundered through accounts owned by drug traffickers
  - **Bank Atlantic** – Undercover agents found that drug funds were laundered through one branch.
- HBUS originally reviewed these enforcement actions to uncover any names of drug traffickers or casas de cambio, but reviewed them again in light of the WSJ article. No other names could be associated with these enforcement actions (other than Ribadeo). [redacted]



Subject to Protective Order Non-public OCC Information

# EXCERPT FROM SIGUE CORPORATION DEFERRED PROSECUTION AGREEMENT JANUARY 24, 2008

## FACTUAL STATEMENT

1. Sigue Corporation, organized under the laws of Delaware, and its affiliated operating company, Sigue, LLC, organized under the laws of Nevada, are licensed money service businesses headquartered in San Fernando, California (hereinafter jointly referred to as "Sigue"). Sigue's primary business activity is the transmission of funds from the United States to Mexico and Latin America. Sigue operates by and through a network of more than 7,500 "authorized delegates" throughout the United States. Authorized delegates are typically small "mom and pop" type businesses that have been contracted to offer Sigue's money transmission services. The authorized delegates and Sigue each earn a small fee for the transactions conducted through the authorized delegates. At the Federal level, Sigue is regulated by the Financial Crimes Enforcement Network ("FinCEN") and the Internal Revenue Service.

2. The U.S. Department of Justice, Criminal Division, Asset Forfeiture and Money Laundering Section ("AFMLS"), the U.S. Drug Enforcement Administration ("DEA") and the Internal Revenue Service ("IRS"), have determined that from November 2003 through March 2005, Sigue violated provisions of the Bank Secrecy Act which require financial institutions to maintain anti-money laundering compliance programs. The violations at Sigue were serious and systemic, and allowed tens of millions of dollars of suspicious financial transactions to be conducted through Sigue, including transactions involving funds represented by undercover U.S. law enforcement agents to be drug proceeds.

## OPERATION HIGH WIRE

3. From November 24, 2003 through March 30, 2005, Sigue authorized delegates knowingly accepted and transmitted more than $500,000 of money represented by undercover U.S. law enforcement officers to be proceeds of drug trafficking. The money used in the undercover operations was received by and wired through fifty-nine (59) separate Sigue authorized delegates in twenty-two (22) states.

4. During each operation, undercover agents posed as drug traffickers and approached Sigue authorized delegates in the United States and asked for assistance in sending money to one of seven undercover Mexican law enforcement officers located in Mexico City, Mexico. The undercover agents clearly stated to the authorized delegates that the currency they



Permanent Subcommittee on Investigations
EXHIBIT #18b

wanted to send through the delegates was proceeds of drug trafficking and was being sent as payment to the "source of supply." The undercover agents informed the authorized delegates that they did not want law enforcement to learn of the transactions, and that they preferred not to provide any form of identification or address information. When Sigue authorized delegates requested some form of identification from the undercover agents, the agents produced multiple forms of identification cards, all in different names and bearing obviously different likenesses. The following is a summary of one of the operations, which closely mirrors each of the successful operations:

> On January 10, 2005, a DEA Special Agent, acting in an undercover capacity using an assumed identity, entered the targeted Sigue authorized delegate's store and approached a male clerk behind the counter. The Special Agent asked the clerk how much money he could send to the Federal District in Mexico without showing identification. The clerk responded that he thought the Special Agent could send $700 without identification, but he was not sure. The clerk suggested that the Special Agent use the phone to call Sigue corporate headquarters. The Special Agent told the clerk that he did not want the police or government to find out about the transaction because he had made the money selling marijuana. The clerk told the Special Agent not to worry about it. The Special Agent asked if he could give any name when he conducted the transaction. The clerk told him that it only mattered that the person receiving the money knew which name the Special Agent used when he sent the money so that the receiver could pick up the money. The Special Agent asked if the store would tell the government; the clerk again told the Special Agent not to worry about it. The Special Agent conducted the transaction for $900 and then asked the clerk if he could send $10,000 by dividing it into smaller amounts. The clerk told the Special Agent that he could do so at that location, but that he might need to show identification at other locations. The Special Agent asked the clerk if he could send multiple transfers of under $1,000 in one day. The clerk suggested that if the Special Agent used different names, he could send all the money in one day. The Special Agent told the clerk that he might be back, and the Special Agent left the store.
>
> Two days later, the Special Agent returned to the store and told the same clerk that he wanted to send $11,000. The Special Agent asked the clerk if he should do it by sending various transfers of $950 using different names. The clerk agreed and stated that he didn't believe the other clerk in the store would mind. The Special Agent began conducting the transactions for $950 each. After the second transaction, the clerk expressed concern that if the Special Agent was going to keep sending money from one location to the same person in Mexico that the transactions would be questioned. The clerk said he did not want to get in trouble for what he thought might be money laundering. He suggested that the Special Agent send the money to different people using different names.

The Special Agent conducted another transaction for $950. The clerk told the Special Agent that so long as the Sigue corporate operator was allowing the Special Agent to conduct the transactions, the Special Agent could continue to send money. The Special Agent again expressed concern that the clerk might contact the police, but the clerk assured him that he would not. The Special Agent mentioned again that he was in the marijuana business and that he did not want the government to find out. The clerk agreed. The Special Agent conducted five more transactions, sending $950 each to different receivers in Mexico using different sender names. The clerk signed off on all the transactions and faxed the receipts to Sigue corporate headquarters. During the last transaction, the clerk informed the Special Agent that it would have to be the last transaction because further transactions would cause problems. After that transaction, the Special Agent left the store.

5. In total, undercover agents conducted 84 successful transactions at 59 different locations (24 Sigue authorized delegates properly refused to conduct such transactions). At 47 locations, the undercover agents, with the assistance of the authorized delegates, structured the cash transactions by splitting large cash amounts over $10,000 into several smaller amounts to avoid triggering currency transaction reporting thresholds at the Sigue corporate level. In some instances, the undercover agents asked Sigue operators how much money could be sent without providing identification and the undercover agents stated that they did not have certain identifying information such as an address or telephone number. Each of the undercover transactions were recorded and/or videotaped by surveillance.

6. None of the authorized delegates reported the transactions to law enforcement, as required by the Bank Secrecy Act. At the corporate level, Sigue identified and reported the structured transactions that the agents conducted, but failed to detect and report the broader money laundering scheme and take action to prevent the activity from recurring.

## MONEY LAUNDERING VIOLATIONS BY SIGUE AND ITS AUTHORIZED DELEGATES

7. The 59 Sigue authorized delegates who knowingly accepted and transmitted the money represented by the undercover law enforcement agents to be drug proceeds could be held individually liable for violations of the money laundering laws of the United States. Title 18, United States Code, Section 1956(a)(3) provides severe penalties (up to 20 years incarceration and a $500,000 fine, or twice the value of the property involved in the transaction, whichever is greater) for whoever, conducts or attempts to conduct a financial transaction involving property

represented to be the proceeds of specified unlawful activity (which includes proceeds of drug trafficking), with the intent to (i) promote the carrying on of a specified unlawful activity; (ii) to conceal or disguise the nature, location, source, ownership, or control of property believed to be the proceeds of specified unlawful activity; or (iii) to avoid a transaction reporting requirement under State or Federal law.

8. In addition to the authorized delegates, the government maintains that Sigue could also be held criminally liable for the illegal acts of their authorized delegates. A corporation is deemed to act through its officers, employees and agents, and their conduct will be imputed to the corporation so long as the officers, employees and agents were acting within the scope of their authority and their conduct is beneficial to the corporation. A corporation can be criminally liable for the conduct of any employee regardless of the employee's status or position within the corporation; even the lowest ranking employee may bind the corporation by his acts if they are committed within the scope of employment. Although a corporation is a legal entity and cannot be incarcerated, a financial institution convicted of money laundering violations would incur severe financial penalties and could ultimately lose its licenses to function as a financial institution.

## ANTI-MONEY LAUNDERING COMPLIANCE REQUIREMENTS FOR MSBS

9. Congress enacted the Bank Secrecy Act ("BSA"), 31 U.S.C. § 5311 et seq., and its implementing regulations to address an increase in criminal money laundering activities utilizing financial institutions. Among other provisions, the BSA requires financial institutions to maintain programs designed to detect and report suspicious activity that might be indicative of money laundering, terrorist financing and other financial crimes, and to maintain certain records and file reports related thereto that are especially useful in criminal, tax or regulatory investigations or proceedings. Fundamental laws establishing anti-money laundering obligations of financial institutions in the United States include the BSA; the Money Laundering Control Act of 1986 (codified in relevant part at 18 U.S.C. §§ 1956 and 1957); and the USA PATRIOT Act of 2001, which significantly amended both laws and extended an anti-money laundering program requirement beyond federally insured deposit institutions to all types of financial institutions.

10. Pursuant to Title 31, United States Code, Section 5318(h)(1) and 12 C.F.R. § 563.177(c), financial institutions are required to establish and maintain an anti-money laundering ("AML") compliance program that, at a minimum: (a) provides internal policies, procedures, and controls designed to guard against money laundering; (b) provides for an individual or individuals to coordinate and monitor day-to-day compliance with the BSA and AML requirements; (c) provides for an ongoing employee training program; and (d) provides for independent testing for compliance.

11. Pursuant to 31 C.F.R. § 103.125(a), money service businesses (MSBs) are required to develop, implement, and maintain an effective anti-money laundering program reasonably designed to prevent the business from being used to facilitate money laundering. The program must be commensurate with the risks posed by the location, size, nature, and volume of the financial services provided by the MSB. Additionally, the program must incorporate policies, procedures, and controls reasonably designed to assure compliance with the BSA and implementing regulations. With respect to MSBs that utilize foreign agents or counter parties, the anti-money laundering program must include risk-based policies, procedures, and controls designed to identify and minimize money laundering risks associated with foreign agents and counter parties that facilitate the flow of funds into and out of the United States. The program must be aimed at preventing the products and services of the business from being used to facilitate money laundering through these relationships and detecting the use of these products and services for money laundering or terrorist financing by the business or its agents.

12. The BSA specifically requires financial institutions to file with the Department of Treasury and, in some cases, appropriate Federal law enforcement agencies, a Suspicious Activity Report ("SAR"), in accordance with the form's instructions, when the type of activity described above is detected. See, 31 U.S.C. § 5318(g), 31 C.F.R. § 103.20. According to the form's instructions, Sigue was required to file a SAR with FinCEN, reporting any transaction conducted or attempted by, at, or through the money transmitter, if it involved or aggregated at least $2,000 in funds, and Sigue knew, suspected, or had reason to suspect that:

(i) The transaction involved funds derived from illegal activities or was intended or conducted in order to hide or disguise funds or assets derived from

illegal activities (including, without limitation, the ownership, nature, source, location, or control of such funds or assets) as part of a plan to violate or evade any federal law or regulation or to avoid any transaction reporting requirement under federal law or regulation.

(ii) The transaction was designed to evade any requirements promulgated under the Bank Secrecy Act.

(iii) The transaction has no business or apparent lawful purpose, and the money service business knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction.

## AML / BSA Compliance Violations by Sigue and its Authorized Delegates

13. Sigue filed SAR's on the obviously structured undercover transactions, an indication that its AML systems are functional in at least one key aspect. At the same time, it failed to adequately investigate the structuring activity further and consequently failed to identify, report and prevent the broader pattern of money laundering and to file supplemental SARs. Sigue took no action to block such transactions from continuing to occur (the undercover operation lasted more than 1 year).

14. The investigation into this matter has determined that the primary cause of Sigue's failure to identify, report and prevent the money laundering activity is that, during the time period of November 2003 through March 2005, Sigue's AML program contained serious and systemic deficiencies in critical areas, including:

(i) Inadequate supervision and control of authorized delegates;

(ii) Failure to effectively monitor and investigate high-risk transactions;

(iii) Failure to establish an effective risk-based AML program;

(iv) Failure to exercise sufficient enhanced due diligence for high-risk transactions and customers;[1]

[1] For purposes of this Agreement and Factual Statement, the term "customer" includes any individual who conducts one or more transactions through the MSB as a sender or beneficiary, notwithstanding the lack of an ongoing relationship between the person and the MSB.

(v) Failure to have an effective, on-going training program for authorized delegates;

(vi) Failure to take appropriate action on customers and transactions deemed suspicious; and

(vii) Failure to establish an effective independent review process to test the effectiveness of the AML program.

Some of the key AML and BSA deficiencies of law enforcement concerns were as follows:

Inadequate Supervision and Control of Authorized Delegates

15. Sigue assigns each authorized delegate a risk level, either low, medium, or high, depending on their operating location. High-risk areas generally corresponded with each of the areas designated by law enforcement as High Intensity Financial Crimes Areas (HIFCAs). Based on this classification system, Sigue theoretically would subject the transactions from the high-risk authorized delegates to an enhanced level of scrutiny to determine whether they are suspicious, and would file SARs as appropriate. This investigation found no evidence that Sigue implemented an effective risk-based supervision program for high-risk agents during the time period under review.

16. Sigue conducted only limited independent testing of authorized delegates and was consequently unable to identify widespread and systemic deficiencies in its monitoring and training programs. Between February 24, 2004 and February 26, 2004, Sigue contracted with a private firm to conduct compliance checks, but only at nine separate Sigue authorized delegate locations in California. Even with these, the contract investigator identified himself to the authorized delegate as an investigator acting on behalf of Sigue and asked each individual authorized delegate the same seven questions, as follows:

a. What information are you supposed to collect from a customer who sends a $4,000 wire?

b. What would you do if a customer comes in four times a day and sends $2,500 each time?

c. What would you do if a customer comes in with someone else and you see them splitting up the money so that each of them sends a wire to the same beneficiary?

d. What would you do if a customer who you thought had a low income sends about $5,000?

e. What do you think the risks are if you, the agent, were aware that a customer had money from drug sales and that the same customer was sending the money through you at the agent location?

f. Do you think you have enough training in anti-money laundering?

g. What would you do if a customer placed several wires on the same day under $3,000?

17. Not surprisingly, the authorized delegates who were tested in this manner answered almost all of the questions correctly. Consistently, during the undercover operations, Sigue authorized delegates demonstrated a keen knowledge, not only of Sigue's policies and procedures, but also the money laundering laws of both the United States and Mexico. Yet, law enforcement conducted an historical analysis of the transactions accomplished at those authorized delegate locations and identified widespread and pervasive violations of Sigue's policies and procedures, particularly structuring activities that continued for months, sometimes years. In most of those cases, Sigue filed SARs on the transactions to report the structuring activity, but did not subject those transactions, customers, or authorized delegates to a sufficiently enhanced level of review.

18. Late in 2003, Sigue also began requiring authorized delegates to sign a document, dated November 19, 2003, entitled "Anti-Money Laundering Program," acknowledging receipt of the "Anti-Money Laundering Guide for Money Transmittal Agents of Sigue Corporation." The letter explained that it is was the responsibility of the authorized delegate to appropriately

train each of its employees involved with the money transmittal business on Anti-Money Laundering laws and compliance efforts. This form was printed in both English and Spanish on the same document. In practice, the undercover agents routinely found copies of the money laundering guidelines, but in an unused condition, frequently still in the original packaging and unopened. Although Sigue had a training program for its authorized delegates, many of the authorized delegates or their employees subsequently interviewed said that they had received no training or materials on anti-money laundering.

Transaction Monitoring Deficiencies

19. At the corporate level, Sigue began implementing in 2001 and 2002 a proprietary automated transaction monitoring program that screened financial transactions for numerous categories of suspicious activities based on pre-identified "red flags." The monitoring system dramatically improved the company's ability to identify suspicious transactions and to file SARs with FinCEN.[2] The ultimate failure of the company was less in the design of the monitoring system, but more on the company's failure to adequately investigate flagged transactions further and its failure to take further action against the suspicious activities identified (such as notifying law enforcement directly or banning individuals from sending or receiving money from Sigue).

20. The company's reporting on suspicious transactions that it failed to adequately investigate is evidenced by its filing of SARs on almost all of the undercover transactions to report the obvious structuring, while failing to identify and report the broader money laundering activity. To determine whether the company's failure to identify and report the undercover money laundering activity was an isolated example or whether it was the result of systemic weaknesses within the corporation, investigators analyzed more than $6.07 billion of transactions to determine whether similar cash structuring was prevalent. The result was the identification of more than $47 million of structured transactions (including the undercover sting transactions) that Sigue identified and reported in SARs, but failed to take action to prevent from recurring.

21. To identify the most serious structuring examples, investigators sorted the transactions to select only those cases where one person sent or received more than $50,000 in a

[2] In 2001, Sigue filed only 52 SARs, but in 2002 it filed 1,072, and in 2003 it filed 1,663.

12-month time period through more than one transaction. Sigue claims that more than 90 percent of its transactions are from customers who send approximately $300 twice a month to friends and family members in Mexico ($7,200 annually). Accordingly, investigators reasoned that any person sending or receiving more than $50,000 during a 12-month period would fall outside of the norms associated with Sigue's unique customer base and would be relatively easy for Sigue to detect, identify, report and prevent.

22. The result was the identification of 238 case examples of serious structuring schemes, cumulatively valued at $25.4 million. The least significant of these examples is an individual who transferred, in a 12-month period, $50,640 through 46 transactions, each transaction averaging $1,100. One of the most blatant examples is an individual who transferred, in a 12-month period, $324,091 to 15 different individuals in Mexico, through 370 transactions, each averaging $875, using only two authorized delegate locations. Another individual transferred $224,232 in 80 separate transactions on a 10-month period, with each transaction just under Sigue's reporting threshold of $3,000. Within these case examples, there were occasional instances of structuring, which Sigue adequately reported, but Sigue failed to identify and report the broader money laundering schemes undertaken by these individuals.

Failure to Establish a Risk-Based AML Program

23. Sigue's primary business activity and operating location presents a high-risk of money laundering. Yet no financial institution of substantial size can possibly monitor every single transaction and customer, particularly, in Sigue's case, where the transactions and customers originate from authorized delegates who are far removed from Sigue's corporate operations. To remedy this, MSBs should conduct a formal and detailed risk assessment of each of its products, transactions, services, geographic locations, etc., and then concentrate their AML and BSA resources to specifically monitor and control those areas identified as the highest risk.

24. Sigue conducted a limited risk assessment of its operations and products, but it failed to implement an effective AML program designed to subject its highest risk areas to enhanced monitoring, supervision and control at three critical risk areas: the authorized delegates, the transactions, and the customers.

25. At the authorized delegate level, Sigue identified some authorized delegates as "high risk," yet very little was done to subject those high-risk delegates to any more monitoring, supervision or training than those authorized delegates classified as "low risk." Sigue failed to establish expected transaction parameters and limits for each authorized delegate, and failed to implement a program to subject high-risk delegates to enhanced monitoring for suspicious activity.

26. At the transaction level, Sigue implemented an automated monitoring system that was somewhat effective in identifying "red flags" of suspicious activity. This proprietary monitoring system was most effective in identifying instances of currency structuring. Yet Sigue's process did not include sufficient substantive review of the underlying activity. Sigue conducted some review of transactions associated with the same sender, but no review of transactions for the benefit of a single beneficiary. This failure was exacerbated by Sigue's failure to sufficiently review transactions from related senders or beneficiaries. Consequently, Sigue failed to identify and prohibit the transactions, authorized delegates, and "customers" involved in the undercover operation, which used dozens of different people spread across 22 different states to send structured drug money to a group of seven individuals in Mexico City. Had Sigue implemented a more robust investigative procedure, Sigue could have detected the undercover activity and taken action to report and prevent it.

27. At the customer level, Sigue failed to establish an effective risk-based Know Your Customer (KYC) program. Of course, as an MSB, Sigue operates substantially differently from traditional financial institutions, such as banks. Sigue does not require customers to open "accounts;" there is no application required to use Sigue services; and Sigue does not collect source of wealth information, verify employment, etc. Yet, to avoid potential violations of the money laundering laws of the United States, and the misuse of MSBs by money launderers, Sigue needs to implement enhanced due diligence procedures to collect appropriate information, at least from its highest risk customers and operating locations, so that it may reasonably identify, prevent, and report money laundering activities, as required by the BSA.

28. The traditional Sigue customer sends less than $400 to Mexico several times a month. For these customers, there is very little KYC information that Sigue is required to

collect, under the BSA or the money laundering laws. Yet Sigue, as with all financial institutions, is required to have a SAR program. It is virtually impossible to have an effective SAR program unless the institution also has a KYC program. For MSBs the extent of the KYC information collected should necessarily, and as a practical matter, be risk-based. Sigue should be expected to have very little KYC information for a customer who uses its services to send $400 twice a month to Mexico. However, Sigue and other MSBs should have enhanced due diligence procedures that require them to obtain additional information on customers who do a higher volume of recurrent transactions in significant sums, such as a customer who sends or receives more than $25,000 during any 12 month period. Since these latter customers comprise a small percentage of Sigue's overall customer base (less than 3 percent), Sigue's KYC burden is not overwhelming or unreasonable for these customers. The BSA is intended in almost all respects to help financial institutions comply with the money laundering laws. In order to avoid misuse by money launderers, MSBs may need to implement enhanced AML policies and procedures to fully comply with the money laundering laws and the BSA.

## SIGUE'S REMEDIAL ACTIONS AND COOPERATION

29. Even before learning of this investigation, Sigue had devoted considerable resources to correct and improve the identified BSA and AML deficiencies, agreed to terminate the licenses of the culpable authorized delegates, and implemented procedures to identify, report, and ultimately, block a broader range of suspicious transactions and customers, including the types of transactions identified during the law enforcement operation. As part of that effort, Sigue has:

- made significant investments in developing and implementing its current compliance program and internal controls;
- retained a knowledgeable and experienced staff, with extensive experience in the MSB industry, to oversee its compliance program;
- increased the total number of compliance personnel on staff to ensure adequate personnel are designated for executing the tactical objectives of the compliance program;

- purchased, developed and implemented advanced anti-money laundering systems and software to detect the misuse of Sigue's financial services;

- instituted an authorized delegate risk management department which is responsible for evaluating authorized delegates prior to contract approval;

- implemented policies requiring all authorized delegates to have undergone Bank Secrecy Act training, and developed authorized delegate-specific Bank Secrecy Act/Anti-Money Laundering Compliance Programs required for each prior to activation;

- deployed a significant team of compliance field personnel responsible for auditing authorized delegates' compliance with their Bank Secrecy Act/Anti-Money Laundering Compliance Programs and recommending disciplinary action, up to and including termination, for non-compliant authorized delegate;

- implemented a comprehensive, enterprise-wide employee training program in which all employees receive Bank Secrecy Act/Anti-Money Laundering training at least twice annually;

- retained a competent risk management consulting firm to perform an annual, independent review of the integrity and effectiveness of Sigue's compliance program and related internal controls.

## SIGUE'S CONTINUING REMEDIAL EFFORTS

30. Sigue has cooperated and continues to cooperate with law enforcement and its regulators. Through organizational and program changes, Sigue has shown a commitment to compliance improvements and a dedication to effectively complying with its BSA and AML responsibilities. As part of its continuing efforts to implement an enhanced BSA and AML compliance program, Sigue has committed to the following remedial measures as part of the Deferred Prosecution Agreement:

A. Integrity of Compliance Program and Board Oversight

Sigue will continue to employ a specific individual within its high-level personnel as the Global Compliance Officer who is assigned overall responsibility for the BSA/AML compliance programs. The Global Compliance Officer will be qualified in AML compliance programs, will be delegated day-to-day operational responsibility for compliance, and will report directly to the Audit and Finance Committee of Sigue's Board of Directors. The Global Compliance Officer will be given adequate resources, authority, and direct access to the Board of Directors, and will report on an annual basis to the Board of Directors regarding the integrity and effectiveness of the compliance program.

B. Authorized Delegate Due Diligence

The Authorized Delegate approval process will be assigned to a department which engages in risk management and is independent from the sales and marketing function. Credit and criminal background checks will be run on all owners of Authorized Delegate applicants who own or control at least ten percent (10%) of the Authorized Delegate. Authorized Delegates will also be subject to periodic credit and criminal checks, under appropriate circumstances.

C. Monitoring

Sigue will implement and maintain a transaction monitoring system for the purpose of performing risk-based trend analysis related to sender, beneficiary, originating Authorized Delegate, and paying location transactional activity. The monitoring system will be effected in part through an enhanced identification requirement for senders whose transactions aggregate to $2,000 or more in one day. Sigue will obtain sender's full name and address when sending any transfer (if the sender does not have an address, "none" or a code will be inserted in the appropriate fields) and will conduct an enhanced due diligence review of senders and beneficiaries, and all related persons, transmitting or receiving aggregate amounts more than $25,000 during any 12-month period. Sigue will obtain beneficiary identification information for beneficiaries who receive remittances through Sigue's Mexico-based Authorized Delegates in amounts of $950 or more in a single day and aggregate amounts greater than $2,950 over a rolling five (5) day period.

D. Blocking

Sigue will implement a transaction interdiction system for the purpose of enhancing the functionality of blocking remitters and beneficiaries of money transmittals, as appropriate, including the implementation of enhanced due diligence review procedures to determine whether senders and beneficiaries should be blocked from conducting further transactions where Sigue has filed two or more Suspicious Activity Reports ("SARs") on the senders and/or beneficiaries, or related senders and/or beneficiaries, during any twelve-month period.

E. OFAC

Sigue will implement an OFAC interdiction system that provides for real-time screening of remitters and beneficiaries of money transmittals. Sigue will also periodically screen employees and Authorized Delegates against the OFAC lists.

F. Authorized Delegate Training and BSA/AML Compliance Program Reviews

Sigue will provide BSA/AML training to all new Authorized Delegates before they are activated, and thereafter risk-based BSA/AML training. Sigue will also implement a risk-based Authorized Delegate compliance review program, using dedicated compliance resources.

**From:** David W J BAGLEY
**Sent:** Wed Jul 18 16:52:54 2007
**To:** Warren G LEAMING
**Subject:** Fw: Weekly Compliance Report 02JUL-06JUL07
**Importance:** Normal

—— Forwarded by David W J BAGLEY/HGHQ/HSBC on 18/07/2007 16:49 ——

**Ramon GARCIA/HBMX/HSBC HBMX** 18/07/2007 14:43 **Mail Size: 11818**

To David W J BAGLEY/HGHQ/HSBC@HSBC
cc
Subject Fw: Weekly Compliance Report 02JUL-06JUL07
Entity HSBC Holdings plc - HGHQ

David,

I will discuss the subject below with Warren and John in our Conference Call tomorrow. I would like to let you that the procedure and functions of the money laundering committee (CCC) have been improved in a very important way.

The 2 cases reported at the weekly compliance report is a clear example of the escalation process implemented as one of the learning experiences after [redacted] and other cases.

I understand that the appreciation from GHQ is that the CCC has to resolve and rule about all the cases presented to the attention of the committee but the real situation is that sometimes there are some cases that need to be escalated to the Business Head and CEO for further discussion.

As I told you when you where in Mexico, CCC is a very unique body created by Mexican regulation in order, among other things, to dilute responsibility of MLD obligations between members, giving a very important weight to business opinions because in theory they are the ones that really know the customer. For that specific situation escalation is a key element when MLD has a different opinion that the one from the business about reporting the case to authorities.

I will explain Warren and John tomorrow the different actions plans I am reviewing with John Rendall including the one originated after your visit in order to have better procedures at the MLD function including the CCC.

Regards,

Ramon

—— Forwarded by Ramon GARCIA/HBMX/HSBC on 18/07/2007 08:09 a.m. ——

---

**John F ROOT/HGHQ/HSBC** 17/07/2007 06:16 To Ramon GARCIA/HBMX/HSBC@HSBC

Permanent Subcommittee on Investigations
EXHIBIT #19

Redacted Material
Confidential - FOIA Treatment Requ

a.m.

cc Susan A WRIGHT/HGHQ/HSBC@HSBC, Warren G LEAMING/HGHQ/HSBC@HSBC, David W J BAGLEY/HGHQ/HSBC@HSBC

Subject Fw: Weekly Compliance Report 02JUL-06JUL07

Ramon,

A number of items jump out from your most recent weekly report (02JUL-06JUL) but everything pales in comparison with the ML items on page 4. It looks like the business is still retaining unacceptable risks and the AML committee is going along after some initial hemming and hawing. I am quite concerned that the committee is not functioning properly. Alarmed, even. I am close to picking up the phone to your CEO.

[redacted] looks like another [redacted] type of situation -- what on earth is an "assumption responsibility letter" and how would it protect the bank if the client is a money launderer? Please note that you can dress up the USD10 million to be paid by one of [redacted] partners to the US authorities as an "economic penalty" if you wish but a fine is a fine is a fine, and a hefty one at that. What is this, the School of Low Expectations Banking? ("We didn't go to jail! We merely signed a settlement with the Feds for $ 10 million!") I just loved the last sentence of the paragraph: "This information is expected to be spread by mass media." Isn't that just *great*?

So, [redacted]s strike one. [redacted]s strike two. Let's now look at strike three. (I hope you like baseball.)

The same person who is giving the sacrosanct "assumption responsibility letter" for [redacted] (Jose Manuel Dominguez, DGA-CMB) is being asked by the CEO to explain why he retained the [redacted] relationship after USD11 million was seized by the authorities in [redacted] account with Wachovia in Miami. What?! The business was *okay* with this?

The AML committee just can't keep rubber-stamping unacceptable risks merely because someone on the business side writes a nice letter. It needs to take a firmer stand. It needs some *cojones*. We have seen this movie before, and it ends badly.

Regards,

John Root

---- Forwarded by John F ROOT/HGHQ/HSBC on 17/07/2007 11:46 ----

**Ramon GARCIA/HBMX/HSBC HBMX** 14/07/2007 00:58 Mail Size: 158258

To Warren G LEAMING/HGHQ/HSBC@HSBC, John F ROOT/HGHQ/HSBC@HSBC

cc Laura YESIN/HBMX/HSBC@HSBC

Subject Weekly Compliance Report

Entity HSBC Holdings plc - HGHQ

Warren, John,

Please find enclosed Weekly Compliance Executive Report for the period from 02JUL07 to 06JUL07.
[attachment "Weekly 26 07 sum.doc" deleted by Ramon GARCIA/HBMX/HSBC]
Regards,

Ramon

[redacted]

Paul A THURSTON to: John R RENDALL 07/27/2007 01:52 AM
Cc: Ramon GARCIA, Leonardo ARANA, "Jose Manuel Dominguez"

John,

On the evidence of the papers that you have provided to me, I agree that the quality of the information provided by CMB does not give any comfort that they have rigorously reviewed this case - they seem to have focused on managing out the credit risk, but without considering the reputational risks.

On this basis, I support in principle the recommendation to close the account.

However, it has to be noted that it would be a sensitive message to send, to say that we are not prepared to deal with a company that is regulated by CNBV, as this could be embarrassing for them if it became public, which is always possible. I think we should therefore have a private conversation with CNBV in the first instance, to advise them of our intent and the potential reputational risks for them, and seek their "no objection" to our action.

Please can you arrange for this to be done, and then revert to me.

Thanks

Paul

John R RENDALL
—— Original Message ——

From: John R RENDALL
Sent: 07/25/2007 08:11 PM CDT
To: Paul A THURSTON
Cc: Ramon GARCIA; Leonardo ARANA
Subject: Fw: [redacted]

Paul,

This is the second case from CCC requiring escalation.

In this case I recommend that we support the CCC closure recommendation.

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.

Unlike the other case, this is a Mexican-regulated institution.

The only caveat to this recommendation is that I suggest Ramon liaise with his US counterpart as I believe that there is a relationship there also.

John R RENDALL
DGA de Operaciones y Administracion | HSBC Mexico SA
Paseo de la Reforma 347 Office 21
Col. Cuauhtemoc, 06500 Mexico D.F.

Phone. 00 52 55 5721 2889
Fax. 00 52 55 5721 2922
Email. John.R.RENDALL@hsbc.com.mx



Permanent Subcommittee on Investigations
EXHIBIT #20

Redacted Material
Confidential - FOIA Treatment Reque

---- Forwarded by John R RENDALL/HBMX/HSBC on 25/07/2007 08:05 p.m. ----

Antonio M CRUZ/HBMX/HSBC HBMX

24/07/2007 01:02 p.m.
Mail Size: 2007985

To John R RENDALL/HBMX/HSBC@HSBC

cc luis.vega@hsbc.com.mx, fanny.bledi@hsbc.com.mx, madala.angeles@hsbc.com.mx

Subject Fw [redacted]

Entity HSBC Bank plc - MOBK

John:

In response to the e-mail sent to Luis Vega (he is on vacations) last Friday with respect to [redacted], we comment the following details:

1.- Attached to this e-mail please find the legal actions that [redacted] has taken to this date:

- Petition for Return of Seized Funds [redacted] has the complete document which contains more than 35 pages. If you need it let us know

[attachment "Peticion de devolucion de fondos retenidos Corte Civil.pdf" deleted by Paul A THURSTON/HBMX/HSBC]

- 2 Notices of Seizure [redacted] from the US Department of Justice Drug Enforcement Administration to [redacted] These are the missing documents in Luis Vega's e-mail .

[attachment "NOTICE OF SEIZURE.pdf" deleted by Paul A THURSTON/HBMX/HSBC]

- 2 Letters contesting the forfeiture of the seized property and 2 Certificates of Acknowledgement of Execution of an Instrument issued by the US Embassy in Mexico.

[attachment "Certificate embassy [redacted] pdf" deleted by Paul A THURSTON/HBMX/HSBC]

[attachment "Certificate embassy [redacted] .pdf" deleted by Paul A THURSTON/HBMX/HSBC]

[redacted] General Manager told us that they will not take any legal action vs Wachovia Bank before knowing a District Court's resolution

2.- [redacted] suggested to the Compliance Comittee to keep operating with [redacted] supported by the arguments established in the Luis Vega's mail (word document). As [redacted] mentioned, the credit facilities were cancelled. The business operations that the bank is doing now with [redacted] are: draws and deposits from and to its checking accounts; and, currency exchange transactions DVP.

Besides, [redacted] suggested to the Compliance Comittee to inform to the mexican financial authorities about the [redacted] situation regarding the seizure of funds at Wachovia Bank.

3.- [redacted] considers this event as a low reputational risk operation due to [redacted] has had an excellent experience at the financial market in the past 22 years. It is a regulated entity by the CNBV



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

which has met all the authorities requirements, mainly, in the illicit transactions issues. By the other hand, [redacted] seizure of funds was originated by an specific operation (if it is true) which does not involve the whole company.

If you need more information please let us know

Antonio Cruz
Director Regional
Región SUR

---- Forwarded by Antonio M CRUZ/HBMX/HSBC on 24/07/2007 11:53 a.m. ----

Luis VEGA/HBMX/HSBC
20/07/2007 07:09 p.m.

To antonio.m.cruz@hsbc.com.mx, Fanny BLEDL/HBMX/HSBC
cc
Subject Fw: [redacted]

Esto es lo que hay que contestar..

**Luis VEGA**
Director Ejecutivo Región Sur | HSBC México
Av. Tezistán Sur 103 Col. La Paz
C.P. 72160 Puebla, Pue.

Phone. (52-22) 2225-9801
Fax. (52-22) 2225-9505
Email. Luis.Vega@hsbc.com.mx

---- Forwarded by Luis VEGA/HBMX/HSBC on 20/07/2007 07:07 p.m. ----

John R RENDALL/HBMX/HSBC

20/07/2007 11:28 a.m.

To Luis VEGA/HBMX/HSBC@HSBC
cc
Subject Re: Fw: [redacted] Link

Luis,



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

This is helpful but I would appreciate further details of:-

1. [redacted] position wrt Wachovia actions. What is their defence t othese charges and ghow do they plan to pursue that defence.
2. You state that [redacted] has taken protective measures to keep operating with [redacted] without any direct credit risk". My principal interest here is in Compliance risk and reputational. Please explain in detail how you are managing these risks.
3. Your document refers to an attached legal document which is missing. If this is relevant, please forward.

Thanks

John R RENDALL
DGA de Operaciones y Administracion | HSBC Mexico SA
Paseo de la Reforma 347 Office 21
Col. Cuauhtemoc, 06500 Mexico D.F.

Phone: 00 52 55 5721 2899
Fax: 00 52 55 5721 2922
Email: John.R.RENDALL@hsbc.com.mx

Luis VEGA/HBMX/HSBC
HBMX

20/07/2007 10:46 a.m.
Mail Size: 33511

To John R RENDALL/HBMX/HSBC
cc
Subject Fw: [redacted]

John I am sending you an attach with information about [redacted] as you required.

regards

Luis VEGA
Director Ejecutivo Región Sur | HSBC México
Av. Tezlutlán Sur 103 Col. La Paz
C.P. 72160 Puebla, Pue.

Phone: (52-22) 2225-9601
Fax: (52-22) 2225-9605
Email: Luis.Vega@hsbc.com.mx



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

From: Michael F GEOGHEGAN
Sent: 23/10/2007 13:55 GDT
To: Z J CAMA
Subject: Fw: CNBV Inspection

Zed

For your eyes only at this time

Mike

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

----- Original Message -----
From: Michael F GEOGHEGAN
Sent: 23/10/2007 08:43 GDT
To: Paul A THURSTON
Cc: Stephen GREEN; Matthew J W KING
Subject: Re: CNBV Inspection

Dear Paul

This is disturbing and clearly we will need to look at the management structure and practices. Would these views from CNBV be shared by our Internal Audit locally?

We should wait to see what the official letter says but it will be hard to impress on management the need for a change of direction if you are not allowed to use the content of your meeting.

I am copying this to the Group Chairman and Matthew King for their information

Best wishes

Mike

Permanent Subcommittee on Investigations
EXHIBIT #21

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

---

---- Original Message ----
From: Paul A THURSTON
Sent: 23/10/2007 02:18 CDT
To: Michael F GEOGHEGAN
Subject: CNBV Inspection

Mike,

At their request, I met today with the Head of Banking Supervision, and the Supervisor for HSBC, from our regulator, the CNBV, following their on site examination of various aspects of our business, including cards, money laundering and treasury operations. Although they have had closing meetings with the respective departments, they asked to meet with me alone, on a strictly private and confidential basis.

They walked me through a presentation packwhich firstly set outspecific points that had arisen during their inspection, but then moved on to more general concerns of the CNBV with HSBC in Mexico. These centred on:

-weaknesses in internal controls which they saw in several areas of HSBC, citing evidence of the level of credit card frauds, numbers of customer complaintsto the bank and to the banking ombudsman, customer concerns that staff in branches do not have appropriate training and qualifications, frequency of IT failures,and slow progress in tackling KYC data problems and anti money laundering procedures.

- corporate culture, where they comment that since the purchase of Bital, HSBC has driven growth in credit products and launched new products without adequate controls.They acknowledged the addition of new senior executives including the CFO and COO, and they welcomed these, but they are concerned that some areas of the business have not changed at all in mentality, or approach, despite the changing nature of the business, and some lower level staff have not been adequately trained to deal with the business now being undertaken. They implied that they considered that we were still running parts of the bank as if they were still Bital, despite the new ownership and the change in busines sprofile.

They also expressed concerns at senior management having dual responsibilities for Mexico and the region, stating that "there are many concerns on how management will be able to implement strong controls within the bank in Mexico, while keeping an eye on other countries".

Their final slide reads as follows:

"REQUIREMENTS

As a result of the concerns pointed out, the CNBV needs the senior level commitment to solve the problems stressed. In order to do that, HSBC needs to set corrective programmes. These actions should include the following:

- set strong internal controls in key business and operational areas

- adopt measures to stop frauds, reduce clients's complaints and improve the level of service, to reduce reputational risk

- establish the necessary actions to improve IT performance and avoid technological risks caused by systems break down

- manage an effective culture of change

- avoid sharing senior officers responsibilities with LATAM

- set effective measures regarding money laundering issues

- avoid taking excessive credit risks in the credit card portfolio and set actions to assess this risk in an adequate manner"

They have told me that their presentation pack is for my eyes only, and not to be shared with others in the bank, probably recognising that CNBV do not want to be seen to be getting actively involved in issues that touch upon the people in the bank. They will issue a normal management letter in due course, without includingsome of the more sensitive areas, but they wanted to bring these to my personal attention to let me know of their concerns.

I indicated to them we were aware of these issues and were progressively tackling them. I advised them of the new appointments of an experienced Head of consumer risk with experience in Asia, who arrived a couple of weeks ago, and anew Head of card Fraud from GMO who arrived yesterday, the help we had sought from Ken Harvey to review the robustness of the IT operations and the planned internal audit of IT in November, and the major programme of customer file centralising and imaging which would give us more robust KYC data for anti-money laundering. I talked about thechanges we are making to split Regional from Mexico responsibilities in areas such as CIBM, IT, Risk and Audit, but they advised that their specific concern here was with PFS, and I indicated that they could also expect changes in this area in the near future.

I said thatwe were embarked on changing the business models of the bank, and bringing to specialist expertise, but that culture change would not happen over night. However, I believed that the infusion of new management, combined with changes we were planning to incentive schemes to put more emphasis on customer satisfation and business quality would help push the bank in the new direction. I commented that we have a young staff, and while they lacked experience, I was confident that if we were clear in our business direction to them, and gave them appropriate training, and measures, we could make real progress.

I told them that I welcomed their coming to see me, and that we would respond positively to the management letter, when it arrives, and that I would also meet up with them again to update them on progress with the issues not covered in the management letter.

They indicated that this was what they wanted to hear.and that they would report back positively to Guillermo Babatz, the Head of the CNBV.

I took the opportunity to remind them of the issues that I had raised with them and Babatz two months ago on the PTU (profit sharing tax), where Bancomer and Banamex had been allowed to take action to avoid payment, and they acknowledged that wewould also have to take action if we were to remain competitive, andthey indicated that while they didn't like it, they would not object provided that our solution was within the existing laws and regulations.

I will follow up on all of these points, but thought that you should be aware.

Regards

Paul

**From:** Susan A WRIGHT
**Sent:** Fri Nov 16 15:59:21 2007
**To:** Warren G LEAMING
**Cc:** David W J BAGLEY
**Subject:** Mexico
**Importance:** Normal

Warren,

I believe you are visiting Mexico shortly.

One of my action points from the Conference is to follow up with Ramon GPP 25 application in Mexico (and elsewhere within Ramon's area of responsibility). As you will no doubt recall GPP25 is know perhaps more fondly across the Group as "Two strikes ( NOT 2 5ti) and out". At the conference Ramon mentioned that there are numerous cases of accounts with multiple SARs (16 in one case!!) in Mexico that remain open. I would be grateful if you could follow up on this during your visit. Happy to discuss.

Thanks

Regards Susan

Permanent Subcommittee on Investigations
EXHIBIT #22

**From:** John F ROOT
**Sent:** Thu Dec 06 16:01:10 2007
**To:** Warren G LEAMING
**Subject:** Fw: Warren Leaming HBMX DEC Visit Issues
**Importance:** Normal

Re-send.

---- Forwarded by John F ROOT/HGHQ/HSBC on 06/12/2007 16:00 -----

John F ROOT/HGHQ/HSBC HGHQ 16/11/2007 10:27 Phone No . 7992 5555 +0044 (207) 7992 992 5555 Mail Size: 3356

| | |
|---|---|
| To | Warren G LEAMING/HGHQ/HSBC@HSBC |
| cc | David W J BAGLEY/HGHQ/HSBC@HSBC |
| Subject | Warren Leaming HBMX DEC Visit Issues |
| Entity | HSBC Holdings plc - HGHQ |

Warren,

I am keeping a running list of issues that you might want to raise during your December visit to HBMX. If you or David would like to add to the list, please let me know.

The list below is only partial, and I am constantly adding to it. There is of course overlap with David's visit recommendations.

Worse annual "31-point" Central Bank (Banxico) inspection of HBMI than last year's. Why have Treasury operations deteriorated?
Resourcing, especially Regional head vs. Mexico head; CIBM; and MLRO)
Sinaloa massive money-laundering scheme (+ USD 100 million)
Regional integration, e.g. Honduras, Panama reluctant to accept CMP requests from Mexico, monitoring, etc.
Clean-up of HBMX Trusts backlog
Smooth, independent functioning of HBMX MLD committee
CIBM HBUS Venezuelan business through Panama
Banistmo business in regulatory and tax havens
Relations with Legal, Audit, senior management, regulators (Mexico and Central America)
AML systems integration (Mexico and Central America)

---

Regards,

John Root

Permanent Subcommittee on Investigations
EXHIBIT #23

**GROUP AUDIT MEXICO**
**AUDIT REPORT SUMMARY SCHEDULE**
**GHQ REPORTABLE AUDITS**

| Name of Audit | HBMX – MONEY LAUDERING DETERRENCE (MLD) | | | Region: Mexico |
|---|---|---|---|---|
| Business or Customer Group | Central Support High | | Audit Committee | HBMX |
| | Date | Inherent Risk | Control Risk | Overall Risk |
| This Audit | DEC07 | High | Below Standard | High |
| Last Audit | N/A | N/A | N/A | N/A |

**Nature of Business**
The areas involved in the process (business lines) are responsible for applying MLD processes defined and issued by Local MLD Department on: KYC (Know your Customer), files integration, proper input of customers' information in the system, validation of alerts sent by the DPLD and effective response thereto.
Due to the foregoing, this review was oriented to review DPLD operations, yet it covered a number of areas involved in the detection of ML activities and compliance with governing laws and regulations.

**Conclusion of Audit**
Main control weaknesses identified during the audit were as follows:

KYC
- Regulatory breaches in KYC issues such as the large number of incomplete client files and the inadequate process of SCC identification and monitoring across the network.
- HBMT has been given an extension by the Regulator from May 07 to May 08 to ensure that a portion of the client files (known as the UBA project-about 1.8m customers) are completed. Due to our concerns with the reliability of the system used to measure this process is unclear on exactly where the bank is in relation to being able to meet this deadline.
- As at May 07 HBMI had advised the Regulator we were at 86% whereas all audit samples both in this audit and the regular branch audits conducted over the year give a much lower percentage. The latter number is hard to extrapolate from a sample basis but is as low as 46% of file integration, meaning the job in hand to reach 100% in 6 months is very challenging.
- The UBA number excludes the almost 6 million other clients the Group has in Mexico which are subject to HSBC 's own MLD policies, where sampling also gives a similar low number of complete files. As this problem had been identified some months ago the COO was appointed to oversee and coordinate a task force to manage this matter, further details appear in the report.

Delays in reporting
- Delays in reporting unusual transactions to the Regulator due to increased number of cases to be sanction by the AML Committee and slow decision-making in the process.

Systems and Tools
- Lack of sufficient understanding of the IT processes and tools necessary to enhance MLD activities and capacity as evidenced by the lack of a reliable system to track client files integration, inadequate ability to screen black lists and inadequate monitoring SCC/PEP's etc.

Training
- We also noted the need to re-assess the overall approach to MLD training as a result of failures regularly identified in branch audits, and the need to upgrade several of the IT systems in use to ensure better control over both Regulatory and Group policies and procedures.

To ensure that there is one overall integral approach to resolve the issues, in view of the number and in many cases seriousness of the weaknesses identified, we would recommend the creation of an Oversight body, possibly a HBMX Money Laundering Committee, to implement both a short and longer term plan to ensure that the issues raised in this report can be fully addressed. This body will need to have sufficient empowerment and proactivity to drive through some of the measures needed to comply with both local and Group policies and procedures, especially in the time periods involved.

**Response from Management**
The first response to the audit is due on 17JAN08



Permanent Subcommittee on Investigations
EXHIBIT #24

Confidential - FOIA Treatment R

From: David W J BAGLEY
Sent: Fri Jan 30 08:02:44 2009
To: Susan A WRIGHT
Subject: Re: US Issues - Various
Importance: Normal

Susan,

An obvious learning point for HBMX is that if they were contacted by US authorities then they should have thought to advise HBUS. They can go round the web, not just through the middle of the web.

Regards

Permanent Subcommittee on Investigations
EXHIBIT #25

From: TERESA PESCE/HBUS/HSBC
Sent: 12/15/2006 9:59:00 AM
To: ELIZABETH PROTOMASTRO/HBUS/HSBC@HSBC
CC: ANNE LIDDY/HBUS/HSBC@HSBC;DONALD W MCPHERSON/HBUS/HSBC@HSBC;GRACE C SANTIAGO-DARVISH/HBUS/HSBC@HSBC;
JOHN ALLISON/HGHQ/HSBC@HSBC
Subject: Re: OFAC - Wire payments blocked from HSBC offshore entities - USD 32,000 (re SDGT) and USD 2,538,939.33 (re Sudan)

How is it that these payments continue to be processed by our affiliates in light of the GCLs?

---

Teresa A. Pesce
EVP/Managing Director
Anti-Money Laundering Compliance
HSBC North America Holdings
452 Fifth Avenue
New York, NY 10018
ph - (212) 525-6099
fax- (212) 525-5769

Elizabeth Protomastro/HBUS/HSBC
12/14/2006 06:02 PM

To
John ALLISON/HGHQ/HSBC@HSBC
cc
Teresa Pesce/HBUS/HSBC@HSBC, Anne Liddy/HBUS/HSBC@HSBC, Grace C Santiago-Darvish/HBUS/HSBC@HSBC, Donald W McPherson/HBUS/HSBC@HSBC
Subject
OFAC - Wire payments blocked from HSBC offshore entities - USD 32,000 (re SDGT)
and USD 2,538,939.33 (re Sudan)

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: 000054356, HBME Ramallah Br., Ramallah Palestine
Credit: JP Morgan Chase, Tampa, FL
3rd party: Arab Jordan Investment Bank S.A., Amman, Jordan
ORG: HBME, Ramallah, Palestinian Territory, Occupied
BBI: Acc/For further credit to Palestine Investment Bank Head Office Ramallah branch account 6171 for further credit to Al Aqsa Islamic Bank
USD 32,000.00

Note that Al Aqsa Islamic Bank was designated by OFAC on 4-Dec-2001 as a "specially designated global terrorist". The press release from Treasury stated that it is a "direct arm of Hamas, established and used to do Hamas business." Below are links to the press releases.

http://ustreas.gov/press/releases/po837.htm

http://ustreas.gov/offices/enforcement/ofac/actions/20011204.shtml



Permanent Subcommittee on Investigations
EXHIBIT #26

Confidential - FOIA Treatment Request , Inc. HSB03793250
Confidential - FOIA Treatment Request HSBC OCC 3407608

**From:** Matthew J W KING
**Sent:** Fri Feb 22 17:55:16 2008
**To:** "Paul A THURSTON"; Graham THOMSON
**Cc:** "Richard E T BENNETT"; David W J BAGLEY
**Subject:** CNBV
**Importance:** Normal

This was the note I was thinking of sending to Mike - a bit of a brain dump and not fully up-to-date or polished but I thought I would send it to you as is because it might help focus the call we are due to have later.

"Mike,

My perspective on these issues from my discussions with Paul Thurston, Graham Thomson and Chris Bentley is as follows:

The issues raised by CNBV appear to be pretty similar to those raised previously with Paul. However, whereas the CNBV previously seemed broadly happy with our remedial action plans, they have suddenly become more aggressive, Whether this is because of political pressure, the FIU suddenly raising significant concerns (which perhaps the CNBV thinks reflects poorly on them), it is difficult to say.
One theory about the FIU is that they are reacting to our refusal to reimburse a public utility (which also ultimately reports into the Ministry of Finance) for a large internal fraud, effected through our Internet services. [redacted]ut the CNBV has raised concerns about our security arrangements and the matter has now been mentioned to us by the FIU. Whatever the truth of this, it is also the case that [redacted]about dealing with them. Hence any AML weaknesses may well be treated similarly.
The 'evidence' obtained from the FIU does not seem very earth-shattering. There is nothing I have heard which could not equally be put down to carelessness or common mistake (I am not excusing this you understand). However, the necessary investigation work is still underway.
There are areas of known weakness which management have been addressing but where we now need to revisit the current strategy:
Moneylaundering - This area was rated as Below Standard on a Q407 audit and work has been underway since then to address the weaknesses. The Chief Moneylaunderiing Officer is being replaced, albeit the FIU apparently regard him as trustworthy - management are well-aware that his departure will therefore have to be carefully explained. Various processes are being enhanced. David Bagley is proposing to send in Warren Leeming as a temporary measure to ensure these are now treated as matters of utmost urgency.
KYC - My area of biggest immediate concern - this has been a systemic issue for some time. Enhanced regulations were enacted a few years ago and implementation of these has proved problematic for HBMX. One particular problem has been the requirement to undertake visit reports for every new customer at their home/business address. Perhaps because of the extended HBMX branch opening hours this has proved particularly difficult for the branches to achieve. It also inhibits centralisation of the account opening process which has been one of the key solutions to similar problems elsewhere. We (audit) and the CNBV have both identified a very high rate of exceptions (around 50%) to the process, though this level is disputed by the business. A pilot scheme has been running since Q307 to use imaging (and hence assist centralisation). However, I now gather Audit is continuing to identify a high level of exceptions for that process also (around 30%).
Given the concerns now raised by the CNBV and FIU (which apparently includes tapes of a drug lord recommending HBMX as the place to bank) we now have to decide:
whether the imaging process can be made to work to everyone' satisfaction.
how quickly it can be rolled our across the whole network.


Permanent Subcommittee on Investigations
EXHIBIT #27

in the meantime, whether we can continue to open accounts using the old, flawed process.
It sounds unlikely that we will be able to meet a deadline of MAY08 to obtain satisfactory KYC on the 1.8 million customers identified as high risk. I am now not clear whether the CNBV will accept a further delay - the previous indications were that they were pretty relaxed.
Documentation - This has been a problem since we brought Bital. I am aware the old storage depots have been replaced, but I am advised the processes are still a mess. Sorting this out needs to be handled as a specific project. It may be worth asking Ian Macalister to run this. He is an IM currently with CMB in NY who previously had reponsibility for sorting out a documentation problem in the trust business in Mexico.
Reporting to the FIU - We apparently route responses through a law firm. It is not clear why or indeed whether this is sinister or just inefficient. However, it does seem that incorrect evidence has been provided via this law firm. There is a very high volume of informational requests but we need to ensure these are handled with due care.
Management Stretch- the CNBV has again raised the appropriateness of allocating regional responsibilities to HBMX management. It may be that you are already close to sorting this out.

Cross-border cash: the trends in this activity still need to be clarified by HBMX but as I read the report the US authorities have a general concern rather than a specific one about us, and CMP last year identified and acted on a cambio which has just been closed down by the authorities. We can therefore show some successes.

I hope this is helpful background (though a bit long). If you wish to discuss please call me on my mobile [redacted] - I will be in France for the weekend but please feel free to phone at anytime. I have not copied HBMX though the points raised have all been discussed with Paul, Graham and Chris.

Regards,

Matthew King

[redacted] = Redacted by the Permanent Subcommittee on Investigations

**********

HSBC Holdings plc
Registered Office: 8 Canada Square, London E14 5HQ, United Kingdom
Registered Number 617987

**********

Re: [redacted]
Paul A THURSTON to: John R RENDALL 02/08/2008 01:30 AM

John,

I am out of the office tomorrow, but think we should respond to Group on this by the end of the week - would it be possible for you to finalise your discussions with Ramn and revert direct to Bagley, on my behalf?

Thanks

Paul

John R RENDALL/HBMX/HSBC

[redacted]
John R RENDALL/HBMX/HSBC
04/02/2008 07:40 p.m.

To Paul A THURSTON/HBMX/HSBC@HSBC
cc "Ramon Garcia Gibson" <ramon.garcia@hsbc.com.mx>
Subject Re: [redacted]

This was one of the two cases that we referred to you a couple of months back - the other was [redacted]

Our recommendation, which you supported, was to maintain this relationship. It was based on the following factors:-

A) our CMB team in Tijuana were relatively on top of the case

B) the events for which [redacted] have been fined were relatively historic - from memory, 2-3 years ago, and significant improvements had been made since then.

Ramon visited the customer personally in December and was happy to support the continuation of the relationship.

I will discuss the specifics raised in Susan's email with Ramon tomorrow and revert.

By way of contextual info, we are under some informal pressure from CNBV to maintain quality [redacted] type business relationships at present.

All in all, I would suggest that we do an industry policy review for agreement. Ramon shoud lead but draw on CMB and CIBM input too.

John

Paul A THURSTON
---- Original Message ----

From: Paul A THURSTON
Sent: 02/04/2008 01:24 PM CST
To: John R RENDALL
Subject: [redacted]

John,



Permanent Subcommittee on Investigations
EXHIBIT #28

Redacted Material
Confidential - FOIA Treatment Reque

Please can you let me know what the situation is here.

Thanks

Paul
David W J BAGLEY
—— Original Message ——

From: David W J BAGLEY
Sent: 02/04/2008 04:46 PM GMT
To: Paul A THURSTON
Subject: [redacted]

Paul,

I have been copied in on the attached note from Susan Wright to Ramon which covers a number of issues but in particular the situation re [redacted] whom I am advised is a customer of Mexico CMB. Also attached is a Complinet article which summarises the background to the US federal sting operation and the US Department of Justice's record fine.

I am not sure whether this relationship has been referred to you for consideration. We have previously recommended closure of the relevent accounts. I understand, however, that in spite of the seriousness of this case and the issues involved, CMB is proposing to retain this relationship. There are a number of aspects which give rise to concerns:-

- MSBs are inherently high risk given their vulnerabilities in relation to money laundering and more recently terrorist financing. For this reason since 2000 the Group has included MSBs within the SCC policy [illegible] consequently should only entertain relationships with well regulated MSBs with a strong [illegible]ndering culture and controls.

- [illegible]ged with operating an MSB with a deficient AML programme which has resulted in [illegible]nd systemic violations and a record fine by the US authorities. In particular the case demonstrates that it has had little control over its numerous agents. Whilst the company will now need to take steps to address these deficiencies this will inevitably take some time, and instilling the appropriate culture within the business even longer.

- I am not clear as to how the accounts maintained with us operate and if indeed we are able to [illegible]ctivity [illegible]tively. If we receive transactions which reveal the name of the remitter and [illegible]ciary [illegible] we would be able to screen names against sanctions/terrorist lists and we may also [illegible]o monitor transactions for certain patterns, although of course this is by no means fou[illegible]. The enhanced controls we will need to introduce will represent a significant cost in term[illegible]time and resources. If, however, we receive batched transactions then we are heavily reliant on the MSB for screening/monitoring purposes.

- We have been advised that we are not [redacted] only bankers in Mexico. It is possible that a number of the other banks may now be considering terminating their relationship, given the seriousness of this case, which may lead to an increase in the volume of transactions seen through any remaining bank/s, increasing the risk even further.

I would of course be pleased to discuss further with you but given the above and the potential risk to the Group, not only in Mexico but also the US, I would strongly recommend that any decision to continue with this relationship should be reconsidered.

Kind regards David

[attachment "compline(2).pdf" deleted by John R RENDALL/HBMX/HSBC]



Redacted Material
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.
HSBC OCC 8875140

[redacted]

Susan A WRIGHT/HGHQ/HSBC HGHQ

01/02/2008 10:24
Phone No. 799 25554
+44 (0) 20 7992 5554
Mail Size: 4773

To: Ramon GARCIA/HBMX/HSBC@HSBC

cc: Warren G LEAMING/RLA LGA MEM/HBME/HSBC@HSBC, John F ROOT/HGHQ/HSBC@HSBC

Subject:

Entity: HSBC Holdings plc - HGHQ

Ramon,

Ramon,

Good to talk to you yesterday. I thought it would be worthwhile following up on a number of issues we discussed yesterday:-

- Embassy Controls - I would recommend that you liaise with Anne Liddy re the introduction of appropriate controls for managing embassy/consulate accounts. Please make this a generic enquiry (i.e. do not refer to any specific embassies). You may initially wish to pick up the phone to Ann but she will certainly be able to provide you with copies of appropriate profiles and supporting procedures/controls.
- [redacted] if the business wishes to maintain this relationship then, as previously mentioned, these accounts/transactions will need to be closely monitored and subject to frequent reviews (recommendation should be for quarterly reviews in current circumstances). The actions by the US regulator should be used as a trigger event and our due diligence on this client updated. In this connection the high risk profile that is in place for Financial Institutions should be used. Please let me know if you need a copy of this. This profile asks for details of the FI's AML controls, due diligence and screening. With regard to screening I am not aware as to what type of transactions we see and in what currency. Do we see individual transactions where the underlying remitter/beneficiary are named and, if so, do we screen these? If we only see batched transactions then we are relying on the screening undertaken by [redacted] It would be helpful to understand the nature of these transactions and currencies involved - could you provide me with an overview? We should also monitor the volume - you mentioned that we are not [redacted] only bankers in Mexico. If, however, any of the other banks withdraw then we may well see the volume of transactions through us rise and our exposure/risk will increase with a corresponding increase in the cost of monitoring etc.
- CAMP Governance documents - I have sent you these under cover of a separate email
- HSBC El Salvador - I have sent you a separate note on this re a review of the cross border remittance business with Bancasol and 3rd parties.

Please let me know if you need anything from me or if you have any queries.

Regards Susan



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

Susan;

Obvious question — I assume they are not our customers

complinet

# Money laundering 'sting' led to MSB's record penalty, says legal pact

Jan 29 2008 Brett Wolf

California-based money transmitter Sigue Corporation has agreed to forfeit $15m and spend $9.7m on anti-money laundering compliance this year to settle US Department of Justice charges that it operated with a deficient AML program. Sigue's woes stem from the fact that dozens of its agents were snared by a federal sting operation dubbed "Operation High Wire," according to the deferred prosecution agreement, or DPA, released on Monday and obtained by *Complinet*.

This record-setting Bank Secrecy Act penalty — the largest ever suffered by a money services business — was well earned, according to the DPA. Still, the agreement states that the government will recommend the dismissal of the charge against Sigue in 12 months if the firm takes the agreed remedial action and does not violate the terms of the DPA.

"The violations at Sigue were serious and systemic, and allowed tens of millions of dollars of suspicious financial transactions to be conducted through Sigue, including transactions involving funds represented by undercover US law enforcement agents to be drug proceeds," according to the DPA, which *Complinet* heralded in an earlier article.

The DPA alleges that Sigue, an international money remittance company that specializes in transfers to Mexico, violated the Bank Secrecy Act, Title 31 USC Section 5318(h)1 and 5322(a). According to the DPA's statement of facts, these BSA violations occurred between November 2003 and March 2005 and involved Sigue money transmitting agents, most of which were "mom and pop" shops.

"Sigue authorized delegates knowingly accepted and transmitted more than $500,000 of money represented by undercover US law enforcement officers to be proceeds of drug trafficking. The money used in the undercover operations was received by and wired through 59 separate Sigue authorized delegates in 22 states," the DPA stated.

## 'Drug money' flows to 'source of supply'

According to the DPA, undercover officers approached Sigue agents and asked for help in sending "drug proceeds" to their "source of supply" in Mexico City. In reality, the recipients were undercover Mexican law enforcement officers, it added.

"The [US] undercover agents informed the authorized delegates that they did not want law enforcement to learn of the transactions, and that they preferred not to provide any form of identification or address information. When Sigue-authorized delegates requested some form of identification from the undercover agents, the agents produced multiple forms of identification cards, all in different names and bearing obviously different likenesses," the DPA states.

## Some pass, many fail

In total, undercover federal officers conducted 84 successful transactions through 59 different Sigue agents; while 24 agents "properly refused" to conduct the illicit transactions, the DPA stated. It added that at 47 locations, the undercover officers and the Sigue agents "structured the cash transactions by splitting large cash amounts over $10,000 into several smaller amounts to avoid triggering currency transaction reporting thresholds at the Sigue corporate level."

The DPA also noted that the Sigue agents who conducted the transactions may be charged with money laundering under Title 18 USC Sections 1956 and 1957, as may Sigue, if it violates the terms of the agreement. It should be noted that the Financial Crimes Enforcement Network also assessed a $12m civil money penalty against Sigue, claiming that its "failure to implement effective internal controls, training or independent testing to manage the risk of money laundering was serious, long-standing and systemic." FinCEN's penalty (PDF) will be satisfied by the $15m forfeiture paid to the DoJ.

The identities of the Sigue agents snared by the sting operation are not revealed in court documents, although Sigue's general counsel, Robert Pargac, told *Complinet* that several have been indicted for money laundering and the DoJ has said it may indict others. He added that Sigue has terminated its relationship with around 20 of the agents accused of wrongdoing.

"We think that this is behind us now," Pargac said.



Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8875020

**Outlook bleak for many MSBs**

Sigue may have weathered the storm, but it remains to be seen whether its agents' alleged misdeeds will lead to more misery for fellow MSBs. In recent years, many MSBs have found themselves unable to find banks willing to serve them. The reason is clear. MSBs are high-risk customers and mitigating those risks is costly.

A case such as that against Sigue gives banks yet another reason to treat MSBs as pariahs.

**Related Articles**

- MSB to spend record $25m to settle Justice Department allegations

**News by Subject**

- Money Laundering

**News by Country**

- Mexico
- United States

Complinet | Connected Compliance ™

Terms & Conditions | Privacy statement | Accessibility
Contact Us | RSS | Disclaimer

© 2008 Complinet Ltd and its contributors. All rights reserved.

From: Michael F GEOGHEGAN
Sent: 18/02/2008 23:11 GMT
To: Paul A THURSTON
Cc: Richard E T BENNETT; Matthew J W KING; Stephen GREEN
Subject: Re: CONFIDENTIAL - CNBV/FIU Meeting

Paul

This is most disturbing and we will need to have the most thorough of investigations.

Because the accusations appear to involve current members of staff I believe both Group Compliance and Group Audit need to co-ordinate the review

[redacted]

Please keep me advised of all developments and can Matthew and David meet with me after GMB on Monday

Best wishes

Mike

**********

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

**********

Paul A THURSTON

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

From: Paul A THURSTON
Sent: 18/02/2008 16:49 CST
To: Michael F GEOGHEGAN
Cc: Richard E T BENNETT; Matthew J W KING
Subject: CONFIDENTIAL - CNBV/FIU Meeting

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Mike,

I was asked to attend a meeting with the CNBV today ([redacted]

Permanent Subcommittee on Investigations
EXHIBIT #29

[redacted] = Redacted by the Permanent Subcommittee on Investigations

[redacted] The meeting included the Head of the CNBV (Dr Guillermo Babatz) and the Head of the Financial Intelligence Unit, FIU (Luis Urrutia), the financial crime unit of the Finance Ministry.

[redacted]

He handed me a draft copy of the report that they had compiled which is in two parts:

1. A CNBV report on operational weakness in HSBC in many areas, including Frauds, Customer complaints, IT failures, Money Laundering processes, Culture, and Organisation structure that they had previously identified (and communicated in the previous meeting in October, which is summarised in my note below). The report now includes a summary of the actions taken by HSBC to address each of these, but they acknowledged that this was neither up to date nor comprehensive, and they asked me to review it and revert to them with a correct, up to date, picture on all the actions taken, so that they do not misrepresent the position.

[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

[redacted]

I have advised Richard Bennett, David Bagley and Matthew King, [redacted] Our security department investigator is meeting with FIU this afternoon to get the information from their case files that relates to suspicious internal activity, so we can commence an investigation of these. I have asked Internal Audit to assist in reviewing the other items raised (most of which came out of previous on-site inspections earlier last year, and are in process of resolution), and confirm the actions that have been taken. I am arranging for David Bagley to visit next week, when he and I can review our actions and response, and then he and I will meet jointly with the CNBV and FIU to follow up.

It is clear in this that our Head of Compliance is not as highly regarded by the CNBV as had been thought by local and Group management, and indeed appears to have misled us about the extent to which the CNBV have been informed of, and/or are satisfied with, our actions. This will need to be addressed urgently as well during David Bagley's visit.

I will provide a further update after the meeting next week, but if you need anything further in the meantime, please let me know. We will keep Richard Bennett and Matthew King updated, and I'm sure they will report on this to the Group Audit Committee next week.

Regards

Paul

--- Forwarded by Paul A THURSTON/HBMX/HSBC on 18/02/2008 03:27 p.m. ---

Paul A THURSTON/HBMX/HSBC 23/10/2007 02:18 a.m.

To Michael F GEOGHEGAN/HGHQ/HSBC@HSBC

cc

Subject CNBV Inspection

Mike,

At their request, I met today with the Head of Banking Supervision, and the Supervisor for HSBC, from our regulator, the CNBV, following their on site examination of various aspects of our business, including

cards, money laundering and treasury operations. [redacted]

They walked me through a presentation pack which firstly set out specific points that had arisen during their inspection, but then moved on to more general concerns of the CNBV with HSBC in Mexico. These centred on:

- weaknesses in internal controls which they saw in several areas of HSBC, citing evidence of the level of credit card frauds, numbers of customer complaints to the bank and to the banking ombudsman, customer concerns that staff in branches do not have appropriate training and qualifications, frequency of IT failures, and slow progress in tackling KYC data problems and anti money laundering procedures.

- corporate culture, where they comment that since the purchase of Bital, HSBC has driven growth in credit products and launched new products without adequate controls. They acknowledged the addition of new senior executives including the CFO and COO, and they welcomed these, but they are concerned that some areas of the business have not changed at all in mentality, or approach, despite the changing nature of the business, and some lower level staff have not been adequately trained to deal with the business now being undertaken. They implied that they considered that we were still running parts of the bank as if they were still Bital, despite the new ownership and the change in busines sprofile.

They also expressed concerns at senior management having dual responsibilities for Mexico and the region, stating that "there are many concerns on how management will be able to implement strong controls within the bank in Mexico, while keeping an eye on other countries".

Their final slide reads as follows:

"REQUIREMENTS

As a result of the concerns pointed out, the CNBV needs the senior level commitment to solve the problems stressed. In order to do that, HSBC needs to set corrective programmes. These actions should include the following:

- set strong internal controls in key business and operational areas

- adopt measures to stop frauds, reduce clients's complaints and improve the level of service, to reduce reputational risk

- establish the necessary actions to improve IT performance and avoid technological risks caused by systems break down

- manage an effective culture of change

- avoid sharing senior officers responsibilities with LATAM

- set effective measures regarding money laundering issues

- avoid taking excessive credit risks in the credit card portfolio and set actions to assess this risk in an adequate manner"

---

[redacted] they will issue a normal management letter in due course, without including some of the more sensitive areas, but they wanted to bring these to my personal attention to let

[redacted] = Redacted by the Permanent Subcommittee on Investigations

me know of their concerns.

I indicated to them we were aware of these issues and were progressively tackling them. I advised them of the new appointments of an experienced Head of consumer risk with experience in Asia, who arrived a couple of weeks ago, and a new Head of card Fraud from GMO who arrived yesterday, the help we had sought from Ken Harvey to review the robustness of the IT operations and the planned internal audit of IT in November, and the major programme of customer file centralising and imaging which would give us more robust KYC data for anti-money laundering. I talked about the changes we are making to split Regional from Mexico responsibilities in areas such as CIBM, IT, Risk and Audit, but they advised that their specific concern here was with PFS, and I indicated that they could also expect changes in this area in the near future.

I said that we were embarked on changing the business models of the bank, and bringing in specialist expertise, but that culture change would not happen over night. However, I believed that the infusion of new management, combined with changes we were planning to incentive schemes to put more emphasis on customer satisfation and business quality would help push the bank in the new direction. I commented that we have a young staff, and while they lacked experience, I was confident that if we were clear in our business direction to them, and gave them appropriate training, and measures, we could make real progress.

I told them that I welcomed their coming to see me, and that we would respond positively to the management letter, when it arrives, and that I would also meet up with them again to update them on progress with the issues not covered in the management letter.

They indicated that this was what they wanted to hear, and that they would report back positively to Guilermo Babatz, the Head of the CNBV.

I took the opportunity to remind them of the issues that I had raised with them and Babatz two months ago on the PTU (profit sharing tax), where Bancomer and Banamex had been allowed to take action to avoid payment, and they acknowledged that we would also have to take action if we were to remain competitive, and they indicated that while they didn't like it, they would not object provided that our solution was within the existing laws and regulations.

I will follow up on all of these points, but thought that you should be aware.

Regards

Paul

**From:** Paul A THURSTON
**Sent:** Fri Mar 07 21:43:28 2008
**To:** David W J BAGLEY
**Cc:** John R RENDALL
**Subject:** Re: HBMX
**Importance:** Normal
**Attachments:** image_0.gif; MEETING ATTENDANCE NOTE - HBMX - Leopoldo - Apr08.doc

David/John,

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. To me, the jury is still out on Ramon, and we need to have a discussion between the three of us, pretty soon, about the whole question of structuring the regional and Mexican CMP responsibilities.

Regards

Paul

---

David W J BAGLEY/HGHQ/HSBC

David W J BAGLEY/HGHQ/HSBC Sent by: Marion O ROACH
07/03/2008 08:42 a.m.

To Paul A THURSTON/HBMX/HSBC@HSBC
cc John R RENDALL/HBMX/HSBC@HSBC
Subject HBMX

Paul

You will recall that I carried out an exit interview with Leopoldo Rodriguez Borroso. I attach a copy of the file note that I dictated during my visit and which has now been typed up.

As I hope time will have allowed, I intend discussing the content of my conversation with Leopoldo with John Rendall with a view to:-

[redacted]

Regards

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #30

David Bagley

P.S. Both actions followed up and I believe these to be closed.

[redacted]

**MEETING ATTENDANCE NOTE – 27th February 2008**

Attendees: Leopoldo Rodriguez Borroso (LRB)
David Bagley

Key points raised by LRB in an exit meeting were:-

1. He had asked to move from the AML job principally due to fears with regard to his own personal civil and criminal litigation exposure, the risk to his physical security, the fact that he did not think that the job was suitably graded or paid and because he had already made it clear when he originally took the job that this would be a short-term post not long term.

2. LRB went on to explain in some detail that his perception of exposure to criminal sanctions was due to the continued poor controls in the bank, the fact that there were allegations of 60% to 70% of laundered proceeds in Mexico went through HBMX and because he did not think that senior management had any commitment to robust AML controls. He thought it was only a matter of time before the bank faced criminal sanctions and cited a number of cases, including [redacted] as examples of the bank's involvement in activities which might lead to the bank being sanctioned directly and him and members of the team being sanctioned personally.

3. It was clear that LRB felt very strongly that relevant business heads within HBMX had absolutely no respect for AML controls and the risks to which the Group was exposed and had no intention of applying sensible or appropriate approaches. Again he cited a number of examples where despite strong recommendations with the CMP business heads had failed or refused to close accounts or indeed on occasions file SARs. He thought that there was a culture that pursuing profit and targets at all costs and in fact had seen no recent improvement in the standard of controls or the types of decisions being taken.

4. He was critical of the level of resources in his team and felt that his team had done much to keep the bank out of trouble by working extra hours against impossible deadlines and handling significant volumes of alerts including those from CAMP. A figure of some 14,000 per month/per annum? was cited.

5. When asked, LRB indicated that he thought he needed at least 35 new headcount.

6. LRB was sceptical about the ability or likelihood of being able to migrate processes to GSCs at least while the bank's systems were so immature (how could anybody check on-line and validate transactions) but thought that this might be a medium term solution once bank systems improved.

7. It was clear that LRB felt extremely strongly about his treatment and was resentful both with regard to his recent performance rating, the fact that he thought that the ML department was being scapegoat, and was disbelieving that the bank could find no alternative role. On balance, however, he accepted that he was a difficult individual, had perhaps on occasions been tactless and again

Redacted Material

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

thought that he would prefer to leave even thought he was likely to suffer economic hardship rather than stay in a job where he felt personally exposed.

8. He was adamant that David Leighton had promised him that if he did the job for ten months he would be looked after and felt that this commitment had been reneged upon. LRB was extremely critical of RG who he described as being indecisive, weak and desperate to retain his job and lacking any understanding of AML matters. There was a detailed discussion about the operation of the MLD committee chaired by RG where LRB indicated that he thought it would be chaired by John Rendall. Again he felt there had been little improvement in the decision-making within this Committee.

9. LRB was sceptical as to whether the bank would be given an extension of time within which to retrospectively remediate high-risk customers and said why should the authorities given any further extension given that the bank had previously failed to meet earlier commitments. He was clearly of the view that the bank was heading to a situation where in due course it would be sanctioned or penalised and had seen nothing in recent months or weeks which suggested to him that matters could improve.

10. LRB then referred to a report he had been in the process of writing which would set out and articulate all of the various areas of weakness that he thought existed. This report had not been finished by him and he was still deciding whether he would write it. DB said that this was very much a matter for L to decide upon personally and that DB would neither encourage him to write it, nor discourage him from doing so. It was very much his own personal decision. Having said this, DB indicated to him that if the report was produced and sent to DB he would discharge his own personal obligations in his current role by causing the report to be carefully considered and factored into any wide work or other review that was being undertaken. DB would not just ignore it or bury it but equally would have to balance views expressed by LRB against views expressed by others and form a view. On balance, it seemed likely that LRB will submit such a report.

11. LRB asked that his team members, particularly the more senior members be looked after and no in any way penalised for his departure. This was genuinely unselfish. DB assured him that he would do what he can in this regard.

12. Overall, LRB gave the impression as having been dedicated and committed to his work, having real and genuinely felt concerned. His opinions were very firm, the conversation extremely cordial but at no stage were there any suggestions that he felt that individuals, including individuals within CMP were in any way compromised other than perhaps by reason of incompetence or poor management. He clearly feels badly treated but accepts that some of the consequences have been brought on by himself not least asking to be moved.

**From:** John F ROOT
**Sent:** Wed Jul 30 21:46:30 2008
**To:** David W J BAGLEY; Warren G LEAMING; Susan A WRIGHT
**Subject:** HBMX Visit Update
**Importance:** Normal

It has been an extremely productive trip. Below please find a summary of what I have discovered so far.

*USD Cayman Accounts*

There are 35,000 accounts with a monthly total average of USD 400 million. Many of these accounts were opened by Bital through its New York branch. When this branch was closed, the accounts were transferred to the Cayman branch, which was opened in 1980.

The real surprise was the existence of an HBMX audit in January 2006 on KYC for the USD Cayman accounts. It is not clear who in AML responded, and how. Blank looks all around. I should know more in a few hours.

The report, which is in Spanish, 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.

[redacted]

Earlier this year, HBMX was fined the equivalent of USD 50k for having advertised the accounts. We could still be subject to other fines: opinion here is divided, with most thinking we will not.

[redacted]

CEO Luis Pena has stopped all new Cayman accounts. CNBV were said to be a bit surprised at this, and not entirely happy that a source of USD was being foreclosed.

As for the existing accounts, the management plan is to offer to clients to transfer them to another Group entity, currently envisaged to be HBUS (although an actual Cayman entity was also briefly contemplated).

Fixing the Cayman accounts will be a struggle. How do you locate clients when there is no file?

*High-Risk Transactions*

Since the beginning of the year, [redacted], a sub-director in AML, has identified 1,100 high-risk accounts. Of these, 270 have been cancelled, most with SARs. These high-risk accounts include USD Cayman

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #31

accounts. [redacted] says that his team is under-staffed and that there is little or no accountability in high-risk regions for managers who knowingly accept suspect clients. The main area of concern is PFS, according to [redacted] even at the "highest" levels. (Yes, I asked.) A [redacted] veteran of Bital, and close to retirement, [redacted] was alarmed at the gap between what we say about integrity and proper AML controls, and what is actually happening out in the field, particularly in states close to the US border. His misgivings should of course be treated confidentially. I don't want my sources fired or killed. (No exaggeration here – more people are dying in the drug wars in the north of the country than are being killed in Afghanistan or Iraq.)

John Rendall has asked Ramon Garcia to determine what products have a high AML risk. The COO has also asked Ramon to look at USD remittances to assess client risk. (HBMX is the largest remitter in Mexico of dollars back to the States.) High-volume customers will be reviewed and risk-weighted. Ramon will shortly give John Rendall target dates for these reviews.

*AML Staffing*

[redacted]

[redacted] is now working in AML on a 50-50 basis with PIF under [redacted] This seems currently acceptable as his AML team has not yet been formed, and there is some overlap in the investigations. [redacted] has put together a business plan for 14 FTE including himself and an AOP of USD 500k. The plan may not be accepted in its current form because of cost-cutting at HBMX (all departments to cut 15% of headcount *and* budget). It might be a good idea for one of you, and perhaps also Matthew King, to stress as soon as possible with Luis Pena the importance of adequate AML staff. I have already done so with John Rendall, who generally agrees with me, but wants more specifics about the plan. (One reservation is that AML seems a bit top-heavy in management.)

There is a major issue with staffing. HR and [redacted] My own view is that we need to convince HR and LGA to let us run our own department, which means contracting our o wn staff. If local laws require us to pay redundancy packages, so be it. There is no management control where we cannot choose the right people. For example, the AML sub-director responsible for CAMP monitoring, [redacted] has clearly failed in his task: with 12,000 alerts a month, the department has a backlog of 30,000 alerts. In other words, they are almost three months behind. [redacted] There is also resistance to terminating another AML sub-director, [redacted] It is clear, however, that both sub-directors, [redacted], should be fired for poor performance. Ramon agrees and he says he will press the matter with John Rendall. Ramon and I want to replace [redacted] with [redacted] who is highly thought of by senior managers here.

[redacted]

Having already met with [redacted], I will meet later today with the HR person responsible for Compliance, [redacted], to discuss how our needs can be better met.

*"Restauracion" Project*

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Much progress has been made. John Rendall and the team have worked very hard, with concrete results to show for it. I attended a lengthy meeting of the project last night and came away very impressed with what they have achieved. I will forward a number of useful reports to you on the current situation. Audit think that much more can and should be done, but the COO and his team have the proper risk-based approach.

*Reporting*

[redacted] is extremely busy, with meetings to attend every day and many reports to write. I have agreed with him that I will liaise regularly with [redacted] for the reports we require so as to ease the burden on him. [redacted] and I have discussed the new reporting template and how we should proceed.

*Operating Loss in Colombia*

A recent mishap in Colombia illustrates what we are up against in the region.

Our treasury in Colombia sold rather than bought repos, and ended up with no securities with the Central Bank to support the sale. We expect a "penalty not a fine", which would appear to be a distinction without a difference. The current estimate is USD 580k. The key issue, according to Graham Thomson, is that someone in Colombia signed off on their being FIM-compliant when they weren't. He is investigating this point, and also why he was only informed last Friday when the problem came to light two weeks ago.

The same concerns for Colombia, e.g. FIM compliance, apply of course to Central America. Key managers are telling us that they are following Group procedures when, in many cases, they aren't.

John Root
30JUL08

From: John F ROOT
Sent: Tue Aug 05 08:35:12 2008
To: David W J BAGLEY
Subject: Re: Fw: HBMX - CAYMAN ACCOUNTS
Importance: Normal
Attachments: Doc Link.htm

[redacted]

[redacted]

---

David W J BAGLEY---05/08/2008 08:09:06---Graham, We will on the basis of this just work on the assumption that nothing has been done to date . I do find it surprising t

David W J BAGLEY/GMO/HSBC 05 Aug 2008 08:06 Phone no. 7991 8645
44 20 7991 8645 Mail Size: 23484

To: Graham THOMSON/HBMX/HSBC@HSBC
cc:
Subject: Fw: HBMX - CAYMAN ACCOUNTS
Entity:

Graham,

We will on the basis of this just work on the assumption that nothing has been done to date . I do find it surprising that there can have been no response and yet the audit was closed out. Is this a breach or are you in audit becoming softer .

Regards

--- Forwarded by David W J BAGLEY/GMO/HSBC on 05/08/2008 08:06 ---

Matthew J W KING/GGM INA GHQ/HGHQ/HSBC Sent by: Liz A TESTER/MGR INA GHQ/HGHQ/HSBC 05 Aug 2008 07:12 Phone no. 799 21176
44 0 20 799 21176 Mail Size: 20467

To: David W J BAGLEY/GMO/HSBC@HSBC
cc:
Subject: Re: Fw: HBMX - CAYMAN ACCOUNTS
Entity:

---

Permanent Subcommittee on Investigations
EXHIBIT #32

Graham THOMSON/HBMX/HSBC

**Graham THOMSON/HBMX/HSBC HBMX**
04/08/2008 23:19 Mail Size: 18610

To: Matthew J W KING/GGM INA GHO/HGHQ/HSBC@HSBC
cc: Alfredo BOLANOS/HBMX/HSBC@HSBC, Chris.R.BENTLEY@hsbc.com.mx
Subject: Re: Fw: HBMX - CAYMAN ACCOUNTS
Entity: HSBC Holdings plc - HGHQ

Matthew

I refer to our recent emails.

I am now received further clarification from GAQ on the audit report recommendation status.

No response was received following the issue of the report in APR06 and its recommendations were "closed off" in AIS and included in the matrix of branch control weaknesses, which GAQ routinely discusses with the business.

Periodically GAQ reports on management's progress on these items and continues to check on compliance standards as part of its regular branch audits, where as you aware from reports to audit committees etc, branch standards have failed until recently to be improved. Project Restauracion is now rectifying that position and has included the higher risk CI customer accounts in its risk based remediation approach. HBMX CEO has suspended the provision of CI accounts to new customers.

Regards

Graham Thomson
Head of Group Audit Latin America & the Caribbean
Tel (52) 55 5721 6236

---

Matthew J W KING/GGM INA GHO/HGHQ/HSBC

**Matthew J W KING/GGM INA GHO/HGHQ/HSBC 31/07/2008 11:44 a.m.**

To: Graham THOMSON/HBMX/HSBC@HSBC
cc:
Subject: Re: Fw: HBMX - CAYMAN ACCOUNTS

Graham,

What is the position with the audit report? Was it sent to me under standing instructions? How many of the recommendations remain outstanding and are these included in the reported stats?

Regards

Matthew

Graham THOMSON/HBMX/HSBC

Graham THOMSON/HBMX/HSBC HBMX
31/07/2008 17:38 Mail Size: 11613

To Emilson.ALONSO@hsbc.com.mx
cc Andy GENT/HBMX/HSBC@HSBC, David W J BAGLEY/GMO/HSBC@HSBC, Luis PENA KEGEL/HBMX/HSBC@HSBC, Ramon.GARCIA@hsbc.com.mx, Matthew J W KING/GGM INA GHQ/HGHQ/HSBC
Subject Re: Fw: HBMX - CAYMAN ACCOUNTS
Entity HSBC Holdings plc - HGHQ

Emilson

I first became aware of a Cayman issue on Monday (28th) at LAM RAC when CMP reported that a fine of USD 50 k had been levied on HBMX . On Tuesday I asked for a copy of the incident report CMP had sent to GMO. A response is pending. I have chased again this morning. I shall advise further once I have received a copy of the report.

Regards

Graham Thomson
Head of Group Audit Latin America & the Caribbean
Tel (52) 55 5721 6235

Emilson ALONSO/HBMX/HSBC

Emilson ALONSO/HBMX/HSBC 31/07/2008 11:08 a.m.

To Luis PENA KEGEL/HBMX/HSBC@HSBC, Andy GENT/HBMX/HSBC@HSBC, Graham THOMSON/HBMX/HSBC@HSBC

cc David W J BAGLEY/GMO/HSBC@HSBC

Subject Fw: HBMX - CAYMAN ACCOUNTS

Gentlemen,

Can you put me aware about this particular problem, whish I am not aware of?
Emilson

---- Forwarded by Emilson ALONSO/HBMX/HSBC on 31/07/2008 11:06 a.m. ----

David W J BAGLEY/GMO/HSBC Sent by: Marion O ROACH/HGHQ/HSBC 31 Jul 2008 03:48 a.m. Phone no. 7991 8645 Mail Size: 5742

To Richard E T BENNETT/HSBH/HSBC@HSBC

cc Michael F GEOGHEGAN/HGHQ/HSBC@HSBC, Emilson ALONSO/HBMX/HSBC@HSBC, Matthew J W KING/GGM INA GHQ/HGHQ/HSBC@HSBC, John R RENDALL/HBMX/HSBC@HSBC, Luis PENA KEGEL/HBMX/HSBC@HSBC

Subject HBMX - CAYMAN ACCOUNTS

Entity

Richard

We have been in discussions with HBMX CMP with regard to certain potentially suspicious transactions identified by routine transaction monitoring. This initial report has widened into a more general issue as detailed below. Whilst we continue to follow up with HBMX, I think it is appropriate to provide an initial report as follows:

I am awaiting further details of the suspicious activity identified, but in brief it appears that our CAMP monitoring system identified significant USD remittances being made by a number of customers to a US company alleged to have been involved in the supply of aircraft to drugs cartels. Appropriate reports have been filed and have apparently enabled the authorities to identify significant related activity passing through other banks. This led to a review of the way in which HBMX operates USD-denominated accounts through its Cayman branch.

HBMX holds a Category B banking licence in Cayman which allows them to provide banking services anywhere other than to Cayman residents.

The licence, inherited from Bital, allows HBMX to provide USD-denominated services to persons domiciled in Mexico. Mexican regulation apparently prohibits individual Mexicans (i.e. non-corporate) to hold USD-denominated deposit accounts in Mexico. The branch currently holds USD400m and 35,000 accounts. There is no physical presence in Cayman and effectively front and back office services are provided on the ground in Mexico. Although HBMX were recently fined USD50,000, for the inappropriate promotion of these services in Mexico, I am advised that CNBV are aware of the existence of the accounts and services and have raised no concerns. HBMX are however sensibly reviewing the position.

I have also asked CMP to review whether there are any similar operations in LATAM.

There continues to be a real focus on the level of USD-denominated activity in Mexico by CNBV and other bodies, and the extent of HBMX's activity in this area. This account base has to therefore be seen as high-risk from an AML and reputational perspective.

Apparently an audit carried out in 2006 of the Cayman branch activities was rated as below standard and identified significant KYC weaknesses. It will be important to ensure that these accounts will be covered by the various account remediation processes underway in HBMX, and as a priority area. As a precaution HBMX have issued instructions that no new accounts be opened pending a review of these activities. We are also checking whether any similar activities exist in LATAM.

I will report further in due course, but thought it important to provide preliminary reports.

Regards

David Bagley

**From:** John F ROOT
**Sent:** Fri Sep 12 15:14:17 2008
**To:** Adrian CRISTIANI
**Cc:** David W J BAGLEY; Warren G LEAMING; Susan A WRIGHT
**Subject:** Fw: Cayman Accounts
**Importance:** Normal
**Attachments:** image_0.gif; Doc Link.htm

Adrian,

At Warren Leaming's request, below please find a recent breakdown of the USD Cayman accounts at HBMX (i.e. held by a branch of HBMX with a "Category B" offshore Cayman license but no physical presence or client documentation in Cayman).

The HBMX "Restoration" project chaired by John Rendall, HBMX COO, is endeavouring to regularise these accounts on a risk-basis. Account opening documentation is generally poor or non-existent and there is a lot of work to do. Money-laundering risk is consequently high.

Regards,

John Root

---- Forwarded by John F ROOT/GMO/HSBC on 12/09/2008 15:05 ----

Ramon GARCIA/HBMX/HSBC@HSBC04 Sep 12 2008 15:04 Mail Size: 37281

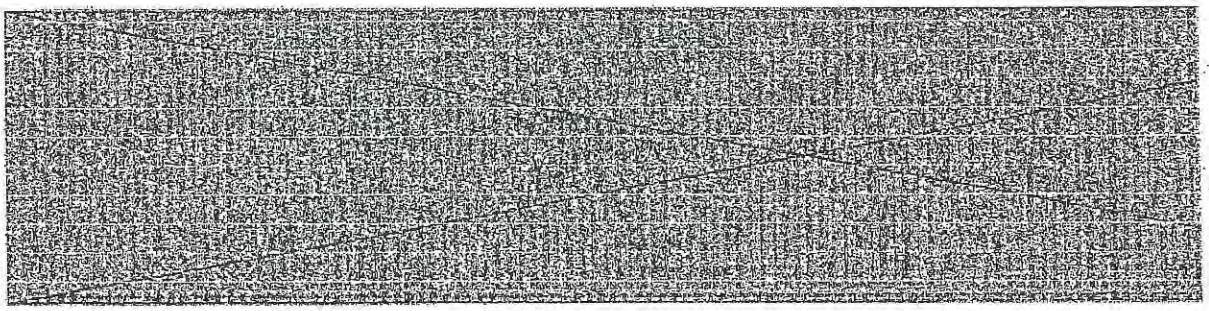
| | |
|---|---|
| To | John F ROOT/GMO/HSBC@HSB |
| cc | Maria SALAZAR/HBMX/HSBC@H |
| Subject | Re: Cayman Accounts |
| Entity | |

John,

Please find attached information requested. Regards, Ramon

**CAYMAN ACCOUNTS**

Permanent Subcommittee on Investigations
**EXHIBIT #33**



Customers were classified in emergency lights considering their transactional behaviour as follows:

RED SSC status, black lists and customers with one or more reports to the authority (SARs) were considered.
YELLOW Customers alerted by CAMP system without SARs
WHITE Customers with no coincidences in the two previous ranges.

---

John F ROOT/GMO/HSBC@HSBC

John F ROOT/GMO/HSBC@HSBC 11/09/2008 06:51 a.m.

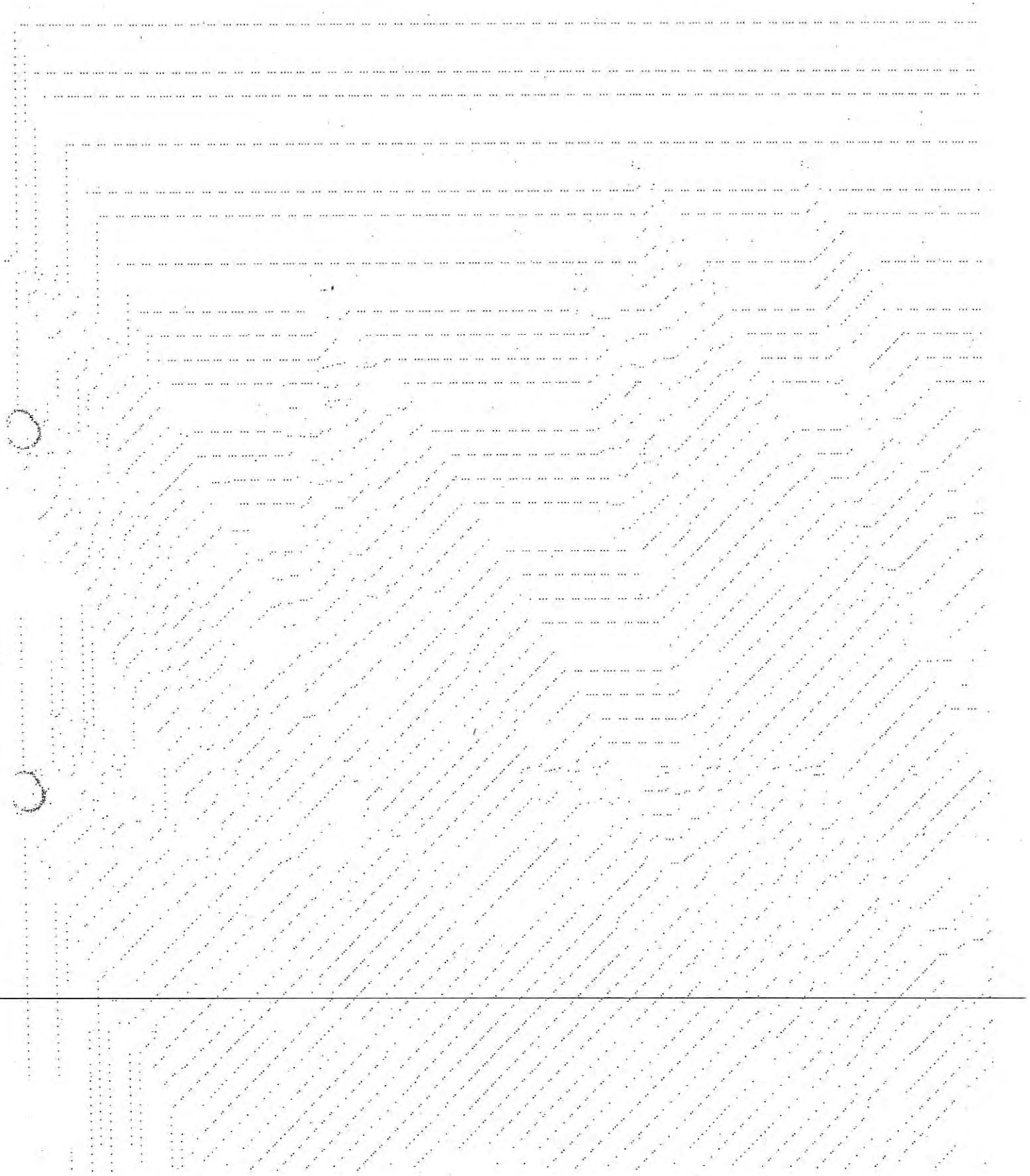
To Ramon GARCIA/HBMX/HSBC@H
cc
Subject Cayman Accounts

Ramon,

Could you please send me figures for the Cayman Accounts? How many? Total? SARs filed? CD? Etc. Etc.

Regards,

John



| PRINCIPLE | TOTAL | BALANCE AS OF 3/31/2008 |
|---|---|---|
| SBA | 27,739 | $1,662,290,721.81 |
| MBA | 33,848 | $436,906,647.14 |
| | 61,587 | 2,099,197,368 |

| STATUS | CUSTOMERS | ACCOUNTS | BALANCE AS OF 3/31/08 | CUSTOMER | ACCOUNTS |
|---|---|---|---|---|---|
| RED | 1,314 | 2,240 | $205,093,722.53 | 2.63% | 3.64% |
| YELLOW | 2,027 | 2,084 | $180,453,545.59 | 4.06% | 3.38% |
| WHITE | 46,594 | 57,262 | $1,702,660,000.84 | 93.31% | 92.98% |
| | 49,935 | 61,586 | 2,088,207,269 | | |

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8876787

[redacted] = Redacted by the Permanent Subcommittee on Investigations

**From:** [redacted]
**Sent:** Thu Nov 27 02:38:42 2008
**To:** Jaime J SAENZ; Ramon GARCIA
**Cc:** [redacted]
**Subject:** Seriously consider restricting the product Dollars accounts in the zona frontera Product 63 Cuenta Maestra en Dolares P.F
**Importance:** Normal

Jaime y Ramon,

In the same way we have already restricted new Caiman Island accounts from opening, due to the massive misuse of them by organised crime, I think it is about time we seriously consider recommending to the business, that we can not support their management of Dollars accounts in the zona frontera Product 63 Cuenta Maestra en Dollars Personas.Fisicas.

We have suffered three cases this week where dollars accounts based in the zona frontera have been opened with the apparent sole intention of using them for money laundering.

The pattern is as follows:

1) Accounts are opened at various branches in Cd Juarez (or other border areas within 20km of the USA) in dollars product number 63.

2) Declarations are made by the customer in their branch KYC questions of low account movement per month (in one case the client indicated he was going to move USD300 a month, but in fact moved USD1.4Mn!!!!!)

3) Cash is then depoisted in branches far from the border (Toluca and Edo de Mexico.) The individual depoists are normally USD50K but it is one customer, standing at one cashiers window, depoisting ten to twenty bundles of USD50K. The total is USD500K to USD933K in one customer transaction (albeit seperated into 20 bundles)

So far the total of this cash has surpassed USD3Mn in two weeks. These are the accounts we have been notified about, but I imagine that there will be many more in the coming weeks/months.

There are very apparent breaches of procedures in both the branches that opened the accounts, and the branches that are receiving the funds. (Please see below)

It is my belief that the proffessional money launderes have got wise to our procedures, and are now going to "hit and run" us. They will open accounts, use them to launder as much money as possible, in a short a time as possible, and then either close the account themselves, or wait for our procedures to do it.

The normal time scale in a typical case, to close an account is three months , from when the first CAMP/ROI alert comes in to the AML area. As you know it is then passed via the CCC to UCE who then have to locate the file, and provide it to LGA for them to start their process. LGA say they take on average it is 30 days, but with the resturation project, their backlog is now almost 2.5K cases.

In another case I am working on, the client has already been notified by LGA that the account is going to

Permanent Subcommittee on Investigations
EXHIBIT #34

be closed, and he is using his last two weeks to move as much money as possible. So far this is USD1Mn in three days, to add the the USD9Mn that he has sucessfully laundered in the last three months.

It is my opinion that we are not "Preventing" anything. We are allowing the organised criminals to launder thier money, and only after three months do we final manage to stop them (by closing the account). By which time they have proably opened up another dollars account in a fake name, and started the whole process again.

The first essential thing that ***must be done*** is a bank wide email explaining in clear and simple terms the cash depoist amounts that are laid done in CMP PLD 050003.

In my investigation so far, **NOT ONE SINGLE PERSON** has heard of this circular, and no one is following it.

It is my opinion that until PFS can properly educate their staff in the correct procedures for dealings with these types of accounts, then the account should be removed from our list of products.

If we were rigouresly sticking to this procedures, then I am confident that we would seriously restrict the flow of dollars into our orgainsation. I am aware that this is a theme that has been raised by Luis PeÑa and the CNBV.

For your information the part that i consider most relevan of CMP PLD 050003 is below:

***4. Operaciones en efectivo con dólares de los Estados Unidos de América***

*Queda estrictamente prohibida la realización de las siguientes operaciones:*

*Emisión de Giros Bancarios*
*Compra venta de cheques de viajero a no clientes/usuarios*
*Venta de Cheques de Caja a usuarios.*

*HSBC ha establecido el siguiente mecanismo de escalamiento de aprobación interna para el trámite de operaciones (depósitos y retiros) en efectivo con dólares de los Estados Unidos de América:*

***Nivel del Funcionario Facultado***

*Ejecutivo de Cuenta (PFS)*

*Líder de Unidad de Negocio (PFS) o Ejecutivo de Cuenta (tratándose de otros Segmentos)*

---

*Subdirector (todos los Segmentos)*

*Director (todos los Segmentos)*

*Director Ejecutivo (todos los Segmentos)*

*No se requerirá aprobación en el trámite de operaciones en efectivo con dólares de los Estados Unidos de América que realicen personas físicas, por montos inferiores a los 10,000.00 dólares, así como de aquellas que lleven a cabo personas morales, por montos inferiores a los 50,000.00 dólares.*

We have had clients deposit USD933K in one day in one branch. This deposit should have been approved by the **D.Ejec** , but it has never reached him. Nor it appears have any of the smaller deposits reached even the levels of Sub-Directors!

It needs to be made clear that any branch recieving more than USD100K total with one customer (regardless of how the customer wants to seperates the deposits) that has **not notified their Sub-Director** , **will** be subject to Zero tolerance policy enforced by UCE and the **Sub-Director, who should have been told .**

This matter is not Fraud so PIF resources need not be used, and it is not necessary to involve AML in every case as the evidence is very obvious, and easy to prove through branch cash movements. Of course the same Zero tolerance should apply when the cash deposit indicate Directors and D.Ejec need to be informed.

PFS Channels and Products should be able to "police" themselves in this matter, and I repeat that if we stick to these procedures the money launderes will quickly become very tired of waiting to get authorisation from our senior management, and will carry out their business in another financial institution.

I greatly appreciate that this is a complicated issue, but without firm and decisive action we will never stop ourselves being used by organised criminals.

Thanks and regards,

[redacted]

[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

**From:** David W J BAGLEY
**Sent:** Thu Nov 27 06:24:53 2008
**To:** Warren G LEAMING
**Cc:** Richard E T BENNETT
**Subject:** Re: Mexico
**Importance:** Normal

Warren

Thank you and all noted.

What I find most frustrating is the way in which new issues constantly emerge however much time is spent with HBMX.

The practice of changing USD in the branches presUmably with little or no ID for non customers is in breach of Group policy. When looking at our USD exposure how can this have been missed.

The SAR filing is just daft as is allowing an account to operate pre- closing and taking too long to close. Are you able to challenge the involvement of legal in this process. If not subject to Richard's views can they gear up their effort in this area.

Regards

**********

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

**********

Warren G LEAMING

---- Original Message ----
**From:** Warren G LEAMING
**Sent:** 27/11/2008 01:29 GMT
**To:** David W J BAGLEY
**Cc:** Richard E T BENNETT
**Subject:** Re: Mexico

David/Richard

Mike Geoghegan today visited the president of the CNBV Guillermo Babatz with Luis Pena HBMX CEO

Permanent Subcommittee on Investigations
EXHIBIT #35

and Emilson Alonso. It was anticipated that during the discussion the Banks controls on AML would arise following Paul Thurston's meeting CNBV in March. Ramon and I contributed to a briefing paper for Luis / Mike which is attached. We had anticipated that the CNBV would be comfortable with the improvements that had been made with the controls but that they may still be concerned with the actions of the Bank's staff in accepting deposits without apparent KYC/ due diligence (ie has the message penetrated down to the rank and file).

At the meeting apparently Mike acknowledged the CNBV may be concerned around the Banks controls on AML. The CNBV president, who was accompanied by Patricio Bustamante (supervision) and Pablo Gomez (AML) noted that significant progress had been made to the Banks controls but they remained very concern in respect of:

1. The USD Cayman accounts and the slow speed of remediation
2. The sheer volume of US Dollars that HBMX repatriates / exports

Between January and September HBMX repatriated USD 3b, 36% of the market which is double Banamex USD 1.3 b which constitutes 17 % of the market and yet Banamex is the biggest Bank in Mexico and HSBC is 5th largest. The authorities are concerned that when-ever there is a serious MLD scheme HSBC seems to be involved. CNBV also worried that the USA authorities are concerned at the very high levels.

Apparently Mike told Luis that he is is not holding him responsible because he is new but directed him to sort the problem out. When Luis said this could result in lost profits of many billions Mikes clear response is that nothing is worth risk to our reputation.

Luis called a task force meeting this afternoon that Ramon attended. During this meeting it became clear that we are very good at buying/acquiring dollars but we do not seem to sell them and hence our very high repatriation figures. 80% of our dollars come from money exchange business at branches, there is no limit on the amount of dollars that costumers can convert to pesos and for non customers we convert up to 3000 dollars, and do not require any KYC.

Luis has decided that draconian measures are required and he is proposing

1. The current freeze on opening USD Cayman accounts will continue indefinitely (there were proposals to reopen as early next week). In addition no new cash deposits will be accepted to the existing accounts.
2. HBMX will cease to buy, accept, sell US cash for all customers.
3. all remediation must be completed by 31 January (earlier than planned March)

Business are reviewing how to implement and will meet again on Friday morning.

In the 2 days I been here it has become apparent that

1. While remediation efforts have progressed they have in some instants been very slow, particularly around phase II corporate accounts. In addition there appears to be a huge back-log in closing accounts as this is a legal process managed by legal. Pending closure customers can continue to operate their accounts which may be part of the reasons for multiple SARS. Jaime's team is producing figures but there are reports of accounts that MLD committee ordered closed in March continuing to operate.
2. how to resolve aAccounts with multiple SARs not being closed in breach GPP 25. it seems that SARS are filed before we have complete information as to whether there is a need to file them in order to comply with local regulation. We are also reviewing the practice of Director Generals being able to sign-off accounts that can remain open.

3. We are reviewing the criteria for high (red) medium (yellow) low (white) customer risk profiles.

Obviously this will evolve over the next few days. Mikes visit and Luis proposed actions are considered extremely sensitive here in Mexico and local management want to get their ducks in a row before advising GMO formally so it will be much appreciated if the above could not be treated as information only and not disseminated without discussing further.

Best regards

Warren

[attachment "CEO Restauaración Script.doc" deleted by David W J BAGLEY/GMO/HSBC]

David W J BAGLEY---26/11/2008 22:52:21---Richard I was at the legal awards dinner where I note you were a judge. During this I took a call from Warren where because of

**David W J BAGLEY/GMO/HSBC** Nov 26 2008 22:52 Mail Size: 2181

To Richard E T BENNETT/HSBH/HSBC
cc Warren G LEAMING/RLA LCA MEM/HBME/HSBC
Subject Mexico
Entity

Richard

I was at the legal awards dinner where I note you were a judge. During this I took a call from Warren where because of where I was I could not prolong. Core was however that at MFG s meeting with CNBV they raised concerns re the Cayman accounts and amount of USD going to US from HBMX. Am catching up with Warren in the morning.

Regards

**********

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

**********

From: Warren G LEAMING
Sent: Mon Dec 08 14:01:30 2008
To: Ramon GARCIA; John R RENDALL
Cc: John F ROOT; Susan A WRIGHT; Catherine BUSSERY; David W J BAGLEY; Andy GENT
Subject: Mexico Visit
Importance: Normal

Ramon/John.

Please find attached the draft email setting out my high level thoughts following my recent visit. Could I please thank you both for the time that you took to spend with me during my visit during what was a very busy and turbulent time for you both. It was of considerable value in clarifying many of the current issues in Mexico and Central America and I hope that I added value in respect of my discussions with those on the ground.

Despite the reservations expressed by the CNBV in respect of the quantity of US dollars repatriated and progress of remediation, I was heartened to note that they also acknowledged the significant progress that has been made in respect of the compliance and AML controls over the past twelve months and since the CNBV meeting with Paul Thurston in March. If you feel that I have neglected to mention something or you have any issues with my conclusions expressed in my draft note please let me know. I intend to send the note to Luis Pena by Friday, 12 December.

Regards.

Warren

DRAFT EMAIL TO LUIS PENA

Luis,

As you know I visited HBMX between Tuesday 25th November and Friday 28th November. I spent my time with the Compliance and AML team in Mexico and thought that I would offer the following thoughts/conclusions as a result of my discussions.

**Submission of SARs within 30 days.** Currently local regulation requires that if suspicious activity is recognised that a SAR should be filed within 30 days. It is apparent that in many instances the business are not providing the information required to the Compliance department to determine whether a SAR should be submitted or not within the 30 day period. Given the regulatory requirement and the absence of appropriate information in order to come to an appropriate conclusion, SARs are being submitted when the information is subsequently received it is not possible to retract the SAR even if the information reveals that it was not appropriate to submit the SAR. Accordingly the numbers of SARs that are being submitted may well be too high and given the GPP25 requires that accounts be considered for closure after two SARs are submitted, we may well be closing accounts where there is no need to do so. This is both unfair on our customers and causes increased work. I note that the regulation is to be extended to 60 days, having said that pressure should be bought to bear on the business to ensure that appropriate information is submitted to Compliance in time for them to come to a conclusion and submit SARs within 30 days.



Permanent Subcommittee on Investigations
EXHIBIT #36

**Closure of accounts - backlog and blocking.** When accounts are to be closed, either as a result of the remediation programme or as a result of a direction by the CCC committee, policy in HBMX requires that such accounts be sent to Legal who will instruct an attorney. Apparently the law requires that customers be appropriately notified. It is apparent that there is a significant backlog (3,659) of accounts to be closed. Of this amount 675 accounts pending closure were ordered to be closed by the CCC on suspicion that they are used for money laundering activity. You will note that some of these accounts are very old, in fact it appears that there are 16 accounts that were sent for closure in 2005, 130 from 2006, 172 from 2007 and 309 from 2008 that remain open. I am advised that based on legal advice it is not possible to block the accounts before closure and accordingly all of these accounts remain open with transactions being conducted on them which also increases the number of subsequent SARs being submitted to authorities. I would ask that the legal advice be reviewed and if appropriate a commercial decision be taken because I was advised that Scotiabank do not use attorneys or their Legal department but notify customers using certified mail. I have also reviewed translations of the applicable legislation which appears to confirm this. High profile accounts that Public Affairs have advised should not be closed because of reputational sensitivities should be reviewed at DGA level to ensure appropriate remediation and/or closure.

**GPP25 - DGA letters .** This Group policy requires that if two SARs are submitted the account should be considered for closure. HBMX policy allows the account to remain open if there is a DGA letter. There are a large number of DGA letters and I am not necessarily confident that appropriate due diligence is done by the business before such letters are submitted. You will recall that historically there have been two very significant cases [redacted] where Compliance recommended that the accounts be closed and that the business had taken a commercial decision and insisted that they remain open. Subsequent events have revealed that these cases involved blatant and systematic AML which has caused the Bank much embarrassment. It is important that the businesses ensure that appropriate support/due diligence is conducted before completion of the letters.

**CCC/AML Committee.** The CCC currently meets monthly and whilst it has improved it appears that there are still many instances where decisions are too slow in being taken and the closure of accounts is delayed significantly by business requests for more time. The presumption seems to be in favour of the businesses views which needs to change to a more Compliance orientated balance. I have asked Ramon who chairs the committee to take a much stricter approach going forward to ensure that suspicious accounts are closed quickly. I have also asked Ramon to consider whether the frequency should be increased to allow more timely consideration of serious cases or authority delegated so that decisions can be taken between meetings. I have also asked that the meeting only deal with high level cases and that the vast majority of cases currently dealt with at the Committee be dealt with outside the Committee and only come to the Committee where business and Compliance cannot agree.

**Issues arising from your CNBV visit.** I am aware that following your visit to the CNBV with Emilson Alonso and Mike Geoghegan that you have decreed:-

a) That as of the 1st January the Bank will not accept USD cash deposits nor provide exchange services for US dollars. Accordingly no dollars will be accepted by the branches and travellers cheques will not be sold to non-customers and will be sold to customers on a limited basis. There remain AML issues in respect of travellers cheques which historically are very high risk from an AML perspective and accordingly we would expect that the limits are reasonably low and that there are very strong controls in place to ensure that branches do not abuse the rules.

b) That no new Cayman dollar accounts be opened until full remediation of all existing customers.

c) That all remediation for both the Cayman accounts and the restoration project be completed by 31st January. You are aware that remediation has been slow for the Cayman accounts and also for the CMB phase two accounts. We fully support your impetus to speed up the remediation of such accounts. We

also note that in respect of Cayman it is proposed that 3,000 accounts be closed and our above comments in respect of the account closure backlog and speed need to be addressed. We are also aware that examples are to be set both on a branch and individual basis for failure to follow procedures with respect to account opening, ID and V guidelines. We fully support appropriate action being taken against all individuals who do not comply with the Group's policies.

Transaction limits . There are a number of transaction limits. I suggest that the following be reconsidered as appropriate limits and controls be put in place:-

a) There is no limit on the Bank selling cashiers cheques to customers when they are paid for from the customer's account. This should be subject to appropriate limits and controls.

b) There is no limit on customers depositing travellers cheques to their accounts.

c) The Bank will sell up to $25,000 of travellers cheques when it is paid for from the customer's account. This appears too high and as discussed above we would encourage that a reasonable limit be imposed and strong controls be put in place.

d) There is some confusion around the limits on wire transfers which should be reviewed.

CMP/AML Resources . Having spent time with Jaime Saenz, the new Head of AML, I think that he has good potential. He has our full support and one of his first tasks is to review the resources that he has at his disposal and what activity they conduct. I know that John Rendall has recently approved a new headcount of four which will be very welcome and in addition I have asked Jaime to review all activity currently undertaken by the AML team to ensure that they are not conducting activity that should be conducted by the business and to maximise the use of resources on a timely basis. It appears that in addition to advising the high, medium and low risk parameters that the team has also been asked to actually identify customers that meet these parameters which would appear to me to be a business activity.

Camp Analysis . While some work has been done of refining the camp alerts more work in required on refining the "soft rules" to produce focussed meaningful alerts.

Efficiencies can be obtained by a) analysis of the high and medium risk categories on a slightly more sophisticated basis than has been done in the past by analysing the type of activity on the accounts. This may have the effect of actually reducing the number of high and medium risk cases to be remediated. b) more focussed planning initiatives rather than dealing with issues on an ad hoc basis and. c) introduction of review sampling of customer files to ensure high quality KYC/customer visits including supportive documentation. More detailed risk based reviews by Compliance and Internal Control of the business appear necessary.

I am aware that a "AML Shock Plan" is being implemented and this will assist greatly in moving the emphasis/balance of approach to opening/managing customer accounts to group standards.

I look forward to any comments that you have or would welcome further discussion.

Regards.

## HBUS Banknotes NY - USD Bought from or Sold to Customers in Mexico: 3-Month Period (Nov-06 to Feb-07)

| Customer Name | Type of Client | HSBC Purchase or Sale | 100s | 50s | 20s | 10s | 5s | 2s | 1s | Total Amount Traded |
|---|---|---|---|---|---|---|---|---|---|---|
| BANCO MERCANTIL DEL NORTE (7 branches) | Bank | Purchases | $18,310,000 | $4,600,000 | $22,380,000 | $3,090,000 | $2,000,000 | $5,400 | $1,186,000 | **$51,571,400** |
| BANCO MERCANTIL DEL NORTE (7 branches) | Bank | **Sales** | **$10,150,000** | $2,000,000 | $200,000 | $0 | $0 | $0 | $0 | **$12,350,000** |
| [redacted] | | | | | | | | | | |
| BBVA BANCOMER SA (7 branches) | Bank | Purchases | $164,025,000 | $23,795,000 | $80,690,000 | $6,862,700 | $3,502,000 | $40,000 | $1,790,200 | **$280,704,900** |
| BBVA BANCOMER SA (7 branches) | Bank | **Sales** | **$2,595,000** | $340,000 | $1,308,000 | $488,000 | $108,000 | $15,200 | $15,300 | **$4,869,500** |
| HSBC MEXICO SA (16 branches) | Bank | Purchases | $341,301,000 | $65,230,150 | $290,120,760 | $23,967,140 | $13,766,570 | $53,800 | $7,956,015 | **$742,395,435** |
| HSBC MEXICO SA (16 branches) | Bank | **Sales** | **$600,000** | $200,000 | $440,000 | $60,000 | $35,000 | $0 | $20,000 | **$1,355,000** |
| [redacted] | | | | | | | | | | |
| CASA DE CAMBIO PUEBLA (9 offices) | **MSB** | Purchases | $28,520,000 | $13,740,000 | $146,199,000 | $5,347,000 | $1,708,500 | $510,200 | $465,600 | **$196,490,300** |
| CASA DE CAMBIO PUEBLA (9 offices) | **MSB** | **Sales** | **$0** | $0 | $0 | $0 | $0 | $0 | $0 | **$0** |
| CONSULTORIA INTERNACIONAL (4 offices) | **MSB** | Purchases | $93,425,000 | $18,119,000 | $73,643,000 | $4,887,000 | $2,508,500 | $17,000 | $1,127,900 | **$193,727,400** |
| CONSULTORIA INTERNACIONAL (4 offices) | **MSB** | **Sales** | **$0** | $0 | $0 | $0 | $0 | $0 | $0 | **$0** |
| [redacted] | | | | | | | | | | |
| **All customers in Mexico** | * | * | **$872,724,600** | **$165,595,900** | **$788,787,020** | **$57,432,870** | **$31,461,570** | **$686,400** | **$17,533,415** | **$1,934,221,775** |

Permanent Subcommittee on Investigations
EXHIBIT #37a

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential Treatment Requested by HSBC

Confidential & non-public OCC information

Permanent Subcommittee on Investigations
EXHIBIT #37b

HSB00006981

OCC-PSI-00005890

## BANKNOTES-NY Selected Customers' Activity Alerts & Traders' Explanations for USD Purchases & Sales from 2005-2009

LCO reviews current & prior explanations from trader & client along with info in KYC profiles and recent activity for customer and country (in GBS) to confirm.
LCO uses independent sources (on internet) as needed to validate information provided by trader (tourism, remittances, trade, economic & political news/events, FX rates, GBS deal inquiry screens, etc.).
If variance (actual vs expected) appears potentially suspicious, LCO should research/investigate and report activity accordingly (internally & externally).

| Country | Customer Name | Alert / Review Date | Currency Traded | HBUS Purchase or Sale | USD Equiv Amount (in thousands) | Country Risk Rating | Client Risk (SCC) | Traders' Explanations & Follow-up info requested/obtained by Compliance |
|---|---|---|---|---|---|---|---|---|
| GUATEMALA | [redacted] | Dec-07 | USD | P | $11,360 | Cautionary | | The financial market in Guatemala was proven weak and inefficient during 2007, and as a result some consolidation and restructuring were part of financial reforms whereby banking sector was reduced. As such, Industrial has gradually increased their USD deposits and December/January are typical months in which family remittances are received. |
| GUATEMALA | | Apr-08 | USD | P | $16,353 | Cautionary | | [redacted]. The increased banknote volume during May is a direct result of increased tourism in Guatemala where it is still reasonably inexpensive to visit, and also directly generated by their clients in the airlines sector. |
| GUATEMALA | | Dec-08 | USD | P | $19,970 | Cautionary | | Seasonal increase due to holiday period. [redacted] is one of the largest banks in Guatemala, as such and due to the fact that they have a large branch network throughout the country they receive a greater number of cash deposits, especially during high peak tourist and holiday seasons. The bank is also a receptor of USD banknotes which derives from family remittances which typically increase during this period. |
| GUATEMALA | | May-09 | USD | S | $2,099 | Cautionary | SCC | New client - Figure is not actual, applies to reversal of purchase on same amount. |
| GUATEMALA | | Aug-09 | USD | P | $7,795 | Cautionary | SCC | In Guatemala a mid-year bonus (Bono 14) is given during the month of July. Thanks to this payment the financial sector tend to experience cash surpluses which generate consumer expeditures in electronics, textiles, etc. |
| MEXICO | | Jan-05 | USD | P | $16,107 | Standard | | [redacted] is a new client for us. This time of the year, Mexico has more surplus in cash than any other time of the year to the vast numbers of Mexican visiting relatives/family during the holiday season. A lot of the surplus from the market comes in to the banks in the early part of the new year. |
| MEXICO | | Feb-05 | USD | P | $20,747 | Standard | | The is a relatively new client and the volume level is in line with the rest of the market participants during this time of the year. |
| MEXICO | | Apr-05 | USD | P | $25,208 | Standard | | New client, which we have started to operate in July, 2004. Slowly but surely, we are getting a bigger share of the volume against competition. |
| MEXICO | | May-05 | USD | P | $19,299 | Standard | | With the increase of cities where we make pickups for Bnorte, we are slowly bu t surely taking away business from competition and increasing our share. This is part of the marketing efforts. |
| MEXICO | | Oct-05 | USD | P | $24,374 | Standard | | Client is slowly moving a larger percentage of their business from competition to HSBC.= due to better terms. |
| MEXICO | | Nov-05 | USD | S | $9,224 | Standard | | Sales are seasonal for [redacted]. we've been very aggressive in pricing against our main competitor in Mexico, and have closed additional transactions. The volume is within expectations. |
| MEXICO | | Feb-07 | USD | P | $22,369 | Standard | | The increase in volume is due to two reasons, 1)early in the year, we tend to see high volume repatriations from Mexico due the end of year/winter return of Mexicans from the USA 2) Excess USD accumulated due to no pick-ups from specific branches for 4 weeks. |

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential Treatment Requested by HSBC N. America Holdings, Inc. HSB00006982

Confidential & non-public OCC information OCC-PSI-00005891

## BANKNOTES-NY Selected Customers' Activity Alerts & Traders' Explanations for USD Purchases & Sales from 2005-2009

LCO reviews current & prior explanations from trader & client along with info in KYC profiles and recent activity for customer and country (in GBS) to confirm.
LCO uses independent sources (on internet) as needed to validate information provided by trader (tourism, remittances, trade, economic & political news/events, FX rates, GBS deal inquiry screens, etc.).
If variance (actual vs expected) appears potentially suspicious, LCO should research/investigate and report activity accordingly (internally & externally).

| Country | Customer Name | Alert / Review Date | Currency Traded | HBUS Purchase or Sale | USD Equiv Amount (in thousands) | Country Risk Rating | Client Risk (SCC) | Traders' Explanations & Follow-up info requested/obtained by Compliance |
|---|---|---|---|---|---|---|---|---|
| MEXICO | [redacted] = Redacted by the Permanent Subcommittee on Investigations | May-07 | USD | S | $6,100 | Standard | | Due to the approach of the holidays (summer vacations) in Mexico, the demand of USD$ increases significantly. Also, our logistical process of sending various couriers to México, on a weekly basis has given us the opportunity to offer a more attractive pricing to the customer. |
| MEXICO | | Jul-07 | USD | S | $9,000 | Standard | | Due holidays (summer vacations) in Mexico, the demand of USD$ and foreign currency increases significantly. Also, our logistical process of sending various couriers to México, on a weekly basis has given us the opportunity to offer a more attractive pricing to the customer. |
| MEXICO | | Nov-07 | USD | S | $6,500 | Standard | | The increase in sells is mainly due to the approach of the Christmas season, in which we begin to see a higher demand of US to Mexico. [redacted] has always requested quotes for this season from various banks, and their decision was based solely in the cost. Since mid-year we have made logistical changes for the imports to Mexico, this has given us the opportunity to offer [redacted] a set rate, and as a result, when they need to import the order is automatically placed directly with HSBC. |
| MEXICO | | Sep-08 | USD | P | $25,894 | Standard | | During the first months of 2008 the purchases of the USD from Mexico had weakened, due to the instability of the USD. The volatility of MXN currency in the last month, has given the local market the opportunity to sell all USD that they had accumulated for the opportunity of a better rate. |
| MEXICO | | Oct-08 | USD | P | $59,750 | Standard | | Due to the financial crisis and the volatility of the MXN currency, locals have selling USD that had been accumulated for the opportunity of a better rate. |
| MEXICO | | Aug-09 | USD | P | $8,995 | High | | During summer season in Mexico, exports tend to decrease as the demand of USD locally is higher due to local holiday season. Additionally overall volume in Mexico is lower than a year ago due to a decrease in tourism caused by the financial crisis and the swine flu situation in this country. [redacted] and has limited branches in Mexico City. This deprived them of capturing the HBMX banknotes business when HBMX stopped accepting banknotes from clients. |
| MEXICO | | Aug-05 | USD | S | $5,198 | Standard | | Not actual sales, entries were created to reverse purchases that needed to be amended. |
| MEXICO | | Jan-07 | USD | P+S | $156M + $10M | Standard | | The branch [redacted] is CHIHUAHUA, and the correct volume should be USD2,066,000 (more reasonable). There is one deal on the GBS for USD6,794,000.- that was a mistake and was reversed. Therefore in GBS you have a Purchase and a Sell for the same amount. |
| MEXICO | | Mar-07 | USD | S | $6,524 | Standard | | The USD SALES were not actual sales, were reversal deals made to modify operations. |
| MEXICO | | Jul-08 | USD | S | $3,042 | Standard | | This is the high season for cash demand, therefore the orders are larger. Also, in May, 2008 several branches ([redacted] which were only acting as servicing branches (only received USD), have become full branches providing the complete service of selling and purchase from customers. |
| MEXICO | | Oct-08 | USD | P | $318,319 | Standard | | Due to the financial crisis and the volatility of the MXN currency, locals have selling USD that had been accumulated for the opportunity of a better rate. |

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

HSB00006983

Confidential & non-public OCC information

OCC-PSI-00005892

## BANKNOTES-NY Selected Customers' Activity Alerts & Traders' Explanations for USD Purchases & Sales from 2005-2009

LCO reviews current & prior explanations from trader & client along with info in KYC profiles and recent activity for customer and country (in GBS) to confirm.
LCO uses independent sources (on internet) as needed to validate information provided by trader (tourism, remittances, trade, economic & political news/events, FX rates, GBS deal inquiry screens, etc.).
If variance (actual vs expected) appears potentially suspicious, LCO should research/investigate and report activity accordingly (internally & externally).

| Country | Customer Name | Alert / Review Date | Currency Traded | HBUS Purchase or Sale | USD Equiv Amount (in thousands) | Country Risk Rating | Client Risk (SCC) | Traders' Explanations & Follow-up info requested/obtained by Compliance |
|---|---|---|---|---|---|---|---|---|
| MEXICO | [redacted] | Apr-09 | USD | S | $1,077 | High | | Figure is not actual - a reversal of a purchase of $1,076,000. |
| MEXICO | [redacted] | May-09 | USD | S | $1,220 | High | | Figure is not actual, applies to a reversal of a purchase on the amount of $1,215,200.00, and various CTF's off-sets deals. |
| MEXICO | [redacted] | Jul-09 | USD | S | $1,326 | High | | Not a live deal, transaction was created to reverse trade B0907003350, client reported incorrect amount. |
| MEXICO | [redacted] | Aug-09 | USD | P | $122,929 | High | | During summer season in Mexico, exports tend to decrease as the demand of USD locally is higher due to local holiday season. Additionally overall volume in Mexico is lower than a year ago due to a decrease in tourism caused by the financial crisis and the swine flu situation in this country. [redacted] has a strong presence in the local market and since HBMX stopped accepting foreign currency from their clients, they were able to capture part of this volume - compensating the overall decrease in total surplus from Mexico due to drop in tourism and family remittances. |
| MEXICO | [redacted] | Mar-05 | USD | S | $5,515 | Standard | | Reversal Deals. |
| MEXICO | [redacted] | Oct-06 | USD | S | $7,814 | Standard | | This is a reversal deal to correct a buy deal input error. |
| MEXICO | [redacted] | Sep-07 | USD | S | $7,678 | Standard | | The Sales volume is not actual activity, but, rather reversal of deals on the system due to change in shipment dates and or denominations. |
| MEXICO | CASA DE CAMBIO PUEBLA SA DE CV | Feb-05 | USD | P | $18,337 | Standard | SCC | The is a relatively new client and the volume level is in line with the rest of the market participants during this time of the year. Furthermore, our pricing and value date structure has improved the clients ability to compete aggressively. |
| MEXICO | CASA DE CAMBIO PUEBLA SA DE CV | May-05 | USD | P | $24,595 | Standard | SCC | We commenced business with this name on November 2004, the monthly average is not the true 12 month average. Our better pricing and more collection points is landing us more business versus competition. |
| MEXICO | CASA DE CAMBIO PUEBLA SA DE CV | Oct-05 | USD | P | $27,746 | Standard | SCC | The volume is consistent with our expectations. We have also commenced business with their Cancun branch that is translating to more business. |
| MEXICO | CASA DE CAMBIO PUEBLA SA DE CV | Nov-05 | USD | P | $35,092 | Standard | SCC | Increase due to additional collection from 3 different locations/branches. |
| MEXICO | CASA DE CAMBIO PUEBLA SA DE CV | Feb-06 | USD | P | $38,742 | Standard | SCC | This volume is due to two reasons, 1)early in the year, we tend to see high volume repatriations from Mexico due the end of year/winter return of Mexicans from the USA 2) Client is slowing growing its business volume as a result of better cash flow thanks to dealing with HSBC i.e. faster turn around of banknotes. |
| MEXICO | CASA DE CAMBIO PUEBLA SA DE CV | Mar-06 | USD | P | $53,905 | Standard | SCC | Client is slowing growing its business volume as a result of better cash flow thanks to dealing with HSBC i.e. faster turn around of banknotes. Client has also captured more business due to other participants discontinuation of business |
| MEXICO | CASA DE CAMBIO PUEBLA SA DE CV | Apr-06 | USD | P | $54,206 | Standard | SCC | With HSBC, client gets credit same day as pickup in Mexico which has improved their cash flow. In turn, they are passing part of the savings to their client by giving their clients same day value too. As a resulted, CCP is attracting more business from the corporate clients. |

[redacted] = Redacted by the Permanent Subcommittee on Investigations



[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential Treatment Requested by HSBC N. America Holdings, Inc. HSB00006984

Confidential & non-public OCC information OCC-PSI-00005893

## BANKNOTES-NY Selected Customers' Activity Alerts & Traders' Explanations for USD Purchases & Sales from 2005-2009

LCO reviews current & prior explanations from trader & client along with info in KYC profiles and recent activity for customer and country (in GBS) to confirm.
LCO uses independent sources (on internet) as needed to validate information provided by trader (tourism, remittances, trade, economic & political news/events, FX rates, GBS deal inquiry screens, etc.).
If variance (actual vs expected) appears potentially suspicious, LCO should research/investigate and report activity accordingly (internally & externally).

| Country | Customer Name | Alert / Review Date | Currency Traded | HBUS Purchase or Sale | USD Equiv Amount (in thousands) | Country Risk Rating | Client Risk (SCC) | Traders' Explanations & Follow-up info requested/obtained by Compliance |
|---|---|---|---|---|---|---|---|---|
| MEXICO | CASA DE CAMBIO PUEBLA SA DE CV | Sep-06 | USD | P | $76,569 | Standard | SCC | Mexico as a whole and more specifically CCP is the premier country/msb USD remitter. There is an large population of Mexican's working in the U.S. during the summer months (landscaping) that send money back home (religiously) to their families. |
| MEXICO | CASA DE CAMBIO PUEBLA SA DE CV | Mar-07 | USD | P | $113,267 | Standard | SCC | Part of the volume increase for this name is the end result of BofA not servicing MSB's - which has increased the wallet size for other local players. In addition, Torre Mayor branch which opened for business operations in late January had captured more business due to strategic location. |
| MEXICO | | Mar-06 | USD | P | $19,300 | Standard | SCC | Client is shifting volume previously given to competition. |
| MEXICO | | Sep-06 | USD | P | $26,700 | Standard | SCC | This is a new client that has BN relationship with competition. Our aggressive pricing and excellent service is landing us more volume. |
| MEXICO | | Dec-06 | USD | P | $45,859 | Standard | SCC | Bank of America has terminated their relationship with all MSB's. As such, we are gaining more share of the wallet with Wachovia in various cities in Mexico. |
| MEXICO | | Feb-07 | USD | P | $69,797 | Standard | SCC | They have begun to operate 2 additional branches. In addition, volumes are within the expectations due to the season. |
| MEXICO | | Jun-07 | USD | P | $74,429 | Standard | SCC | In comparison of June 06, we have begun to operate 3 additional branches, GDL (Mid June 06, Leon, Late December 06 and Cancun, Mid December 06). Also, Client is slowing shifting their complete business to HSBC, which was originally shared with BOFA. |
| MEXICO | | Aug-07 | USD | S | $1,800 | Standard | SCC | As a result of our new structure in which we are sending the values via airfreight, allows us to delivery any day of the week, versus the original scheduled which was once a week (via courier), we have been able to capture the majority of their business. |
| MEXICO | | Oct-07 | USD | S | $6,000 | Standard | SCC | The USD sales increase is a combination of two factors; (1) American Express has stopped selling T/C's to CC's in Mexico, they only sell them to banks, and CC's can not purchase T/C's from banks. Normally CC's would split their local sells, in cash and in T/C's, due to this situation; their clients are entirely purchasing cash. As a result their demand for USD has increased. (2) Our new logistical structure in which we are sending the values via airfreight, allows us to delivery any day of the week. |
| MEXICO | | Mar-08 | USD | S | $2,000 | Standard | SCC | Due to the holidays (Holy Week in Mexico during March) demand for USD increases significantly. Also, client has the advantage to order on a daily basis, versus scheduled days (Tuesdays and Wednesday), which has given them more room to negotiate sell to their local clients. |
| MEXICO | | Apr-08 | USD | S | $6,000 | Standard | SCC | Due to the holidays "Spring Break", the demand for USD and EURO increases significantly, locals tend to do international tourism. Also, we have improved our operational structure and have been able to provide the customer a more attractive schedule and pricing. |
| MEXICO | | Jul-08 | USD | S | $7,000 | Standard | SCC | Due to the high season (summer vacations) the cash demand increases significantly in Mexico. |

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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

HSB00006985

Confidential & non-public OCC information

OCC-PSI-00005894

## BANKNOTES-NY Selected Customers' Activity Alerts & Traders' Explanations for USD Purchases & Sales from 2005-2009

LCO reviews current & prior explanations from trader & client along with info in KYC profiles and recent activity for customer and country (in GBS) to confirm.
LCO uses independent sources (on internet) as needed to validate information provided by trader (tourism, remittances, trade, economic & political news/events, FX rates, GBS deal inquiry screens, etc.).
If variance (actual vs expected) appears potentially suspicious, LCO should research/investigate and report activity accordingly (internally & externally).

| Country | Customer Name | Alert / Review Date | Currency Traded | HBUS Purchase or Sale | USD Equiv Amount (in thousands) | Country Risk Rating | Client Risk (SCC) | Traders' Explanations & Follow-up info requested/obtained by Compliance |
|---|---|---|---|---|---|---|---|---|
| MEXICO | [redacted] | Oct-08 | USD | P | $55,261 | Standard | SCC | Due to the financial crisis and the volatility of the MXN currency, locals have selling USD that had been accumulated for the opportunity of a better rate. |
| MEXICO | | Dec-08 | USD | S | $3,500 | Standard | SCC | Seasonal increase due to holiday period. Mexico has historically ordered USD and EUR during holiday periods for travelling purposes. |
| MEXICO | | Feb-09 | USD | P | $57,033 | Standard | SCC | The increase in purchases is due to two reasons: 1) Beginning January 1, 2009, HBMX stopped receiving USD cash and we have begun to receive higher volumes of USD cash from our local clients in Mexico. 2) Effective March 31, HSBC will exit the Banknotes relationship with CIB, and as a direct result they have been collecting their entire surplus from other locations to relieve their inventory for this date. |
| MEXICO | | Mar-06 | USD | P | $7,219 | Standard | SCC | Client is shifting volume previously given to competition. |
| MEXICO | | Apr-06 | USD | P | $6,342 | Standard | SCC | Client is slowly growing its business volume as a result of better cash flow thanks to dealing with HSBC i.e. faster turn around of banknotes. Client has also captured more business due to other participants discontinuation of business |
| MEXICO | | Mar-07 | USD | P | $10,223 | Standard | SCC | Part of the volume increase for this name is the end result of BofA not servicing MSB's which has increased the wallet size. Additional volume was received from [redacted] branches which began to sale their USD excess to HBUS during 1Q7. |
| MEXICO | | May-07 | USD | S | $4,000 | Standard | SCC | Due to the approach of the holidays (summer vacations) in Mexico, the demand of USD$ and foreign currency increases significantly. Also, our logistical process of sending various couriers to México, on a weekly basis has given us the opportunity to offer a more attractive pricing to the customer. |
| MEXICO | | Oct-07 | USD | S | $8,200 | Standard | SCC | The USD sales increase is a combination of two factors; (1) American Express has stopped selling T/C's to CC's in Mexico, they only sell them to banks, and CC's can not purchase T/C's from banks. Normally CC's would split their local sells, in cash and in T/C's, due to this situation ; their clients are entirely purchasing cash. As a result their demand for USD has increased. (2) Our new logistical structure in which we are sending the values via airfreight, allows us to delivery any day of the week. |
| MEXICO | | Apr-08 | USD | S | $7,000 | Standard | SCC | Due to the holidays "Spring Break", the demand for USD and EURO increases significantly, locals tend to do international tourism. Also, we have improved our operational structure and have been able to provide the customer a more attractive schedule and pricing. |
| MEXICO | | Sep-08 | USD | P | $3,778 | Standard | SCC | Customer's volumes have gradually decreased during mid 2007, mainly due to a complete restructure of their client portfolio. Total volumes in Mexico are increasing due to the international financial crisis and consequent devaluation of the Mexican Peso. The volume for Intercam is 26% lower than same month last year and the increase when comparing with the 12-Mo averaged is explained by the general increase of the volumes in Mexico, particularly if we have in consideration that USD2.1MM were purchased on September 30th. |

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential Treatment Requested by HSBC N. America Holdings, Inc. HSB00006986

Confidential & non-public OCC information OCC-PSI-00005895

## BANKNOTES-NY Selected Customers' Activity Alerts & Traders' Explanations for USD Purchases & Sales from 2005-2009

LCO reviews current & prior explanations from trader & client along with info in KYC profiles and recent activity for customer and country (in GBS) to confirm.
LCO uses independent sources (on internet) as needed to validate information provided by trader (tourism, remittances, trade, economic & political news/events, FX rates, GBS deal inquiry screens, etc.).
If variance (actual vs expected) appears potentially suspicious, LCO should research/investigate and report activity accordingly (internally & externally).

| Country | Customer Name | Alert / Review Date | Currency Traded | HBUS Purchase or Sale | USD Equiv Amount (In thousands) | Country Risk Rating | Client Risk (SCC) | Traders' Explanations & Follow-up info requested/obtained by Compliance |
|---|---|---|---|---|---|---|---|---|
| MEXICO | | Oct-08 | USD | P | $12,614 | Standard | SCC | Due to the financial crisis and the volatility of the MXN currency, locals have selling USD that had been accumulated for the opportunity of a better rate. |
| MEXICO | | Dec-08 | USD | P+S | $10M + $5M | Standard | SCC | Purchases: Client sold excess cash of almost $5Mio on 12/31 to clear inventory at the end of the year.<br>Sales: Seasonal increase due to holiday period. |
| MEXICO | | Feb-09 | USD | P | $8,992 | Standard | SCC | The increase in purchases is due to two reasons: 1) Beginning January 1, 2009, HBMX stopped receiving USD cash and we have begun to receive higher volumes of USD cash from our local clients in Mexico. 2) Effective March 13, HSBC will exit the Banknotes relationship with Intercam, and as a direct result they have been collecting their entire surplus from other locations to relieve their inventory for this date. |
| MEXICO | | Mar-05 | USD | P | $3,630 | Standard | | New client, which we have started to operate in January, 2005. |
| MEXICO | | Aug-05 | USD | P | $10,694 | Standard | | New client, volume is within expectations. |
| MEXICO | | Jan-08 | USD | P | $5,112 | Standard | | In 2007 [redacted] went under a restructure when adding an additional [redacted] branches to their network, nationwide. At that time, they were supplying all the new branches with the surplus of the Main Branch. This process has finalized and completed, we have begun to receive their entire banknotes surplus. |
| MEXICO | | May-08 | USD | S | $2,000 | Standard | | This particular client always request quotes from various Banks, and will close transaction considering the following; day of delivery and lowest bidder. Transaction was closed considering that we were able to consolidate shipment will other banks and offered an attractive quote which was accepted. |
| MEXICO | | Nov-08 | USD | P | $6,428 | Standard | | Due to the financial crisis and the volatility of the MXN currency, locals sold USD that had been accumulated for the opportunity of a better rate. |
| MEXICO | | Jan-09 | USD | P | $11,220 | Standard | | As of January 1, 2009 HSBC Mexico management announced that the bank would no longer receive USD cash deposits in any format. As such, other banknote clients in Mexico, including [redacted] began to collect part of the cash surplus in the local market. We will conduct a new volume review in order to update the KYC with more realistic values. |
| MEXICO | | Aug-09 | USD | P | $3,600 | High | SCC | During summer season in Mexico, exports tend to decrease as the demand of USD locally is higher due to local holiday season. Additionally overall volume in Mexico is lower than a year ago due to a decrease in tourism caused by the financial crisis and the swine flu situation in this country.<br>[redacted] is currently opening new branches and aggressively pursuing more business that has led it to grow its volume in comparison to the past. We are also told that they are giving HSBC more of its business than BofA. |
| MEXICO | | Sep-09 | USD | P | $8,326 | High | SCC | [redacted]s currently opening new branches and aggressively pursuing more business that has led it to grow its volume in comparison to the past. We are also told that they are giving HSBC more of its business than BofA. |
| PANAMA | | Apr-05 | USD | P | $2,600 | Cautionary | | This is a new client since June 2004. The volume is within our expectations. |
| PANAMA | | Jun-05 | USD | P | $3,500 | Cautionary | | We started to do business with them in mid-June, 2004. The volumes are with our expectation |

= Redacted by the Permanent Subcommittee on Investigations

Confidential Treatment Requested by HSBC N. America Holdings, Inc. HSB00006987

Confidential & non-public OCC information OCC-PSI-00005896

## BANKNOTES-NY Selected Customers' Activity Alerts & Traders' Explanations for USD Purchases & Sales from 2005-2009

LCO reviews current & prior explanations from trader & client along with info in KYC profiles and recent activity for customer and country (in GBS) to confirm.
LCO uses independent sources (on internet) as needed to validate information provided by trader (tourism, remittances, trade, economic & political news/events, FX rates, GBS deal inquiry screens, etc.).
If variance (actual vs expected) appears potentially suspicious, LCO should research/investigate and report activity accordingly (internally & externally).

| Country | Customer Name | Alert / Review Date | Currency Traded | HBUS Purchase or Sale | USD Equiv Amount (in thousands) | Country Risk Rating | Client Risk (SCC) | Traders' Explanations & Follow-up info requested/obtained by Compliance |
|---|---|---|---|---|---|---|---|---|
| PANAMA | [redacted] | Jan-06 | USD | P | $1,400 | Cautionary | | [redacted], had been sharing the banknotes business between BNP, and HSBC. We have obtained 100% of the business. |
| PANAMA | | Mar-06 | USD | P | $1,800 | Cautionary | | Volume within expected levels |
| PANAMA | | May-06 | USD | P | $2,650 | Cautionary | | On the average the bank exports two times per month, however during May 2006 they had residual cash from the previous month. |
| PANAMA | | Nov-06 | USD | P | $2,050 | Cautionary | | Accumulated volumes from October, which where not repatriated due to local holidays in Panama. |
| PANAMA | | Feb-07 | USD | P | $4,750 | Cautionary | | On the average the bank exports two times per month, however during February,2007 they had residual cash from the previous month. |
| PANAMA | | Aug-07 | USD | P | $5,660 | Cautionary | | [redacted] was sharing business with BNP 30%,and the remaining with HSBC. They have began to repatriate the 100% of their business with HSBC. Volumes within expectations. |
| PANAMA | | Jan-08 | USD | P | $7,050 | Cautionary | | [redacted] was sharing business with BNP 30%,and the remaining 70 %with HSBC by mid July 2007 they have began to repatriate 100% of their business with HSBC. In addition to this,s is the Christmas Season, which we normally see the repatriation by following month (January). |
| PANAMA | | Apr-09 | USD | P | $8,015 | Cautionary | | The excess of purchases on the amount of $665K for this client is mainly based upon our itinerary changes on shipments from Panama. We had exported the last day of the prior month, but [redacted] (who normally exports on a weekly basis), was not ready for export the last week of March, reporting the 1st of April. |
| PANAMA | | Sep-09 | USD | P | $2,140 | Cautionary | | Previously [redacted] was not only a Banknotes client, but also was used as a local provider for HBUS in Panama. HBUS was vaulting other client's values in [redacted] facilities - until the day of the exports. This gave us the opportunity to collect practically on a daily basis fo[redacted]. This facilitated them with issue of the local insurance, once the shipment was collected from their facilities in was within the HBUS insurance and vaulted of th[redacted] vault. After the decision o[redacted] to sell all their USD excess to BNP, they also exited the service of vaulting for HBUS. This has affected tremendously our banknotes business with [redacted], which in the past would report from 2 to 3 times a week, and now can only report the day prior to the shipments, which is done once a week. As a result we've began to see a decrease of volume from [redacted] |
| PANAMA | | Apr-05 | USD | P | $3,640 | Cautionary | | We have resumed to trade with the [redacted] Branch since the beginning of 2005, hence the increased volume. BN Profile will be updated during review. |
| PANAMA | | May-05 | USD | P | $3,255 | Cautionary | | The increase is due us making collection at the [redacted] Free Trade Zone branch i.e. we have added another location/branch to make pickups. |
| PANAMA | | Aug-05 | USD | P | $3,450 | Cautionary | | Increase due to additional collection from a different location/branch. |
| PANAMA | | Oct-05 | USD | P | $4,300 | Cautionary | | Panama is a dollarized economy. The higher volume of repatriation is a conscious effort by the bank to keep an optimum inventory and avoid additional costs of funds. |

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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

HSB00006988

Confidential & non-public OCC information

OCC-PSI-00005897

## BANKNOTES-NY Selected Customers' Activity Alerts & Traders' Explanations for USD Purchases & Sales from 2005-2009

LCO reviews current & prior explanations from trader & client along with info in KYC profiles and recent activity for customer and country (in GBS) to confirm.
LCO uses independent sources (on internet) as needed to validate information provided by trader (tourism, remittances, trade, economic & political news/events, FX rates, GBS deal inquiry screens, etc.).
If variance (actual vs expected) appears potentially suspicious, LCO should research/investigate and report activity accordingly (internally & externally).

| Country | Customer Name | Alert / Review Date | Currency Traded | HBUS Purchase or Sale | USD Equiv Amount (in thousands) | Country Risk Rating | Client Risk (SCC) | Traders' Explanations & Follow-up info requested/obtained by Compliance |
|---|---|---|---|---|---|---|---|---|
| PANAMA | [redacted] = Redacted by the Permanent Subcommittee on Investigations | Feb-08 | USD | P | $3,600 | Cautionary | | The excess in purchases is due to two reasons: (1) Seasonal (carnival), we tend to see an increase of volumes during this season due to tourism; (2) [redacted] has added more corporate clients to their portfolio and as result we have begun to see the increase in the exports. [redacted] expanded their business with corporate clients in the [redacted] Free Trade Zone. These corporate clients are oriented to the retail business of any kind of products (perfumes, toys, electronics, etc). Moreover, the European tourism is having a strong purchase power, increasing significantly the commercial activity in the FTZ |
| PANAMA | | Mar-05 | USD | S | $1,990 | Cautionary | | Reversal Deals. |
| PANAMA | | Aug-05 | USD | P | $18,550 | Cautionary | | Because of a strong marketing strategy, [redacted] has been able to expand the local client base, increasing the repatriation of Bank-Notes. |
| PANAMA | | Sep-05 | USD | P | $24,755 | Cautionary | | Within our expectation, client had informed us of their local marketing strategy. They are targeting more client locally with aggressive terms i.e. making collections from major retail outlets at no fees. This is landing them more volume. |
| PANAMA | | Dec-05 | USD | P+S | $28M + $7M | Cautionary | | The increase is due to an additional collection at the [redacted] ree Trade Zone branch i.e. we have added another location/branch to make pickups. |
| PANAMA | | Mar-06 | USD | S | $2,050 | Cautionary | | Reverse deal to modify pricing |
| PANAMA | | May-06 | USD | S | $2,085 | Cautionary | | Reversal deal no B0605002583 to correct deal input. |
| PANAMA | | Oct-06 | USD | S | $18,630 | Cautionary | | This is a reversal deal to correct a buy deal input error. |
| PANAMA | | Nov-08 | USD | S | $3,640 | Cautionary | | Reversal deal |
| PANAMA | | Oct-09 | USD | P | $3,925 | Cautionary | | Previously, [redacted] was not only a Banknotes client - but also was used as a local provider for HBUS in Panama. HBUS was vaulting other client's cash & valuables in [redacted] facilities - until the day of the exports. This gave us the opportunity to collect practically on a daily basis for Multibank, Inc. This facilitated them with local insurance, once the shipment was collected from their facilities it was within the HBUS insurance and vaulted of the [redacted] vault. After the decision of [redacted] to sell all their USD excess to BNP, they also exited the service of vaulting for HBUS. This has affected tremendously our banknotes business with [redacted] In the past they would reoprt from 2 to 3 times a week but now can only report the day prior to the shipments - which is done once a week. As a result we've began to see a decrease of volume from [redacted] |
| PANAMA | | Apr-05 | USD | P | $1,935 | Cautionary | | This is a new client since May 2004. The volume of April is in line with our expectation and the 12 month average on this table is not a correct reflection of its monthly average. |
| PANAMA | | Sep-05 | USD | P | $3,035 | Cautionary | | [redacted] had been deviating slowly in the past months their repatriation from, BNP to HBUS. We have obtained 100% of the business. |
| PANAMA | | Dec-05 | USD | P | $2,755 | Cautionary | | We have obtained 100% of their business since October 2005, volumes within our expectations. |
| PANAMA | | Oct-06 | USD | P | $3,129 | Cautionary | | On the average, bank is exporting weekly, however during early October, they had residual cash from the previous month. |
| PANAMA | | Feb-08 | USD | P | $4,350 | Cautionary | | The increase that we are actually seeing is mainly to the Carnival Season (tourism), in which we tend to see an increase in the volumes. |

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

HSB00006989

Confidential & non-public OCC information

OCC-PSI-00005898

## BANKNOTES-NY Selected Customers' Activity Alerts & Traders' Explanations for USD Purchases & Sales from 2005-2009

LCO reviews current & prior explanations from trader & client along with info in KYC profiles and recent activity for customer and country (in GBS) to confirm.
LCO uses independent sources (on internet) as needed to validate information provided by trader (tourism, remittances, trade, economic & political news/events, FX rates, GBS deal inquiry screens, etc.).
If variance (actual vs expected) appears potentially suspicious, LCO should research/investigate and report activity accordingly (internally & externally).

| Country | Customer Name | Alert / Review Date | Currency Traded | HBUS Purchase or Sale | USD Equiv Amount (in thousands) | Country Risk Rating | Client Risk (SCC) | Traders' Explanations & Follow-up info requested/obtained by Compliance |
|---|---|---|---|---|---|---|---|---|
| PANAMA | [redacted] = Redacted by the Permanent Subcommittee on Investigations | Apr-08 | USD | P | $5,030 | Cautionary | | The volume is not correct; we had to modify a deal in order to cancel an operation. The actual volume of the Purchases: USD3.8MM. |
| PANAMA | | May-08 | USD | P | $4,640 | Cautionary | | This year the business activity from the [redacted] Free Zone has been slowly increasing, as a result the surplus of USD will increase as well. |
| PANAMA | | Oct-08 | USD | P | $6,715 | Cautionary | | The excess in purchases is due mainly to the addition of added more corporate clients (wholesalers based in [redacted] Free Trade Zone) to their portfolio and as result we have begun to see the increase in the exports. |
| PANAMA | | Oct-09 | USD | P | $6,640 | Cautionary | | Although the Panamanian market has become a challenge for the Banknotes business, [redacted] has been one of the few Banks in Panama that have continued to export the 100% of the excess USD cash to HBUS. The increase during this month is mainly based on the fact that HBUS will not export until we reach a minimum amount to cover our fixed cost, and [redacted] held the cash one week from prior month, in order to ship thru us. Average has been consistent during 2009. |
| PARAGUAY | | Nov-05 | USD | P | $54,500 | Cautionary | | Increase is due to the modifications of the tax regulations of Paraguay. For the sector of personal computers and related components the tax is exonerated from 11/1/2005 to 12/31/2005. We have learned that clients have decided to sell all the USD excess to the local banks instead of the house exchanges. |
| PARAGUAY | | May-06 | USD | P | $76,590 | Cautionary | | The increased volume was driven by the increase of activity of corporate clients engaged in sales of electronics, computer software and hardware. [redacted] has taken an aggressive approach to obtain the banknotes business from the corporate sector. [redacted] had reported to conduct banknotes business with 72 Paraguayan Corporations generating the USDollars and foreign currency banknotes surplus. |
| PARAGUAY | | Dec-07 | USD | P | $77,000 | Cautionary | | Starting in December we increased our flight's frequency, from one to three flights per week. This allowed our clients to improve their cash flow and be more aggressive, increasing the total volume of the business. |
| PARAGUAY | | Jan-05 | USD | P | $8,800 | Cautionary | | The volume is within the expected range during this time of the year. Historically, we have seen more cash in the market from banks due to holiday season shopping. This comes back to the bank for liquidation. |
| PARAGUAY | | Jan-07 | USD | P | $3,260 | Cautionary | | In line with Monthly Trade Volume Estimates. They shipped in January part of the cash they collected during December. That's why when you compare Dec-06 Vs Dec-05 you see a reduction in the USD activity but an increase when you compare Jan-07 Vs Jan-06. But overall activity is about the same. |
| PARAGUAY | | Jul-07 | USD | P | $2,852 | Cautionary | | [redacted] has some volatility in the monthly volumes but these figures are in line with monthly trade volumes estimates. Currently the main reason for the surplus of USD in Paraguay is due to tourists coming from Foz de Iguazu, Brazil and Puerto Iguazu, Argentina; going to Ciudad del Este for shopping. |
| PARAGUAY | | Dec-07 | USD | P | $4,600 | Cautionary | | Starting in December we increased our flight's frequency, from one to three flights per week. This allowed our clients to improve their cash flow and be more aggressive, increasing the total volume of the business. |

Confidential Treatment Requested by HSBC N. America Holdings, Inc. HSB00006990

Confidential & non-public OCC information OCC-PSI-00005899

## BANKNOTES-NY Selected Customers' Activity Alerts & Traders' Explanations for USD Purchases & Sales from 2005-2009

LCO reviews current & prior explanations from trader & client along with info in KYC profiles and recent activity for customer and country (in GBS) to confirm.
LCO uses independent sources (on internet) as needed to validate information provided by trader (tourism, remittances, trade, economic & political news/events, FX rates, GBS deal inquiry screens, etc.).
If variance (actual vs expected) appears potentially suspicious, LCO should research/investigate and report activity accordingly (internally & externally).

| Country | Customer Name | Alert / Review Date | Currency Traded | HBUS Purchase or Sale | USD Equiv Amount (In thousands) | Country Risk Rating | Client Risk (SCC) | Traders' Explanations & Follow-up Info requested/obtained by Compliance |
|---|---|---|---|---|---|---|---|---|
| PARAGUAY | [redacted] | Nov-08 | USD | P | $4,900 | Cautionary | | USD volumes in Paraguay are seasonal and that's why the monthly volume was higher than average. Additionally, as a way to improve their liquidity, this bank reduced the charges for accepting USD from the retail sector and therefore they were able to increase the total amount of deposits in their USD accounts. |
| PARAGUAY | [redacted] | Dec-08 | USD | P | $11,500 | Cautionary | | During the last few months, [redacted] was keeping a larger inventory of USD notes than usual as a way to improve their liquidity. They are currently exporting their surplus. |
| PARAGUAY | [redacted] | Jan-09 | USD | P | $21,200 | Cautionary | | During the last few months, [redacted] was promoting new USD deposits by lowering the chargess to their clients for deposits in foreign currency, they implement this strategy as a way to improve their liquidity position. |
| PARAGUAY | [redacted] | Oct-09 | USD | P | $1,050 | Cautionary | | In Paraguay we are observing a shift in the banknotes business where BRL is taking the place of the USD and at a market level. Total USD volume is significant lower. |
| PARAGUAY | [redacted] | Jan-05 | USD | P | $6,150 | Cautionary | | The volume is within the expected range during this time of the year. Historically, we have seen more cash in the market from banks due to holiday season shopping. This comes back to the bank for liquidation. |
| PARAGUAY | [redacted] | Oct-06 | USD | P | $2,285 | Cautionary | | The banknotes volume decreased is due to the loss of market share of the corporate sector. Corporate clients decided to transfer bank activity to other Paraguayan banks due to the uncertainty of the closing of [redacted]h. |
| PARAGUAY | [redacted] | Feb-07 | USD | P+S | $3M + $2M | Cautionary | | The USD SALES were not an actual sell, it was a reversal deal made to modify an operation. The actual volume was USD purchases for USD1,000,000.- |
| PARAGUAY | [redacted] | Feb-05 | USD | P | $13,668 | Cautionary | | The slightly higher surplus is from the market due to increased commerce from travelers and buyers from the region coming to Cuidad de Este to purchasea electronic goods. The carnival season in Brazil is a time when Brazilian take short trips to Ciudad de Este for shopping. |
| PARAGUAY | [redacted] | Mar-05 | USD | P | $13,995 | Cautionary | | The volume is in line with our expectation. [redacted]ained new Corporate Client (Computers and electronics) in recent months. The hiring o[redacted] [redacted] and [redacted], is paying dividends to increase the volumes of deposits and support to import and export businesses in Asuncion and Ciudad del Este. [redacted] has a significant segment of clients from the Jewish community in Paraguay . [Monthly Volume estimate of purchases USD14,000,000.00] |
| PARAGUAY | [redacted] | Aug-05 | USD | P | $20,875 | Cautionary | | [redacted] has gained market share due to aggressive marketing and lower pricing to local clients. |
| PARAGUAY | [redacted] | Nov-07 | USD | P | $11,985 | Cautionary | | Due to its geographical location, this bank has many clients in the agribusiness sector and therefore their volumes are seasonal. |
| PARAGUAY | [redacted] | Dec-07 | USD | P | $16,981 | Cautionary | | Starting in December we increased our flight's frequency, from one to three flights per week. This allowed our clients to improve their cash flow and be more aggressive, increasing the total volume of the business. |

[redacted] = Redacted by the Permanent Subcommittee on Investigations

**BANKNOTES-NY Selected Customers' Activity Alerts & Traders' Explanations for USD Purchases & Sales from 2005-2009**

LCO reviews current & prior explanations from trader & client along with info in KYC profiles and recent activity for customer and country (in GBS) to confirm.
LCO uses independent sources (on internet) as needed to validate information provided by trader (tourism, remittances, trade, economic & political news/events, FX rates, GBS deal inquiry screens, etc.).
If variance (actual vs expected) appears potentially suspicious, LCO should research/investigate and report activity accordingly (internally & externally).

| Country | Customer Name | Alert / Review Date | Currency Traded | HBUS Purchase or Sale | USD Equiv Amount (in thousands) | Country Risk Rating | Client Risk (SCC) | Traders' Explanations & Follow-up info requested/obtained by Compliance |
|---|---|---|---|---|---|---|---|---|
| PARAGUAY | | May-08 | USD | P | $16,935 | Cautionary | | Since last November, [redacted], was able to capture some of their competitor's clients, increasing the volume of their banknotes operation; additionally during last year they opened some new branches allowing them to further expand their business. |
| PARAGUAY | | Jul-09 | USD | P | $13,881 | Cautionary | WatchList | Since we exited our relationship with [redacted] the rest of the banks in Paraguay are competing to capture their market share, increasing monthly volumes. |
| PARAGUAY | | Mar-05 | USD | P | $3,000 | Cautionary | | The volume is in line with our expectation. [redacted] started trading with HSBC on June 2004. We did not have statistics for March 2004. (Monthly Volume estimate of purchases USD3,000,000.00) |
| PARAGUAY | | Apr-05 | USD | P | $5,500 | Cautionary | | We commenced business with this client mid last year and the average is not the true reflection of its monthly volume. The activity is in line with our exectation for this state owned bank. |
| PARAGUAY | | May-05 | USD | P | $6,000 | Cautionary | | This is relatively new client and the volume is in line with the expectation. |
| PARAGUAY | | Jun-05 | USD | P | $8,500 | Cautionary | | BNF first trade was executed on June 23rd, 2004. BNF exported in the month of June 2005 100% of the activity generated with HSBC. |
| PARAGUAY | | Feb-07 | USD | P | $2,500 | Cautionary | | During the last year this client was with an unusual low level of volume due to some concern about the security of their international banknotes business as a consequence of an adverse result in a legal litigation against the Paraguayan Government. They are trying to restart the business and hopefully we will see an increase in the activity for this account. |
| PARAGUAY | | Apr-07 | USD | P | $4,000 | Cautionary | | During more than a year they were almost inactive in the international banknotes business due to litigation against the Paraguayan Government in Switzerland ([redacted]). Currently they are restarting their international operations. There is no impact on us other than the reduction of the volumes with [redacted]. They were liquidating the surplus of USD in the local market and finally was exported for some other banks in Paraguay. I'm sending an E-mail with the call report separately. |
| PARAGUAY | | May-05 | USD | P | $2,000 | Cautionary | | This is a new client and the volume is in line with our expectations. |
| PARAGUAY | | Jun-05 | USD | P | $8,950 | Cautionary | | New relationship with [redacted] and the first trade was executed on May 18th, 2005.Slowly but surely, they are giving us most of their businesss that was previously liquidated locally. |
| PARAGUAY | | Oct-05 | USD | P | $7,900 | Cautionary | | [redacted] Paraguay is a new client that commenced business with HSBC on 05.23.05. The volume is consistent with our expectations. |
| PARAGUAY | | Feb-06 | USD | P | $8,000 | Cautionary | | [redacted] commenced banknotes exports of USDollars on May 23, 2005. The volume is in line with our expectations. |
| PARAGUAY | | Mar-06 | USD | P | $9,000 | Cautionary | | [redacted] commenced banknotes exports of US Dollars on May 23, 2005. The volume is in line with our expectations USD2mm per week. |
| PARAGUAY | | Nov-07 | USD | P | $6,090 | Cautionary | | Due to its geographical location, this bank has many clients in the agribusiness sector and therefore their volumes are seasonal. |

[redacted] = Redacted by the Permanent Subcommittee on Investigations



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

HSB00006991

Confidential & non-public OCC information

OCC-PSI-00005900

Confidential Treatment Requested by HSBC N. America Holdings, Inc. HSB00006992

Confidential & non-public OCC information OCC-PSI-00005901

**BANKNOTES-NY Selected Customers' Activity Alerts & Traders' Explanations for USD Purchases & Sales from 2005-2009**

LCO reviews current & prior explanations from trader & client along with info in KYC profiles and recent activity for customer and country (in GBS) to confirm.
LCO uses independent sources (on internet) as needed to validate information provided by trader (tourism, remittances, trade, economic & political news/events, FX rates, GBS deal inquiry screens, etc.).
If variance (actual vs expected) appears potentially suspicious, LCO should research/investigate and report activity accordingly (internally & externally).

| Country | Customer Name | Alert / Review Date | Currency Traded | HBUS Purchase or Sale | USD Equiv Amount (in thousands) | Country Risk Rating | Client Risk (SCC) | Traders' Explanations & Follow-up info requested/obtained by Compliance |
|---|---|---|---|---|---|---|---|---|
| PARAGUAY | [redacted] = Redacted by the Permanent Subcommittee on Investigations | Jul-08 | USD | P | $8,788 | Cautionary | | The volume of the Banknotes business in the Paraguayan market increased mainly due to the strong Brazilian currency exchange rate that promoted the commercial activity in Ciudad del Este. This effect was not fully reflected before with this client, because due to the soya harvest season a large amount of USD banknotes were needed locally. |
| PARAGUAY | | Nov-08 | USD | P | $8,273 | Cautionary | | USD volumes in Paraguay are seasonal and that's why the monthly volume was higher than average. Additionally, [redacted] growing their business strongly, they are expanding their net of branches and also they are in the process of acquiring [redacted]. |
| PARAGUAY | | May-09 | USD | P | $7,032 | Cautionary | | The USD activity for this bank has a seasonal component related to agricultural business. Additionally due to lower prices for agribusiness products, like soya, there was a reduction on the amount of US notes needed to cover the local demand and consequently there was an increase in the surplus of notes exported. Volume is within expected values. |
| PARAGUAY | | Jul-09 | USD | P | $12,422 | Cautionary | | Since we exited our relationship with [redacted] the rest of the banks in Paraguay are competing to capture their market share, increasing monthly volumes. |
| PARAGUAY | | Sep-09 | USD | P | $3,351 | Cautionary | | [redacted]s based in the city of [redacted] and had been focused in providing their services to the agricultural sector and therefore their banknotes volume had a strong seasonal component, which implies a high volatility in monthly volumes when comparing with 12-Mo Average. They are currently in the process of acquiring [redacted]y which will allow them to expand their business and provide their services to a broader customer base. Additionally in Paraguay we are observing a shift in the banknotes business where BRL is taking the place of the USD and at a market level total USD volume is significant lower. |
| PARAGUAY | | Mar-05 | USD | P | $12,000 | Cautionary | | [redacted] increased the Corporate Client Base. Mandate from [redacted] Brasil for 2005 is to growth. Recently, counterparty bought the credit card business from Citibank. The desk also re-hired [redacted] who is well regarded in the market. [Monthly Trade Volume estimate purchases USD12,000,000.00] |
| PARAGUAY | | Jan-07 | USD | P | $4,500 | Cautionary | | In line with Monthly Trade Volume Estimates. They shipped in January part of the cash they collected during December. That's why when you compare Dec-06 Vs Dec-05 you see a reduction in the USD activity but an increase when you compare Jan-07 Vs Jan-06. But overall activity is about the same. |
| PARAGUAY | | Aug-07 | USD | P | $6,000 | Cautionary | | Most of the USD notes are collected by [redacted] in their retail branches. They have significant fluctuation in the volumes, as mentioned in the KYC profile, due to variations in the level of commerce. Total volume is within expectations. |
| PARAGUAY | | Dec-07 | USD | P+S | $15,000 | Cautionary | | Starting in December we increased our flight's frequency, from one to three flights per week. This allowed our clients to improve their cash flow and be more aggressive, increasing the total volume of the business. |

Confidential Treatment Requested by HSBC N. America Holdings, Inc. HSB00006993

Confidential & non-public OCC information OCC-PSI-00005902

## BANKNOTES-NY Selected Customers' Activity Alerts & Traders' Explanations for USD Purchases & Sales from 2005-2009

LCO reviews current & prior explanations from trader & client along with info in KYC profiles and recent activity for customer and country (in GBS) to confirm.
LCO uses independent sources (on internet) as needed to validate information provided by trader (tourism, remittances, trade, economic & political news/events, FX rates, GBS deal inquiry screens, etc.).
If variance (actual vs expected) appears potentially suspicious, LCO should research/investigate and report activity accordingly (internally & externally).

| Country | Customer Name | Alert / Review Date | Currency Traded | HBUS Purchase or Sale | USD Equiv Amount (in thousands) | Country Risk Rating | Client Risk (SCC) | Traders' Explanations & Follow-up info requested/obtained by Compliance |
|---|---|---|---|---|---|---|---|---|
| PARAGUAY | [redacted] | Jul-08 | USD | P | $9,000 | Cautionary | | The volume of the Banknotes business in the Paraguayan market increased mainly due to the strong Brazilian currency exchange rate that promoted the commercial activity in [redacted]. This effect was not fully reflected before with this client, because due to the soya harvest season a large amount of USD banknotes were needed locally. |
| PARAGUAY | | Jan-09 | USD | P | $8,500 | Cautionary | | The USD activity for this bank has a seasonal component related to tourism and commerce in the tri-border area. Volume is consistent with Jan-08 volume and within expectations. |
| PARAGUAY | | Mar-09 | USD | P | $7,500 | Cautionary | | The USD activity for this bank has a seasonal component related to tourism and commerce in the tri-border area. Additionally due to lower prices for agribusiness products, like soya, there was a reduction on the amount of US notes needed to cover the local demand and consequently there was an increase in the surplus of notes exported. |
| PARAGUAY | | Aug-09 | USD | S | $2,000 | Cautionary | | Not a live deal, transaction was created to reverse trade B0908000654. |
| PARAGUAY | | Aug-05 | USD | P | $19,500 | Cautionary | | [redacted] has been losing market share due to putting restriction on the pay of USD - they had a lot of small denoms that they wanted to get rid of so client were forced to take them. They are slowing moving away from this special conditon and willing to pay out in brand new bills. |
| PARAGUAY | | Nov-08 | USD | P | $12,379 | Cautionary | | USD volumes in Paraguay are seasonal and that's why the monthly volume was higher than average. In this case the monthly volume is almost the same than last year monthly volume. |
| PARAGUAY | | Feb-09 | USD | P | $10,673 | Cautionary | | [redacted] was able to get back part of the volume their lost last year, increasing their USD exports. 12-Mo Average for previous year was about $12MM. In Paraguay, there is an in-flow of US banknotes originated in the commercial activity in the tri-border area, and an out-flow of US banknotes caused by payments from agribusinesses to their workers and suppliers, last year the soy prices were extremely high and therefore a large amount of US notes were used by this sector, reducing the total surplus to be exported, this year the soy price is 40%lower, reducing the amount of US notes needed to cover the local demand and consequently there is an increase in the surplus of notes exported. |
| PARAGUAY | | Jul-09 | USD | P | $13,034 | Cautionary | | Since we exited our relationship wit[redacted] the rest of the banks in Paraguay are competing to capture their market share, increasing monthly volumes. |
| URUGUAY | | Mar-05 | USD | P+S | $5.8M + $55M | Medium | | At the beginning of March a financial institution was suspended by the Central Bank originating some uncertainty on the market, and several Banks bought USD to be able to respond in the case that the public start to withdraw deposits from the system, situation that finally didn't happen. |
| URUGUAY | | May-05 | USD | P | $8,963 | Medium | | They are collecting all the old notes from the banking system (before series 1996) |
| URUGUAY | | Jul-05 | USD | P+S | $43M + $60M | Medium | | The correct purchase volume is $3.112 mio and the sales is $20 mi. This difference is due to reversal deals passed after logistical hardships were encountered to delay shipments. The steady demand from Uruguay due to the unwinding of the deposits that were frozen during the financial crisis in 2001/02.This is a gradual process. |

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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

HSB00006994

Confidential & non-public OCC information

OCC-PSI-00005903

## BANKNOTES-NY Selected Customers' Activity Alerts & Traders' Explanations for USD Purchases & Sales from 2005-2009

LCO reviews current & prior explanations from trader & client along with info in KYC profiles and recent activity for customer and country (in GBS) to confirm.
LCO uses independent sources (on internet) as needed to validate information provided by trader (tourism, remittances, trade, economic & political news/events, FX rates, GBS deal inquiry screens, etc.).
If variance (actual vs expected) appears potentially suspicious, LCO should research/investigate and report activity accordingly (internally & externally).

| Country | Customer Name | Alert / Review Date | Currency Traded | HBUS Purchase or Sale | USD Equiv Amount (in thousands) | Country Risk Rating | Client Risk (SCC) | Traders' Explanations & Follow-up info requested/obtained by Compliance |
|---|---|---|---|---|---|---|---|---|
| URUGUAY | [redacted] = Redacted by the Permanent Subcommittee on Investigations | Feb-06 | USD | P | $15,000 | Medium | | This Central Bank is collecting the old notes from the local market and exporting them. They are planning to keep doing it and the goal is to clean the Uruguayan market of notes older than series 1996. |
| URUGUAY | | Mar-05 | USD | S | $10,000 | Medium | | At the beginning of March a financial institution was suspended by the Central Bank originating some uncertainty on the market, and several Banks bought USD to be able to respond in the case that the public start to withdraw deposits from the system, a situation that finally didn't happen. |
| URUGUAY | | Apr-06 | USD | S | $10,000 | Medium | | In general they do business with BOA but as we could provide them with a competitive rate they closed this deal with HSBC. |
| URUGUAY | | Oct-06 | USD | P | $3,288 | Medium | | They export small denomination and used notes that they are not able to recirculate in the local market. The small denomination notes come from retail clients located in [redacted] it is not from any one particular client. If you analyze the activity of this client, they have only done two exports totalling around USD3MM each. Both these shipments were in denoms of 50s, 20s and 10s. These notes were accumulated over a period of 3 or 4 months and has no demand in the local market for these denoms. The preferred denom by clients is the $100 denom. We so far did not encounter any major issue with USD counterfeits in Uruguay. |
| URUGUAY | | Mar-07 | USD | P+S | $6M + $9M | Medium | | They sold an excess of small denomination and bad condition notes that they were not able to recirculate in the local market and then purchased new USD in 100s for replacing them. |
| URUGUAY | | Aug-07 | USD | P | $6,665 | Medium | | They sold an excess of small denomination and bad condition notes that they were not able to recirculate in the local market and then purchased new USD in 100s for replacing them. |
| URUGUAY | | Jan-08 | USD | P | $7,950 | Medium | | They sold an excess of small denomination and bad condition notes that they were not able to recirculate in the local market. |
| URUGUAY | | May-08 | USD | P | $3,771 | Medium | | They sold an excess of small denomination and bad condition notes that they were not able to recirculate in the local market. |
| URUGUAY | | Jul-08 | USD | P | $3,157 | Medium | | They sold an excess of small denomination and bad condition notes that they were not able to recirculate in the local market. |
| URUGUAY | | Sep-08 | USD | S | $15,000 | Medium | | Due to the current financial crisis in the markets, and the consequently devaluation of the local currency, there is an increasing demand for USD banknotes in Uruguay as a way to keep the value of savings. |

**BANKNOTES-NY Selected Customers' Activity Alerts & Traders' Explanations for USD Purchases & Sales from 2005-2009**

LCO reviews current & prior explanations from trader & client along with info in KYC profiles and recent activity for customer and country (in GBS) to confirm.
LCO uses independent sources (on internet) as needed to validate information provided by trader (tourism, remittances, trade, economic & political news/events, FX rates, GBS deal inquiry screens, etc.).
If variance (actual vs expected) appears potentially suspicious, LCO should research/investigate and report activity accordingly (internally & externally).

| Country | Customer Name | Alert / Review Date | Currency Traded | HBUS Purchase or Sale | USD Equiv Amount (in thousands) | Country Risk Rating | Client Risk (SCC) | Traders' Explanations & Follow-up Info requested/obtained by Compliance |
|---|---|---|---|---|---|---|---|---|
| URUGUAY | [redacted] = Redacted by the Permanent Subcommittee on Investigations | Oct-08 | USD | S | $72,000 | Medium | | Due to the international financial crisis and the economic uncertainty generated in Argentina's economy, as consequence of the reform of the Pension Funds announced by the government, there was a high demand for USD banknotes from people exchanging their savings in USD and withdrawing the money from the bank's account. Argentina and Uruguay have a highly integrated economy, they are both members of the [redacted] and historically the Uruguayan economy was related to Argentina. Uruguay's banking system has a higher reputation than the Argentinean one, and therefore, many wealthy Argentines have their savings deposited in Uruguay; therefore their client base is reacting not only to the international financial crisis but also to the added noise created by the Argentinean uncertainty. (as an example, Uruguay suffered a severe financial crisis in 2002 as a consequence of the Argentinean financial crisis in 2001) |
| URUGUAY | | Feb-09 | USD | P | $13,616 | Medium | | They sold an excess of small denomination and bad condition notes that they were not able to recirculate in the local market. The months of Dec, Jan & Feb are the peak of the tourism activity in Uruguay and consequently there is a large amount of USD circulating in the country. Typically, the banks will try to use it to cover their own needs, and they will export the surplus. |
| URUGUAY | | May-09 | USD | P | $4,118 | Medium | | They sold an excess of small denomination and bad condition notes that they were not able to recirculate in the local market. |
| URUGUAY | | Aug-09 | USD | P | $5,524 | Medium | | They sold an excess of small denomination and bad condition notes that they were not able to recirculate in the local market. |



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

HSB00006995

Confidential & non-public OCC information

OCC-PSI-00005904

**From:** Boss, Joseph
**Sent:** Tuesday, June 22, 2010 6:36 PM
**To:** Tabor, Teresa
**Cc:** Boss, Joseph
**Subject:** FW: HSBC
**Attachments:** HSBC Initial [redacted] Contact.doc

FYI

---

**From:** Vivenzio, James
**Sent:** Wednesday, July 29, 2009 5:24 PM
**To:** Stipano, Dan; Belshaw, Sally; Dailey, Grace
**Cc:** Boss, Joseph; De La Garza, Elsa; Wagner, John
**Subject:** RE: HSBC

Here are my notes concerning my conversations with the [redacted] Agents. I will have [redacted] set up a meeting in Washington with everyone on this email, the two [redacted] agents and [redacted] I will also request that they put together some sort of a time line for us since this case goes back nearly two years.

Regards/JimV.

---

**From:** Stipano, Dan
**Sent:** Wednesday, July 29, 2009 2:02 PM
**To:** Stipano, Dan; Belshaw, Sally; Dailey, Grace
**Cc:** Boss, Joseph; De La Garza, Elsa; Vivenzio, James; Wagner, John
**Subject:** RE: HSBC

I spoke further with [redacted] He wants to know if there is a U.S. supervisor for HSBC-Mexico. He also wants to know when we expect our exam to be completed. I told him I'd get back to him on these questions – please advise.

Separate from my conversations, Jim was contacted today by two [redacted] agents who are also involved in the investigation. They provided Jim with additional information about particular accounts, etc., and requested a meeting with us. We should take them up on this.

From what I can tell, this has the makings of potentially being a major criminal case – we need to be all over it.

Jim, please weigh in here concerning the substance of the call you received.

*Daniel P. Stipano*
*Deputy Chief Counsel*
*Office of the Comptroller of the Currency*

---

**From:** Stipano, Dan
**Sent:** Wednesday, July 29, 2009 1:44 PM
**To:** Belshaw, Sally; Dailey, Grace
**Cc:** Boss, Joseph; De La Garza, Elsa
**Subject:** RE: HSBC

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #38

I think the important thing is that we take a close look at the Banknote area, which it sounds like we are doing. I would be particularly interested in the bank's level of due diligence on its Mexican customers, and a review of transaction activity involving those customers to ensure that the bank is satisfactorily identifying and reporting suspicious transactions. I will circle back to the [redacted]on this and let him know that we are in the process of conducting an examination of the Banknotes area right now. If he identifies any key areas for us to consider looking at, I'll pass them on.

*Daniel P. Stipano*
*Deputy Chief Counsel*
*Office of the Comptroller of the Currency*

---

**From:** Belshaw, Sally
**Sent:** Wednesday, July 29, 2009 1:30 PM
**To:** Stipano, Dan; Dailey, Grace
**Cc:** Boss, Joseph; De La Garza, Elsa
**Subject:** FW: HSBC

As Joe indicates, we are in process of a review of this area now. The specific MRAs from our prior review had been cleared. If there is something we should do (or not do) as a result of this investigation, please let us know.

Regards, Sally

---

**From:** Boss, Joseph
**Sent:** Wednesday, July 29, 2009 1:25 PM
**To:** Belshaw, Sally
**Cc:** Boss, Joseph; De La Garza, Elsa
**Subject:** RE: HSBC

Sally,

We do not have supervisory responsibility for HSBC Mexico. The last Banknote examination encompassing the geographic area of Mexico was our "New York" Banknote examination which was conducted in 2005 (copy of Supervisory Letter attached). As you can see from the letter we had a number of MRA's involving consistent oversight of the KYC and EDD process, instances where the customer information, required by the bank's internal policies and procedures, was not obtained and/or the information obtained was not properly analyzed, instances in which profile information was either not obtained or the analysis of the information was inadequate, no monitoring had in fact occurred for those clients subject to conditional approval and the specific monitoring instructions of the BSA/AML Director, lack of identifying PEPs and that the current category of SCC clients does not account for the potential for reputation risk based on other adverse risk factors to include clients from jurisdictions that have, or clients who have, based on current events, become subject to enhanced regulatory, legal, media or other public scrutiny.

We are currently conducting a "New York" Banknote examination which includes Banknote clientele from the Mexico. If there is something that we should be doing to assist in matters, we can take the opportunity to do so during this current examination. If we are to take on some additional work during this examination, please let Elsa de la Garza know as she is acting EIC as I am on annual leave starting tomorrow.

Joe

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

---



**Confidential & Non-public OCC Information**

**From:** Belshaw, Sally
**Sent:** Wednesday, July 29, 2009 12:33 PM
**To:** Boss, Joseph
**Subject:** FW: HSBC

Joe: Let's discuss. Sally

---

**From:** Stipano, Dan
**Sent:** Wednesday, July 29, 2009 12:32 PM
**To:** Belshaw, Sally; Dailey, Grace
**Cc:** Wagner, John; Vivenzio, James
**Subject:** HSBC

Sally and Grace,

This morning I spoke to [redacted], an AUSA in the Eastern District of N.Y. [redacted] said that his office is in the early stages of investigating possible money laundering through the repatriation of U.S. currency through accounts at the banknotes division of HSBC-N.Y. The scheme that [redacted] described is similar to activity that we have seen at Union Bank, Wachovia, and Zions. Basically, the way it works is that drug money is physically hauled across the border into Mexico, then brought back into the United States through wire transfers from casas de cambio or small Mexican banks, or else smuggled across the border in armored cars, etc., before being deposited in U.S. institutions. According to [redacted] most U.S. banks, recognizing the risks involved, have gotten out of this business, but HSBC-NY is one of the last holdouts (although, interestingly, he said that HSBC-Mexico will no longer accept U.S. currency).

[redacted] wanted us to be aware of his investigation, but he also wanted to know: 1) whether the OCC has supervisory authority over HSBC-Mexico; and 2) whether we have done any recent examinations of the banknotes area at HSBC-NY (if so, he would like to see a copy of the ROE). I told him I didn't know the answers to his questions, but I would get back to him. Can you help?

Thanks,

Dan

*Daniel P. Stipano*
*Deputy Chief Counsel*
*Office of the Comptroller of the Currency*

---

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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

HSBC OCC 8874560

# Conducting an Enhanced KYC for Grand Cayman Accountholders

*Proposal to Update the Strategy to Control Risk arising from Grand Cayman Accounts*

HSBC
The world's local bank

Permanent Subcommittee on Investigations
EXHIBIT #39

# Background

## HBMX CEO requested to conduct an enhanced due diligence (KYC) for all Grand Cayman CDAs DDAs.

- The Bank has been recently fined for offering this product in Mexico, and money laundering red flags have been identified.
- On 28JUL, CMP gave instructions to suspend this product.
- On 31JUL08, Segment Directors were requested by CEO that an enhanced KYC will be completed for all Grand Cayman accounts before 01DEC08.
- As of JUL08, in Grand Cayman CDA/DDA product there were 49,937 customers, and its portfolio was approximately USD 1,500 million.
- Currently, this product is expected to be re-opened, as long as necessary adjustments to systems, processes and documentation are made, with stricter controls, and if Group Compliance's sign-off is obtained.
- On 26SEP, Segment Directors reported that almost no progress has been made in enhanced KYC completion. In addition, a central validation of enhanced KYC quality is not in place.
- According to Remediation Project results, success rate in file completion is approximately 25%. This means that if this strategy is followed, it will not be possible to complete more than 25 % of required enhanced KYC Forms by 01DEC08.

**It is considered that it will not be possible to complete 50,000 enhanced KYC by 01DEC08**



Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8874561

# Actions Taken Up to Date

## The institution has taken mitigating actions for risk arising from this product.

- Implementing online controls to identify if customers are blacklisted people/ PEPs at HSBC account opening.
- Implementing a monthly control for customers who make cash transactions and USD transactions over USD100K.
- In order to re-open the product, it will be required to conduct an enhanced KYC of all new customers and cash deposits will be limited to USD 10K, for individuals, and USD 100K, for corporations.
- Updating Circulars and Work Instructions Manuals applicable to this product.
- Detailed Analysis of risk profile of approx. 50,000 Grand Cayman customers as shown in following slide:



Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8874562

# Existing Risk Arising From Grand Cayman Accounts

Significant Risk degrees from Grand Cayman accounts is in 3341 customers, i.e., 6.69% of total customers.

| Total Customer / Grand Cayman Accounts by Risk Degree | | | |
|---|---|---|---|
| **Traffic Light** | **Description** | **Customers** | **Accounts** |
| **High Risk** | SCCs, mainly customers reported to the authority (SARs) and/or with transactions over USD 100K. | **1,314 (2.63%)** | **2,240** |
| **Medium** | Customers with CAMP alerts (unusual transactions), but without SARs. | 2,027 (4.06%) | 2,084 |
| **Low Risk** | Customers with normal transaction profile, since alerts had not been generated by monitoring systems for them. | 46,594 (93.31%) | 57,262 |
| | **TOTAL** | **49,935** | **61,586** |



Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.
HSBC OCC 8874563

# High-Risk Customers - Present Status

| Customers Group | Recommended Action | Customers 1,314 | Accounts 2,240 |
|---|---|---|---|
| Included in Remediation Efforts, 2nd Phase | To continue with remediation efforts – 2nd phase, for these accounts. By 30OCT it will be possible to find out file completion status. | 572 | 1,137 |
| Status 9 and 13 | To close these accounts, once respective segments have confirmed it. | 258 | 395 |
| Included in Remediation Efforts, 1st Phase | Completed Action. These accounts have already been purged, completed, automatically closed, or will be closed through Legal. | 331 | 513 |
| **Not included in Remediation Efforts (I and II)** | **To conduct an Enhanced KYC by 31OCT or close the account.** | **153** | **195** |

Compliance is currently working on the application of the same method to amber and white groups.



Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8874564

# Proposed Strategy

A risk-based strategy is proposed, which needs less resources

| Total of Customers / Grand Cayman Accounts by Risk Level | |
|---|---|
| **Traffic Light** | **Description** |
| **Red** | 4 572 customer files are being prepared to be completed by 31OCT08, through Remediation Efforts 2nd phase (including central quality control)<br>4 Incorporate 153 customers into this effort.<br>4 To close immediately 258 customers with status 9 and 13. |
| **Amber** | 4 To complete the examination of file completion status and follow a method similar to that developed for red traffic light.<br>4 These files should be completed by 31OCT08. |
| **White** | 4 Schedule the completion of these files for the Third Phase of Remediation Project, starting in NOV08.<br>4 Apply a permanent monitoring to this universe so as to give priority to the files of those customers whose risk status may increase from time to time to amber/red traffic light.<br>4 In addition, a control will be implemented to monitor risk associated with dramatic changes in transaction profile. |



Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.
HSBC OCC 8874565

# Strategic Options for Managing Grand Cayman Accounts Risk

| Strategy | Advantages | Disadvantages |
|---|---|---|
| Continue with present strategy to complete an enhanced KYC for all accounts | ▸ Remove all existing risk by closing all accounts of this product massively, effective from DEC08. | ▸ File Completion Progress will possibly be 25%, and as a result around 37,000 accounts will be closed.<br>▸ The funding from this product will be lost.<br>▸ There is not a dual control for checking enhanced KYC and file completion.<br>▸ It is not possible to complete enhanced KYC within established timescale. |
| Risk-Based Strategy proposed in this document | 4 Implement a better risk control and Close high risk accounts immediately<br>4 Incorporate this documentation into Remediation II<br>4 More focused Work Load for branches.<br>4 Dual Control for checking progress achieved in File Completion and Enhanced KYC Completion. | 4 If enhanced KYC completion for white traffic light customers is deferred, a certain risk level will continue in place. |



Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8874566

From: DENISE A REILLY/HBUS/HSBC
Sent: 5/25/2001 8:18:28 AM
To: CAROLYN WIND/HBUS/HSBC@HSBCAMERICAS;ANNE LIDDY/HBUS/HSBC@HSBCAMERICAS
CC:
Subject: BANK MELLI

FYI

---------- Forwarded by Denise A Reilly/HBUS/HSBC on 05/25/2001 09:16 AM ----------
Michael B Gallagher @ REPUBLIC on 25 May 2001 00:54
Note
25 May 2001 00:54

From: Michael B Gallagher @ REPUBLIC Tel: 212-525-5680
Title: Executive Vice President Location: 452 5th Ave, Floor 5
WorkGroup:
Global Pymts and Cash Mgmt Mail Size: 45680

To: Denise A Reilly/HBUS/HSBC@HSBCAMERICAS

cc: Douglas Stolberg/HBUS/HSBC
Subject: BANK MELLI

I wish to be on the record as not comfortable with this piece of business.

Michael
---------- Forwarded by Michael B Gallagher/HBUS/HSBC on 05/25/2001 12:53 AM ----------
Denise A Reilly @ HSBCAMERICAS on 22 May 2001 13:45
Note
22 May 2001 13:45

From: Denise A Reilly @ HSBCAMERICAS Tel: 302.636.2500
Title: Senior Vice President Location: Delaware
WorkGroup:
Payment Services Mail Size: 43118

To: Carolyn Wind/HBUS/HSBC@HSBCAMERICAS
Anne Liddy/HBUS/HSBC@HSBCAMERICAS
Michael B Gallagher/HBUS/HSBC@Republic
Subject: BANK MELLI



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB02545276

Confidential - FOIA Treatment Requested by HSBC Bank USA N.A. HSBC OCC 0616093

Confidential Treatment

Permanent Subcommittee on Investigations
EXHIBIT #40

HSBC-PSI-PROD-0096138

FYI

---------- Forwarded by Denise A Reilly/HBUS/HSBC on 05/22/2001 08:45 AM ----------

Brian W RICHARDS@HSBC
22 May 2001 05:32

To: Denise A Reilly/HBUS/HSBC@HSBCAMERICAS

cc: John R WILKINSON/HBEU/HSBC@HSBC
Peter C BLENK/HBEU/HSBC@HSBC
Subject: BANK MELLI

Denise

I refer to John Wilkinson's EMail of 18MAY01.

I met Melli yesterday and enquired re names of the principal beneficiaries of their payments - as you will see from the attached Call Report, as expected, Melli could not assist.

Brian

Attachment: cl 20010521 BWR NH Sadeghifar Nazer Pourjam.doc.zip



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB02545277

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0616094

Confidential Treatment Requested HSBC-PSI-PROD-0096139

INSTITUTIONAL BANKING
(CIB IBL)

CALL DATE: 21 MAY 01 CBID: BKBQ CALL REPORT NO: 116184

BANK NAME: Bank Melli Iran
ADDRESS: 4 Moorgate
London
EC2R 6AL

PHONE: 0207 600 3636
FAX: 0207 796 2152

PARENT:
GROUP RELATIONSHIP MANAGER: Chris Butcher

MARKETING CATEGORY: MLP PLACE OF CALL: Restaurant, Vinters Place

PERSON(S) CONTACTED AND TITLE(S):

1. Mr Ahmad Sadeghifar, Director General
2. Majid Nazer, Head of Corporate Lending & Trade Finance
3. Mr Saeed Pourjam, Cash and Payments Manager

HSBC GROUP CALLING OFFICERS:

1. Dr N Homapour, Iran Representative
2. Brian Richards, Area Manager, Middle East & Africa, CIB IBL
3. Phil Smith, HSBC Forfaiting

RELATIONSHIP/ACCOUNT PLAN OBJECTIVES:

1. Increase Trade Business with credit constraints
2. Develop Treasury relationship within credit constraints
3. Obtain an increase in account activity but not SSI
4. Obtain CLS registration

CALL OBJECTIVES:

1. Discuss USD account
2. Discuss forfaiting opportunities

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB02545278

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0616095

Confidential Treatment Requested HSBC-PSI-PROD-0096140

NARRATIVE: (RELATIONSHIP INFORMATION, BUSINESS DEVELOPMENT*, COMPETITION/OTHER ISSUES)

Business Development

- USD account - draft proposal handed over for Melli perusal. Explained the Customer Charter would follow after negotiation with Melli management. OLAM explained, and stressed its use was unconditional to our offer. Was informed that total payment flow was nearer 300 per day, with USD 2 bio MMK. As expected, unable to answer HBUS enquiry re main beneficiaries - Iran imports from many countries and countless suppliers worldwide.
- Lloyds - BWR astonished to learn that Melli has moved most of its USD business from RBS to Lloyds, and has opened a treasury settlement account with Standard Chartered. However, still seem keen to use HSBC.
- CLS - not known by any Melli personnel present. Touched upon the structure and advantages of using HSBC, including the same portal interface as OLAM. Details sought.
- Melli London seek a "dedicated" silent confirmation line. Homapour indicated his support – IBL will process with FCC.

Other

- HSBC Tehran is establishing lines of credit for HKBA and HBAU re grain exports
- HSBC is progressing its plans to open a "virtual bank" in Kish offshore centre - opening planned for mod 2002. It remains a joint venture with NIC (in which Melli is a shareholder).

---

PARENTAL SUPPORT/PERFORMANCE: (CAPITAL, ASSET QUALITY, MANAGEMENT, EARNINGS, LIQUDITY)

---

- Melli Bank plc will commence business end JUN01
- The new UK subsidiary will be the vehicle for a planned expansion into Euroland-Melli presently only has branches in Germany (2) and Paris
- The initial capital will be USD 300 mio

---

ACTION:

1. Revise Tender document - JW/GPCM
2. Establish invoice structure - JW
3. Prepare Customer Charter - JW
4. Send CLS details and place on mailing list – GPCM
5. Can we assist re "dedicated" London CCR line? - JW

---

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB02545279

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0616096

Confidential Treatment Requested HSBC-PSI-PROD-0096141

DISTRIBUTION:

Daily circulation, J Richards, N Weir, Q Aylward, D Reilly, P Blenk

NEXT CALL DATE:2H01 CALLING OFFICER: B W Richards
DATE OF THIS REPORT: 21 MAY 01 SIGNATURE:

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB02545280

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0616097

Confidential Treatment Requested HSBC-PSI-PROD-0096142

From: DENISE A REILLY/HBUS/HSBC
Sent: 7/12/2001 8:22:53 AM
To: DOUGLAS STOLBERG/HBUS/HSBC@HSBCAMERICAS
CC: JOE.HARPSTER@RNB.COM;MICHAEL B GALLAGHER/HBUS/HSBC@HSBCAMERICAS
Subject: Re: Bank Melli

The following memo is background information on the Bank Melli business, prepared by John Richards, Group Representative Iran. Additionally, in a conference call that Joe Harpster, Compliance and I had with HBEU and Richards on 6/27, it was relayed to us that the Group (with the backing of Bond) was looking to significantly grow our presence in Iran. Current lines of credit were reported to be $800m, trade lines of $150m and growth was anticipated in trade, cash management and internet banking. The Bank Melli clearing was viewed by Richards and others as not only profitable as a standalone but also key to winning additional business.

It should also be noted that at the time this proposition came to our attention, HBEU had already consulted with both Matthew King and external counsel and advised a comfort level from both quarters.

Given the seriousness of the business proposal, we continue due diligence on the transaction flow. The decision is primarily a Compliance/Legal one and we are working closely with them on the operational feasibility of any proposed transaction flow.

**********
**********

From: John L RICHARDS/HSBL/HSBCAPAC Tel: 9821 204 0467
Mail Size: 4106

To: Brian W RICHARDS/MDBK/HSBC@HSBC
cc:

Subject: The Central Bank of Iran

Dear Brian

We have been approached by the Central Bank of Iran to take back their USD clearing business from Natwest. In principal I am keen to do this but on the clear proviso that it can be done profitably and on a sustainable basis.

One of our key objectives for the year is to develop HSBC's Asset Management activities in Iran and with the Central Bank now managing the oil price stabalization fund amounting to some USD10bn there is considerable scope for this. Obviously many foreign banks are chasing the same business and so we need to demonstrate some competative or relational advantage. The proposal from the Central Bank was therefore not unwelcome.

I had an initial meeting with Mr Nowbahar Director Intl Dept of the Central Bank yesterday along with Nigel Weir who is visiting Tehran. I emphasised that if we were able to do this we would need to have detailed discussions so that we are clear what is required of us and what we require of them. The Central Bank manage their transactions through Bank Melli London and the intention would be that negotiations are held with Mr Saderighfar.

I would like to end up with a written agreement so that all parties are aware of what they are committing to. Although negotiating with Iranians is a frustrating activity we are in a strong position. They have become disatisfied with NatWest and with the exception of LLoyds, who will have the same issues we

Permanent Subcommittee on Investigations
EXHIBIT #41

have there is little competition. I also assume that our technology advances will make the business more attractive than it was in the past.

I shall be grateful for your thoughts on this and your advice on how I should take this forward. Nigel is here until Thursday and if possible I shall be grateful for your initial feedback before he leaves so that I can discuss the matter further with him. I am sure that he will take this up with you himself but at the end of the day negotiations will be held in London and will be driven by you.

Nasser and I will be in the UK on Feb 14th 15th to help host a presentation to a number of Iranian Bank Managing Directors in association with Robert Gray and the Investment bank. Subject to your views we can join any negotiation meetings that are arranged over that time.

In summary if we can make this business independantly profitable and sustainable the benefits that we can derive particularly from the Treasury, Asset Management and Investment banking spin offs will be substantial. I want therefore to agree a strategy of how we go forward and who we involve before we make any further contact so that I am aware of all the issues involved.

I appreciate your help with this

Best regards

John

Douglas Stolberg
11 Jul 2001 18:23

To: Denise A Reilly/HBUS/HSBC@HSBCAMERICAS

cc: Joe.Harpster@rnb.com
Michael B Gallagher/HBUS/HSBC@HSBCAMERICAS
Subject: Re: Bank Melli

Denise and others,

With the amount of smoke coming off of this gun, remind me again why we think we should be supporting this business?

Doug

Denise A Reilly on 11 Jul 2001 17:16
Note
11 Jul 2001 17:16

---

From: Denise A Reilly Tel: 302.636.2500 Del
Title: Senior Vice President Location: Delaware
WorkGroup:
Payment Services Mail Size: 33351

To: Douglas Stolberg/HBUS/HSBC@HSBCAMERICAS

cc: Joe.Harpster@rnb.com
Michael B Gallagher/HBUS/HSBC@HSBCAMERICAS
Subject: Bank Melli

This is an issue that you should be aware of. As described in Carolyn's memo, we have had ongoing discussions on the topic of Iranian payments both internally, with HBEU and with HBME IRN. HBUS Compliance and HBEU have also consulted with external counsel. The genesis for the discussion was an RFP for HBEU Treasury to handle Bank Melli's USD clearing. From an operational perspective, we will follow Compliance's direction as to whether we should support this business and if agreed, will establish any required operational controls.

Given the level of attention this is now getting, it may be raised at the SMC and will be included in the quarterly Compliance report.

I will keep you apprised.

---------- Forwarded by Denise A Reilly/HBUS/HSBC on 07/11/2001 04:37 PM ----------
Carolyn Wind on 11 Jul 2001 11:13
Note
11 Jul 2001 11:13

From: Carolyn Wind Tel: 212 525 5503
Title: Executive Vice President Location: 452 5th Ave, Floor 07
WorkGroup:
RNYC Compliance Mail Size: 29902

To: Matthew J W KING/HGHQ/HSBC@HSBC

cc: Paul L Lee/HBUS/HSBC@HSBCAMERICAS
Anne Liddy/HBUS/HSBC@HSBCAMERICAS
Elizabeth Protomastro/HBUS/HSBC@HSBCAMERICAS
Denise A Reilly/HBUS/HSBC@HSBCAMERICAS
Subject: Bank Melli

Matthew, this e-mail is to summarize the issues we discussed yesterday regarding HBEU Bank Melli proposal. As you know, HBUS was initially approached in January 2001 with the proposal that HBEU would use its USD account with HBUS to clear USD payments for Bank Melli. Subsequently, there has been extensive review of the matter, including input from two outside US legal firms. The first issue was whether or not the underlying transactions originated by Bank Melli are permissible under the Iranian Transactions Regulations. The regulations provide a general license for transactions that meet the "U-Turn" definition and so we have gone back and forth as to whether the proposed underlying transactions meet the definition. (see below). There continues to be some disagreement between the advice from our two outside law firms on this point but we could probably resolve the difference. Of more concern is the second issue which is that given the way the payment orders are to be constructed and formatted, HBUS will not be able to confirm whether or not the underlying transaction actually meets the "U-Turn"requirement. It is not apparent that HBEU will be able to confirm that each payment meets the requirements. In an effort to facilitate "straight-through processing", it now appears that HBEU will train Bank Melli on formatting the payments and that we will be relying on Bank Melli to ensure that only qualifying payments are processed through HBEU's account with HBUS. (See attached letter to Bank

Melli). If OFAC identifies a transaction that does not qualify, it might view HSBC's actions due to the non-disclosure as having involved willful disregard or evasion. Given the large dollar amounts and volume of activity proposed (300-400 transactions per day), if OFAC took such a view, potential liabilities could be substantial and would certainly impact HBUS's relationship with OFAC.

So to recap:

A) Does this structure as proposed meet the U-turn requirement for processing? If Bank Melli and the second foreign bank do not appear on the MT202 processed by HBUS, how do we determine that the payment is in fact a U-turn?
B) HBUS will not know the foreign banks and, therefore, will not be able to monitor for compliance. Will Melli be informing HBEU of the second foreign bank? Will HBEU set up a function to monitor these payments for compliance with the U-turn provision?
C) If HBEU will set up a function to monitor the payments, it is possible that OFAC may not find it acceptable for HBUS to rely on HBEU to monitor payments for compliance with the U-turn.
D) If the foreign banks involved are not disclosed on the MT202 processed by HBUS, and neither HBEU nor HBUS is monitoring the payments for compliance , OFAC could refer to the section of the regulation regarding "evasion" (Section 560.203 Evasions; attempts).

1) Definition of the permitted "U-Turn" transaction under the Iranian sanctions:
The opinion received from outside counsel, Tom Crocker of Alston & Bird, on 2/2/01 in regards to
the proposed transactions per Peter Blenk's emails of 1/31/01 and 2/1/01 is quoted below.

"...the scenario outlined below does not appear to qualify for the so-called USD "U-turn" exception in the IranianTransactions Regulations. Section 560.516(a)(1) of those Regulations provides a general license for dollar clearing functions which meet the following criteria: the transfer must be
(1) by a foreign bank which is not an Iranian entity (2) from its own account at a
domestic bank (3) to an account held by a domestic bank (4) for a second foreign
bank which is not an Iranian entity." Diagramming this out, the chain would look as
follows:

Foreign Bank (non-Iranian) 1—Domestic Bank 1—Domestic Bank 1 or 2—Foreign Bank 2 (non-Iranian)

(The point of disagreement between legal firms is whether Foreign Bank 2 has to be a different bank from Foreign Bank 1. Our survey of other major USD clearing banks indicated that they follow the literal interpretation of the license, which is two different foreign banks involved.)

---

TRANSACTION DETAIL
Below are summaries of HBUS' understanding of the first proposed transaction flow and the latest proposal.

Example I: U-TURN TRANSACTION

1. Bank Melli sends instructions to HBEU to:

debit Bank Melli's account at HBEU
credit HBEU nostro with HBUS

2. HBEU sends instructions to HBUS to:

debit HBEU account with HBUS
credit any foreign bank (via a USA correspondent for the foreign bank)
for further credit to the ultimate beneficiary

Note: Original HBEU suggestion on payment format would not mention Bank Melli as the originating bank

Example II: Cover Payments (MT202 & MT100)

1. Bank Melli, London sends instructions to HBEU to:

debit their account with HBEU and
credit HBEU nostro with HBUS

2. HBEU will send an MT202 to HBUS to:

debit HBEU's account with HBUS
credit any foreign bank (either on our books or via a USA correspondent for the foreign bank)

Note: Current HBEU recommendation on format would not mention Bank Melli but would contain some reference identification on the specific transaction being settled between Bank Melli and their customer.

3. HBEU will also simultaneously send an MT100 to the foreign bank (credit party) referenced in the above MT202, supplying them with beneficiary details for applying the funds received from HBUS

Note: The MT100 is often processed prior to the MT202 due to time differences between the US and the beneficiary's country.

3) HBEU Instructions to Bank Melli regarding how to format payments:
See attached email of 28JUN01 from John R. Wilkinson with a copy of the letter sent to Bank Melli with instructions on how to format the SWIFT messages.

From: John R WILKINSON/HBEU/HSBC Tel: 790 44466
44 20 7260 4466
Mail Size: 23330

To: Denise A Reilly/HBUS/HSBC@HSBCAMERICAS
cc: Joe.Harpster@rnb.com
Anne Liddy/HBUS/HSBC@HSBCAMERICAS
John L RICHARDS/HSBL/HSBCAPAC@HSBC
Brian W RICHARDS/MDBK/HSBC@HSBC
Quentin R AYLWARD/MDBK/HSBC@HSBC
Terry J BELLAMY/MDBK/HSBC@HSBC
Nick J GILLGRASS/MDBK/HSBC@HSBC

Peter C BLENK/HBEU/HSBC@HSBC
Subject: Re: Bank Melli

Per our conference call today, please find attached the letter 30APR01 sent by our Payments dept (MPD) to Bank Melli Iran London.

Once the proposition goes live we have instructed Bank Melli to alter the format of it's payments to achieve straight through processing. The field 52 input of 'One of our clients' is a standard phrase used by MPD in these situations.

Since sending the letter we have further asked them to only put 'One of our clients' in field 52, thus removing the chance of them inputting an' Iranian referenced' customer name, that causes fall out of the cover payment sent to HBUS and a breach of OFAC regulations.

This method was successfully tested last month on a MT202 (bank to bank) and a MT100 (commercial) payment.

I can understand your concerns following the recent formatting error detailed in Peter Blenk's email 15JUN01 , however I must provide some background for you.

MPD confirm that Bank Melli have not yet gone live on the new method of formatting payments, as we have not yet taken on the new business. Bank Melli are still formatting payments in their usual method, in this instance MPD failed to spot the poor input and did not follow their normal procedure of altering the payment, hence it wasblocked. MPD have again confirmed the new formatting method will achieve straight through processing and overcome these difficulties.

I hope the above detail is sufficient for your purposes and you are able to progress this matter forward as intimated in your earlier approval.

Attachment: rl 20010501 fm MPD to BKBQ re formatting.doc.zip

Saeed Pourjam
Bank Melli Iran
4 Moorgate
London EC2 6AL

30/04/01

Dear Saeed,

I refer to our meeting last month and our telephone conversation of today, I am pleased to advise that following tests in our payments environment we are confident that we have found a solution to processing your payments with minimal manual intervention.

The key is to **always** populate **field 52** – if you do not have an ordering party name then quote "One of our Clients", **never leave blank**. This means that the outgoing payment instruction from HSBC will not quote "Bank Melli" as sender – just HSBC London and whatever is in field 52. This then negates the need to quote "DO NOT MENTION OUR NAME IN NEW YORK" in field 72.

In order to test our proposed solution we would appreciate if used the following templates when submitting your next payments to the following customer, or alternatively submit a USD 1 test payment.

**MT202**

20: *Your Ref.....*

21: *Related Ref.....*

32: *Amount/Currency/Value date.....*

50: **DO NOT QUOTE IF IRANIAN**

52: *Customer Name* **OR** *One or our clients* **MUST BE COMPLETED**

53: **/68296908**

54:

56:

57: *Beneficiary Banker (SWIFT codes where possible)*

58: *Beneficiary (SWIFT codes where possible)*

70: *Any Payments details for beneficiary.....*

72: **Please leave blank**

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8876135

**MT100**

Pay as above.

In order for us to monitor / track these payments please call Adrian Taylor prior to release on 020 72604180. Please use SWIFT standards, Adrian will be happy to discuss with your operator any questions they have re formatting.

When we have made these payments we can then give feedback on any further formatting issues .

Thank-you in advance for co-operation.

Yours sincerely

John Fowle

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8876136

From: Susan A WRIGHT
Sent: Thu Oct 11 09:29:24 2001
To: John ALLISON
Subject: Re: OFAC SANCTIONS
Importance: Normal
Attachments: image_0.gif; image_1.gif; Doc Link.htm

John - FYI

----- Forwarded by Susan A WRIGHT/HGHQ/HSBC on 11 Oct 2001 09:27 -----

[redacted]

General Letter
10 Oct 2001 23:02

From: Matthew J W KING/HGHQ/HSBC

Tel: 790 59815
Mail Size: 17041

David W J BAGLEY et al

To: David W J BAGLEY/RLA LGA MEM/BBME/HSBC
cc: Susan A WRIGHT/HGHQ/HSBC@HSBC
Mark P TAYLOR/SM CMP APH/HBAP/HSBC@HSBC

Our Ref: Your Ref: MEM LGA 012354

Subject: Re: OFAC SANCTIONS

David,

I will forward to you separately a note I sent to Mark Taylor which I hope may clarify things to a certain extent.

The position is difficult because things have changed since September 11. We also have to 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. My own view therefore is that some of the routes traditionally used to avoid the impact of US OFAC sanctions may no longer be acceptable. I appreciate however that the solution will involve the installation of some form of automated screening system. We are looking into this now. Until this is resolved, all we can do is to ask that payments from the affected countries

Permanent Subcommittee on Investigations
EXHIBIT #42

are vetted manually. This is not easy and I agree we should talk about it in more detail on Monday.

I look forward to speaking to you then.

Regards

Matthew King

---

David W J BAGLEY

[redacted]

**General Letter**
10 Oct 2001 13:29

Sent by: Avaan A MAROLIA

---

Matthew J W KING et al

To: Matthew J W KING/HGHQ/HSBC@HSBC
cc: Susan A WRIGHT/HGHQ/HSBC@HSBC
Mark P TAYLOR/SM CMP APH/HBAP/HSBC@HSBC
From: David W J BAGLEY/RLA LGA MEM/BBME/HSBC 971 4 5077697

Our Ref. MEM LGA Your Ref.
012354

Subject: OFAC SANCTIONS

Matthew,

In the light of the current attention being given to the applications of relevant sanctions I feel that there is some need to clarify precisely what is expected of operations within my region in relation to the application of OFAC Sanctions when dealing in USD payments. I do this solely from the perspective of avoiding any misunderstanding.

A number of the OFAC sanctions could have potential effect upon business in this

Region, the most obvious of which are those relating to Iran, Libya and Sudan. As these are US Sanctions, binding US persons they do not have the same effect as the UN Sanctions against Iraq, and on the face of it do not bind either HBME's activities, or those of our customers in any of the above jurisdictions.

I recognise however that the sanctions do affect all transactions in USD, and that payments passing through the US are capable of being identified by the OFAC filters. Even if those transactions involve say an HBME UAE based customer, if there is a connection with one of the above jurisdictions it is likely that the payment will be frozen pending further investigation by OFAC itself.

There are of course risks for us if such a payment is frozen, particularly if the monies are frozen as between correspondent banks, and yet we have shown a credit to the customers USD account here in the Middle East. In the past we have been obliged to pursue a release of monies which have been released to a customer, but have been frozen through the correspondent banking system in the US.

What I am currently unclear about however is the extent to which we are expected to police and observe the OFAC sanctions when dealing in transactions for our customers. Recent notes seem to suggest that we should apply the OFAC Sanctions regardless of jurisdiction.

As I understand the current position we do routinely, and across the Group, adopt differing approaches to payments potentially subject to OFAC sanctions, than to those payments that are unaffected.

This is achieved by a number of different methods.

What I am unclear about is whether these procedurres is viewed as being inappropriate, and thus should be disallowed. We do not structure these payments against a specific request from the customer, rather we undertake this structuring as a routine. I am advised that there may even be software in the UK which filters such payments for restructuring in the event that the original message has been structured in such a way that it will be caught by the OFAC filters.

Were we to disallow all payments which are potentially subject to the OFAC process, or forward messages in such a way that they would be caught, then clearly this would have a significant affect upon our business within the Middle East, but also the Group's business within correspondent banking.

Equally given the likely volumes it is impractical to submit each payment to a process of referral to HBUS.

I would be grateful for your clarification as to whether what is currently going on is acceptable, or whether we should be adopting a different practice.

I recognise that with regard to sanctions which clearly bind HBME (e.g. - Iraq) we have no choice other than to ensure that sanctions are observed, that we undertake no transactions which are potentially caught by the sanctions, other than those permitted on the food for oil basis.

I have separately resolved the issue of EU sanctions, which would theoretically bind HBME as an EU person, where we have confirmation that to observe the sanctions within UAE would place the bank at risk of double jeopardy.

I apologise for the length of the note, but having spoken to Mark Taylor both of us are a little unclear as to how far we are expected to observe sanctions which are non-binding in our jurisdictions in the current climate.

David

From: ANNE LIDDY/HBUS/HSBC
Sent: 10/21/2002 8:30:40 AM
To: CAROLYN M WIND/HBUS/HSBC@HSBCAMERICAS
CC: DENISE A REILLY/HBUS/HSBC@HSBCAMERICAS
Subject: IRAN

Carolyn, I just spoke with Denise. We have tenatively set a date of Friday 10/25 at noon to call Gary Boon on his home number re Bank Melli. Will you be available? THanks.

---------- Forwarded by Anne Liddy/HBUS/HSBC on 10/21/2002 09:34 AM ----------

Anne Liddy on 18 Oct 2002 09:35
Note
18 Oct 2002 09:35

From: Anne Liddy Tel: 212-525-5906
Title: Senior Vice President Location: 452 5th Ave, Floor 07
WorkGroup:
Corporate Compliance Mail Size: 55201

To: Denise A Reilly/HBUS/HSBC@HSBCAMERICAS
Carolyn M Wind/HBUS/HSBC@HSBCAMERICAS
Subject: IRAN

I don't really know what else I can tell Gary that has not already been discussed...but anyway I guess I need to set up a call. Could you both join me, plse! What times would be good for you on Monday?

---------- Forwarded by Anne Liddy/HBUS/HSBC on 10/18/2002 09:34 AM ----------

Gary BOON @ HSBC on 17 Oct 2002 08:11
Note
17 Oct 2002 08:11

From: Gary BOON @ HSBC Tel:
Title: Location:
WorkGroup:
Mail Size: 2138

To: Anne Liddy/HBUS/HSBC@HSBCAMERICAS
Subject: IRAN

Anne, the GRM and I are booked to visit Iran in November and ideally want our position sorted re USD payments. I'm therefore getting eager to talk to you as if we can there are massive opportunities.

It appears London and Iran are seeking a solution to this so you help is much appreciated.

It is the weekend Thursday and Friday here but I'm more than happy to talk to you either tonight or tomorrow. Call me at home at between 12 noon & 1pm your time on 00 971 4 3481659 if you can.

If not can we make it Monday?

Regards

Gary

Anne Liddy on 09 Oct 2002 08:24
Note
09 Oct 2002 08:24



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB00162732

Permanent Subcommittee on Investigations
EXHIBIT #43

Confidential - FOIA Treatment Requ ıgs, Inc. HSB08071277
Confidential - FOIA Treatment Requ HSBC OCC 7687373

From: Anne Liddy Tel: 212-525-5906
Title: Senior Vice President Location: 452 5th Ave, Floor 07
WorkGroup:
Corporate Compliance Mail Size: 6657

To: Gary BOON/MGR PCM MEM/HBME/HSBC@HSBC

cc: Carolyn M Wind/HBUS/HSBC@HSBCAMERICAS
Denise A Reilly/HBUS/HSBC@HSBCAMERICAS
Nancy Hedges/HBUS/HSBC@HSBCAMERICAS
Paul PROCTOR/HBEU/HSBC@HSBC
Subject: Re: Bank Melli

Gary, I have a mtg already scheduled for 9am NYC time today. I will try to set up a call for another day/time and get back to you.

Gary BOON @ HSBC on 08 Oct 2002 23:53
Note
08 Oct 2002 23:53

From: Gary BOON @ HSBC Tel:
Title: Location:
WorkGroup:
Mail Size: 2797

To: Anne Liddy/HBUS/HSBC@HSBCAMERICAS

cc: Carolyn M Wind/HBUS/HSBC@HSBCAMERICAS
Denise A Reilly/HBUS/HSBC@HSBCAMERICAS
Nancy Hedges/HBUS/HSBC@HSBCAMERICAS
Paul PROCTOR/HBEU/HSBC@HSBC
Subject: Re: Bank Melli

Gary BOON @ HSBC on 08 Oct 2002 23:53
Note
08 Oct 2002 23:53

From: Gary BOON @ HSBC Tel:
Title: Location:
WorkGroup:
Mail Size: 2797

To: Anne Liddy/HBUS/HSBC@HSBCAMERICAS

cc: Carolyn M Wind/HBUS/HSBC@HSBCAMERICAS
Denise A Reilly/HBUS/HSBC@HSBCAMERICAS
Nancy Hedges/HBUS/HSBC@HSBCAMERICAS
Paul PROCTOR/HBEU/HSBC@HSBC
Subject: Re: Bank Melli

Anne, thanks for the update.

As your aware HBEU have to comply with the FATF regulations soon, which means full disclosure for all MT100/MT103 payments from all banks.

As my previous e-mail explained these payments would then be sent to HBUS for processing (examples of the types of instructions you're receive have been sent previously) and it is my belief that they will full into the normal OFAC process. Your already processing USD payments from two existing accounts held



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB00162733

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB08071278
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7687374

in London!

The majority of payments will be processed with HBEU sending a MT100/MT103 to the beneficiary bank and HBUS will receive the MT202 cover payment (again your already doing this).

Can I suggest that I call you today to discuss this further at 9am your time? Can you set up a conference call that interested parties (in cc above) can join in? If it's too short notice please advise me of a convienient time/date (I'm 8 hours ahead).

Regards

Gary

Anne Liddy on 08 Oct 2002 15:55
Note
08 Oct 2002 15:55

From: Anne Liddy Tel: 212-525-5906
Title: Senior Vice President Location: 452 5th Ave, Floor 07
WorkGroup:
Corporate Compliance Mail Size: 48218

To: Gary BOON/MGR PCM MEM/HBME/HSBC@HSBC

cc: Carolyn M Wind/HBUS/HSBC@HSBCAMERICAS
Denise A Reilly/HBUS/HSBC@HSBCAMERICAS
Nancy Hedges/HBUS/HSBC@HSBCAMERICAS
Paul PROCTOR/HBEU/HSBC@HSBC
Subject: Bank Melli

Gary, I understand from Nancy Hedges that you are looking for feedback on the Bank Melli proposal. The position of HBUS Compliance remains unchanged re this proposal in that all transactions involving Bank Melli must be fully disclosed and represented in one single transaction that reflects the complete flow of funds. Full disclosure will allow the HBUS payments filter to stop the USD transactions involving Bank Melli and will allow for review of the transaction by HBUS Payment Operations staff to ensure that the transaction fits the definition of a U-turn transaction allowable for processing under the U-turn exemption of the OFAC Iranian sanction.

It is still my understanding that the document attached below (see email from Denise Reilly dated August 29, 2001) is the operative document that outlines the operational process and transaction flows. The transaction flows were approved by Legal Counsel as fitting the U-turn exemption requirements. The next step was that the operational process must be agreed between HBUS Payment Operations and HBEU Payment Operations. At which point, prior to making any proposal to Bank Melli (or any other Iranian banks) HBUS Compliance must inform OFAC and our Senior Management Committee of the proposal and the agreed upon operational procedures.

---------- Forwarded by Anne Liddy/HBUS/HSBC on 10/08/2002 03:13 PM ----------

Nancy Hedges on 08 Oct 2002 14:45
Note
08 Oct 2002 14:45

From: Nancy Hedges Tel: 302-636-2333



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB00162734

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB08071279
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7687375

Title: First Vice President Location: Delaware, Floor 3rd floor
WorkGroup:
Funds Transfer Mail Size: 43230

To: Anne Liddy/HBUS/HSBC@HSBCAMERICAS
Subject: Bank Melli

---------- Forwarded by Nancy Hedges/HBUS/HSBC on 10/08/2002 02:46 PM ----------
Denise A Reilly on 16 Jul 2002 09:04
Note
16 Jul 2002 09:04

From: Denise A Reilly Tel: 302.636.2500 Del
Title: Senior Vice President Location: Delaware
WorkGroup:
Payment Services Mail Size: 42022

To: Nancy Hedges/HBUS/HSBC@HSBCAMERICAS
Subject: Bank Melli

This should be the operative document for discussion. Due to increased regulatory contols in the UK, any previous proposals by them are no longer operative.

---------- Forwarded by Denise A Reilly/HBUS/HSBC on 07/16/2002 09:04 AM ----------
Denise A Reilly on 15 Apr 2002 19:10
Note
15 Apr 2002 19:10

From: Denise A Reilly Tel: 302.636.2500 Del
Title: Senior Vice President Location: Delaware
WorkGroup:
Payment Services Mail Size: 40684

To: John R WILKINSON/HBEU/HSBC@HSBC
John FOWLE/HBEU/HSBC@HSBC
Geoffrey P WEASER/HBEU/HSBC@HSBC
Adrian TAYLOR/HBEU/HSBC@HSBC
Nancy Hedges/HBUS/HSBC@HSBCAMERICAS
Stephen A Tedeschi/HBUS/HSBC@HSBCAMERICAS
Subject: Bank Melli

In preparation for our meeting this week, attached is the Bank Melli transaction flow that was previously put forward and subsequently agreed to by John Richards. Since this has been "vetted" by legal counsel it should form the basis for our discussion.

Will speak to you on Wednesday.

---------- Forwarded by Denise A Reilly/HBUS/HSBC on 04/15/2002 07:05 PM ----------
Denise A Reilly on 29 Aug 2001 19:23
Note
29 Aug 2001 19:23

From: Denise A Reilly Tel: 302.636.2500 Del
Title: Senior Vice President Location: Delaware
WorkGroup:
Payment Services Mail Size: 37527



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB00162735

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB08071280
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7687376

To: Alan WILKINSON/HD HTV ASP/HBAP/HSBC@HSBC
Quentin R AYLWARD/MDBK/HSBC@HSBC

cc: Carolyn M Wind/HBUS/HSBC@HSBCAMERICAS
Matthew J W KING/HGHQ/HSBC@HSBC
Elizabeth Protomastro/HBUS/HSBC@HSBCAMERICAS
John L RICHARDS/HSBL/HSBCAPAC@HSBC
Subject: Bank Melli

The attached document reflects the procedures that have been developed, with the advise and consent of legal counsel, to support Bank Melli payments through HBEU/HBUS. The procedure is designed to meet both regulatory and service quality requirements. Assuming that transactions sent to HBUS meet the u-turn qualifications, all transactions will be processed sameday of receipt.

On Thursday of next week (6 September) we will be meeting with the Director of the Office of Foreign Assets Control and one of the agenda items is to determine their position regarding this business. In anticipation of that meeting, Carolyn Wind and I would appreciate your reviewing the document and if possible meeting with us tomorrow, 10 a.m. NY time/3 p.m. London time, via conference call to discuss. Please confirm your availability and a number where you can be contacted.

Attachment: Melli.doc.zip



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB00162736

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB08071281
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7687377

From: ANNE LIDDY/HBUS/HSBC
Sent: 1/21/2003 1:00:08 PM
To: "CROCKER, TOM" <TCROCKER@ALSTON.COM>
CC: CAROLYN M WIND/HBUS/HSBC@HSBCAMERICAS;DENISE A REILLY/HBUS/HSBC@HSBCAMERICAS;ELIZABETH PROTOMASTRO/HBUS/HSBC@HSBCAMERICAS
Subject: USD Payments from Iranian Banks

Tom,

At Carolyn Wind's request I am forwarding the attached memo to you for your review and comments. 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 (stemming from an initial request for HSBC Bank USA to process USD payments for Bank Melli). This memo outlines that business case. After you have reviewed and provided us with your comments, which may require amendments to the business case, HSBC Bank USA had intended to present the business case to our Senior Management Committee prior to acceptance of the plan. We appreciate your attention to this matter and look forward to hearing from you on this much discussed topic. Thank you.

Regards,
Anne Liddy
HSBC Bank USA
Compliance Department
---------- Forwarded by Anne Liddy/HBUS/HSBC on 01/21/2003 11:00 AM ----------
Denise A Reilly on 16 Jan 2003 09:19
Note
16 Jan 2003 09:19

From: Denise A Reilly Tel: 302.636.2500 Del
Title: Senior Vice President Location: Delaware
WorkGroup:
Payment Services Mail Size: 243262

To: Anne Liddy/HBUS/HSBC@HSBCAMERICAS
Carolyn M Wind/HBUS/HSBC@HSBCAMERICAS
Subject: USD Payments from Iranian Banks

I'm not sure why you were not cc'd on this, but I am forwarding for your review. Perhaps we can discuss tomorrow when I'm in NYC.

---------- Forwarded by Denise A Reilly/HBUS/HSBC on 01/16/2003 09:20 AM ----------
From: Nigel J WEIR@HSBC on 16 Jan 2003 03:56

To: Denise A Reilly/HBUS/HSBC@HSBCAMERICAS
Malcolm G EASTWOOD/MDBK/HSBC@HSBC

cc: Nasser HOMAPOUR/HSBL/HSBCAPAC@HSBC
Nigel J WEIR/RM IB MEM/HBME/HSBC@HSBC
Gary BOON/MGR PCM MEM/HBME/HSBC@HSBC
James J Y MADSEN/HBEU/HSBC@HSBC
Subject: USD Payments from Iranian Banks

---

Denise,

Attached is our business case signed by Rick Pudner, seeking HBUS's approval to process USD payments originating from Iranian Banks. There has been a great deal of correspondence relating to this issue over the past 2 years so we hope this document will precipitate a positive resolution.

Permanent Subcommittee on Investigations
EXHIBIT #44

Kind Regards

Nigel

Attachment: Iran business case.doc.zip

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03793153
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3407511

**HSBC Bank Middle East** **Memo**

| | | |
|---|---|---|
| To<br>Denise Reilly, Senior Manager, Operations, HBUS<br>Malcolm Eastwood, Senior Manager, Operations, HBEU | | Date<br>January 2003 |
| From<br>Rick Pudner, Head of CIB, Middle East, Dubai | | Sender's Reference |
| CC<br>Dr Nasser Homapour, Iran Representative, Tehran<br>Nigel Weir, GRM, Middle East, Dubai<br>Gary Boon, Global Payments & Cash Mgmt, Dubai<br>James Madsen, Global Payments & Cash Mgmt, London | | |
| Subject<br>**BUSINESS CASE – USD PAYMENTS FROM IRANIAN BANKS/ENTITIES** | | Receiver's Reference |
| To Facsimile No. | From Facsimile No. | Total No. of pages |

## Executive Summary

This paper has been produced in order for the Senior Management Committee (SMC) of HSBC Bank USA (HBUS) to evaluate whether or not HBUS will process US dollar (USD) payments initiated by Iranian Banks via accounts held with HSBC Bank Plc (HBEU), using the process provided to HBEU by HBUS dated 29 August 2001. This operational process may be amended at any time and HBEU will be required to adhere strictly to the new procedures as advised by HBUS.

Currently, it is estimated that Iranian banks issue up to 700 USD payments a day using their USD service providers, mainly banks in the UK and Europe, which in turn use their New York USD correspondents to effect the payments. It is believed that some service providers amend the payments to ensure Iran is not mentioned in the body of the payment instruction to their USD correspondent. This process minimises the risk of payments being referred to OFAC.

Institutional Banking and PCM believe there is a substantial income opportunity to sell a USD payments proposition to Iranian Banks in view of the impending FATF regulations, which are due to become effective in Q2 2003. The new regulations dictate that each bank (effecting the payments on behalf of their clients) within each FATF member country must ensure the full name, address and account number of the ordering party are quoted on the payment instructions. This increases the risk of Iranian payments being held in the USA as they may fall foul of the OFAC regulations. The Iranian Banks have now prioritised this issue and are now actively seeking a solution from their banks, including HSBC.

We believe that HSBC could offer the Iranian Banks a solution that facilitates a way for them to effect USD payments to beneficiaries outside the USA using the 'U-Turn' process documented within the OFAC regulations for Iran. HBUS have already provided HBEU with their operational requirements to process these U-Turn payments and therefore SMC approval is being sought prior to HBEU scoping potential IT changes and the production of a service proposition for the Iranian Banks. This business case also highlights the potential risks should approval not be given.

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03793154
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3407512

## Background

Iran Representative office was formally opened on 11th of November 1999. Following the establishment of the office the volume of business between Iranian banks / companies and Group offices has been increasing all the time. The Group now has an excellent relationship with all Iranian banks and some very large Iranian corporates such as National Iranian Oil Co, National Petrochemical Co, National Iranian Gas Co, National Iranian Steel Co, top Iranian insurance companies, Ministry of Power, Ministry of Post and Telecommunications etc.

About 80% of Iran's foreign trade, totalling USD25 billion, is denominated in USD. Iran undertakes a considerable volume of trade in markets in which HSBC is represented, enabling the Group to leverage its global footprint. Our Iran Representative office has worked hard over the past three and a half years to build a positive image of Iran through road shows, visits, supporting trade missions and by referring good Iranian business to Group offices. This has shown HSBC to its customers as a bank that is able to do business in difficult markets and as a result added considerable value to the Group. Strategically, Iran is the country in the Middle East region with the most development potential for HSBC in the long term. It has the world`s fifth largest oil reserves, second largest gas reserves, substantial mineral reserves and a large well educated population.

The Iran Representative office was established to develop relationships and credibility for HSBC in the market. This objective has been achieved and the Group is well placed to develop its operation from a position of considerable goodwill. Details of HSBC's business with Iran and Iranian entities are shown in Appendix 1.

## Opportunity

The FAFT regulations are due to be implemented in Q2 2003 and will force banks, within the FAFT countries, to disclose all details of the ordering and beneficiary parties, effectively ending the practice currently undertaken for Iranian payments. The Iranian banks have yet to hear from their existing providers, mainly Lloyds Bank and Standard Chartered Bank, and we believe there is currently a window of opportunity.

However, during the past two years, HBEU and HBUS have been in discussions about how we can process these transactions, identifying the operational processes and compliance issues involved. After meetings with OFAC and external counsel, HBUS has produced a payments process. It will be scoped by HBEU, subject to SMC approving this paper, in order to identify their operational, compliance and IT issues before providing Sales with a service proposition.

HBEU / HBUS have identified that by using the 'U-Turn' payment method, Iranian banks can effect transactions to beneficiary accounts outside the USA. This method will allow HBEU to send HBUS payment instructions with Iranian entities quoted on the instructions and yet at the same time be compliant with FATF and OFAC guidelines. The proposed service proposition will provide a suitable disclaimer to ensure HSBC is not held liable for any payments which have not met the 'U-Turn' criteria and as a result been referred to OFAC.

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03793155
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3407513

## Benefits

- Payment volumes are estimated at 700 per day of which 70% will be commercial payments. Transaction income is estimated at USD4M, assuming that HSBC wins all the business at an average item price of USD30. We believe that charges being levied by other banks at the moment are far higher than this.
- Balance income in HBEU.
- Reputation within Iran and the potential to leverage additional business.

## Risks If Approval Declined

- If HBUS declines to process these transactions, then consideration will need to be given to closing all existing Iranian bank USD accounts with the HSBC Group.
- Should the above occur the current Group annual income of USD2M from Iranian Banks will be under threat.
- The market will perceive that HSBC does not support Iranian business
- The adverse impact on our Representative office in Tehran.

## Summary

It is anticipated that Iran will become a source of increasing income for the Group going forward and if we are to achieve this goal we must adopt a positive stance when encountering difficulties. We are aware of the concerns expressed by HBUS but strongly believe that by working together we can overcome them using means which are perfectly legitimate and in accordance with rules laid down by the relevant regulatory bodies. I hope we will be able to resolve this issue otherwise I fear we will destroy future value in a market which has substantial potential for the Group.

It will be appreciated if you could raise this paper to your SMC at the earliest opportunity and advise me of the decision as soon as possible.

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03793156
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3407514

**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 USD35M is utilised. HSBC now has a mandate from National Petrochemical Co. and Technip of France for USD155M to arrange financing for Olefine 9 project. Two other projects, one for USD145M for Styrene Monomer out of the UK and one for USD170M out of Japan will be financed by HSBC through structured finance outside the above line. The latter, for Mitsui with JBIC cover is already finalised and the other one is near completion. The provisioning for Iran has been reduced to 5% in December 2002, which will make it easier for HSBC to undertake more projects in Iran in the near future. With this in mind HSBC Project and Export Finance have decided to increase the above line to USD1bn.

2- Short Term Trade Refinancing Agreement - HBME Dubai USD50M, BACB USD25M. These lines are denominated in USD and require the USD loans to be booked at HBME Dubai or BACB London.

3- Wheat Finance lines with HSBC Australia USD50M and HSBC Canada USD100M.

4 - L/C`s Issued for Iranian Companies Abroad - Various Group Offices.
HSBC offices are developing relationships with Iranian Government and non - Government companies. The L/C`s issued are normally denominated in USD. Following NIOC's acceptance of HSBC as one its listed banks, HSBC Bank Middle East now handles Iran`s oil export related L/C`s. Turnover for this business is about USD400M per year.

5 - USD Clearing Accounts.
HSBC Bank plc has a number of existing USD accounts for Iranian banks, which are used for payments clearing purposes.

6 - Treasury and Capital Markets
HSBC Investment bank has transacted in excess of USD1bn of Bond business with Iran generating an income of over GBP700k in 2002. HBME Dubai and HSBC Markets operate active foreign exchange and money market lines with the Central Bank of Iran and Iranian banks.

7 - Potential Business
a- HSBC is actively pursuing an Asset Management mandate with the Central Bank which will require USD payments to be paid and received.
b- Iran has entered the capital market for the first time in 20 years, issuing USD1bn worth of paper through the Central Bank. The budget for the next year is USD 2bn with some to be issued in Islamic form. HSBC has a very good chance of being nominated to lead manage part of the conventional issue and a good chance of being nominated for the Islamic issue. Both require USD payments to be paid and received.
c- HSBC may form an Internet Bank in Iran, which will require an active USD payment capability.

**The key thing to note is that all existing and potential business involves a regular and substantial flow of USD payments both in and out.**

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03793157
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3407515

**From:** Nigel J WEIR
**Sent:** Mon Feb 03 13:44:14 2003
**To:** David W J BAGLEY
**Cc:** Rick A PUDNER; Jb BLANTHORNE; Nasser HOMAPOUR; John F ROOT
**Subject:** Memo: Re: BUSINESS CASE - US PAYMENTS FROM IRANIAN BANKS/ENTITIES
**Importance:** Normal
**Attachments:** image_0.gif

David,

As I prepared the majority of the business case I think it is appropriate that I respond on behalf of Rick.

Firstly, I would like to stress that under no circumstances am I suggesting that the HBUS is acting or should in future consider acting improperly. Indeed I have specified on more than one occasion that we must be in full compliance with OFAC, FATF and other regulatory bodies.

3rd paragraph of the section headed Opportunity:
**" This method will allow HBEU to send HBUS payment instructions with Iranian entities quoted on the instructions and yet at the same time be compliant with FATF and OFAC guidelines"**

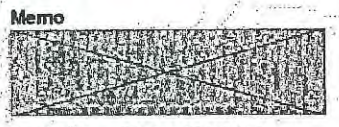
1st paragraph of the section headed Summary:
**"We are aware of the concerns expressed by HBUS but strongly believe that by working together we can overcome them using means which are perfectly legitimate and in accordance with rules laid down by the relevant regulatory bodies."**

In simple terms the aim of this business case was to recommend that we need to try and take advantage of a significant business opportunity whilst at the same time actively complying with regulations laid down by various regulatory bodies.

Kind Regards

Nigel

03Feb2003
**Memo**



Sent by: Marion O ROACH

To: Rick A PUDNER/HD CIB MEM/HBME/HSBC@HSBC et al

To: Rick A PUDNER/HD CIB MEM/HBME/HSBC@HSBC
Jb BLANTHORNE/CEO SEL/HBAP/HSBC@HSBC

Permanent Subcommittee on Investigations
**EXHIBIT #45**

cc: Nasser HOMAPOUR/HSBL/HSBCAPAC@HSBC
Nigel J WEIR/RM IB MEM/HBME/HSBC@HSBC
John F ROOT/HGHQ/HSBC@HSBC
bcc:

From: David W J BAGLEY Tel: 7991 8645;44 2079 918645

Our Ref: Your Ref:

Subject: BUSINESS CASE - US PAYMENTS FROM IRANIAN BANKS/ENTITIES

Rick

I am of course aware of the efforts being made to find a compliant way of negotiating the OFAC sanctions and providing US dollar payment services to Iranian banks.

I have however received a copy of the business case dated January 2003 which has been referred to our colleagues in HBUS.

We clearly need to address this issue and attempt to find a compliant approach, and to that end I have asked one of my colleagues in GHQ CMP, John Root, to assist with this process. He has already started looking at the OFAC sanctions from a Group perspective.

At this stage, however, I would be grateful if we could exercise greater care with regard to the content of written material being forwarded to our colleagues in HBUS.

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 for breach of those sanctions, or seeking to facilitate a breach.

Could I suggest that future communications on this subject are perhaps cleared through John Root, or myself so as to avoid relative sensitive references.

I have asked John to discuss matters with HBUS and seek to take matters forward.

Regards

David

**From:** Marlon O ROACH
**Sent:** Tue Oct 21 17:10:24 2003
**To:** John F ROOT
**Subject:** IRAN - STRATEGY DISCUSSION PAPER
**Importance:** Normal
**Attachments:** image_0.gif; image_1.gif; image_2.gif; image_3.gif; image_4.gif; image_5.gif; Doc Link.htm; Iran - Strategy Discussion Paper - Oct03.doc; OFAC Sanctions.doc

John

I refer to our discussions concerning the Iran strategy.

Attached is both the incoming, and my outgoing note relating to the various issues.

I would suggest that we do not take further action until there is some clarification as to the general direction we are expected to take.

Regards

David

Note
20 Oct 2003 15:28

[redacted]

**From: Paul L Lee/HBUS/HSBC @ HSBCAMERICAS** **Tel: 212-525-6533**

Mail Size: 116076

**Sent by:** Nilda Venegas@HSBCAMERICAS

To: David W J BAGLEY

To: David W J BAGLEY/HGHQ/HSBC@HSBC
cc:
bcc:

Subject: IRAN- USD PAYMENTS

Permanent Subcommittee on Investigations
EXHIBIT #46

Note 15 Oct 2003 12:36

| | | | |
|---|---|---|---|
| From: | Youssef A Nasr | Tel: | 212-525-3880 |
| Title: | President & CEO | Location: | 452 5th Ave., Floor 10 |
| WorkGroup: | Chief Executive Office | Mail Stop: | [illegible] |

To: Michael B Gallagher

To: Michael B Gallagher/HBUS/HSBC@HSBCAMERICAS

cc: Paul L Lee

cc: Paul L Lee/HBUS/HSBC@HSBCAMERICAS
Subject: Re: IRAN- USD PAYMENTS

Michael,

My main comment to David was, as stated in the text, that there remain serious political and reputational risks within the USA if they proceed with this and that he should ensure that Paul Lee is kept in the loop at all times because of the prior work he has done both on this and some recent approaches from Group offices about opportunities in Libya.

Youssef

Michael B Gallagher on 14 Oct 2003 10:28

Note 14 Oct 2003 10:28

| | | | |
|---|---|---|---|
| From: | Michael B Gallagher | Tel: | 212-525-5580 |
| Title: | Executive Vice President | Location: | 452 5th Ave, Floor 5 |
| WorkGroup: | Global Pymts and Cash Mgmt | Mail Stop: | [illegible] |

To: Youssef A Nasr

To: Youssef A Nasr/HBUS/HSBC@HSBCAMERICAS
Subject: IRAN- USD PAYMENTS

Youssef,

The below note suggests that that you have had recent discussions on this topic. Appreciate any guidance you may have on how you wish us to proceed.

Regards,

Michael

---------- Forwarded by Michael B Gallagher/HBUS/HSBC on 10/14/2003 10:26 AM ----------

Memo 14 Oct 2003 10:07

From: Ajay BHANDOOLA @ HSBC
Title:
WorkGroup:
Tel:
Location:
Mail Stop:

To: Michael B Gallagher

To: Michael B Gallagher/HBUS/HSBC@HSBCAMERICAS

cc: Gary BOON, et al

cc: Gary BOON/MGR PCM MEM/HBME/HSBC@HSBC
Nigel J WEIR/RM IB MEM/HBME/HSBC@HSBC
Subject: IRAN- USD PAYMENTS

Michael,

Trust you are well. We had discussed Iran a while ago and since then there has been a lot of work that Denise Riley from your team and Gary Boon from the Middle East have done on Iran payments. With the improved situation in the Middle East post the Iraq war, David Hodgkinson (HBME Deputy Chairman) is keen on exploring possible business opportunities and has discussed this paper with Youssef Nasr at a recent offsite.

Steve Banner (HBME Planning) has suggested a possible way forward, however I had wanted to discuss this with you for your inputs. Let me know when you are available for a quick 10 minute call.

Regards

Ajay

-------- Forwarded by Ajay BHANDOOLA on 10/14/2003 --------

08Oct2003

Memo

[redacted]

To: Ajay BHANDOOLA/RM PCM MEM/HBME/HSBC@HSBC et al

To: Ajay BHANDOOLA/RM PCM MEM/HBME/HSBC@HSBC
Gary BOON/MGR PCM MEM/HBME/HSBC@HSBC
cc: David H HODGKINSON/DCH MEM/HBME/HSBC@HSBC
John BLANTHORNE/HD CIB MEM/HBME/HSBC@HSBC
Paul L Lee/HBUS/HSBC@HSBCAMERICAS
Carolyn M Wind/HBUS/HSBC@HSBCAMERICAS
Warren G LEAMING/RLA LGA MEM/HBME/HSBC@HSBC
Nasser HOMAPOUR/HSBL/HSBCAPAC@HSBC
Nigel J WEIR/RM IB MEM/HBME/HSBC@HSBC
bcc:

From: Steve BANNER Tel: 971 4 3906290

Our Ref: Your Ref:

Subject: IRAN - USD PAYMENTS

Ajay / Gary,

As discussed, I attach a copy of the draft discussion paper on Iran.

David Hodgkinson discussed this paper, and the general topic of Iran, with various members of the top team during the recent offsite in London. Notably, he held discussions with Youssef Nasr covering, amongst other things, the topic of USD payments.

David advised yesterday that he is keen for HBME, together with HBUS, to explore in more detail the alternative ways in which we might be able to offer USD payment services to Iranian banks. Youssef Nasr has suggested that our first point of contact in HBUS should be Paul Lee, their legal advisor.

I had a brief telephone conversation with Paul this afternoon during which we agreed that the best way to take this forward would be to have the relevant PCM specialists within each organisation work together on the preparation of a feasibility study that examines the alternative options and the risks associated with each.

Paul has recommended that you work closely with external legal counsel in Washington to ensure that the various legal and compliance implications of each option are properly considered. Paul has suggested

that you make contact with Carolyn Wind, HBUS' Head of Compliance, who will be able to put you in contact with their recommended external counsel.

I would greatly appreciate it if you could progress this with a view to having a draft of the feasibility study available for review by HBME/HBUS senior management by 21 November.

Thanks and regards

Steve

-------- Forwarded by Steve BANNER on 10/08/2003 --------

02Oct2003

Memo

[redacted]

To: Iain F EDWARD/HGHO/HSBC@HSBC et al

To: Iain F EDWARD/HGHO/HSBC@HSBC
cc: David H HODGKINSON/DCH MEM/HBME/HSBC@HSBC
Tim W O'BRIEN/GGM PLC GHO/HGHO/HSBC@HSBC
bcc:

From: Steve BANNER Tel: 971 4 3906290

Our Ref: Your Ref:

Subject: FOLLOWING NOTE SENT FOR DAVID HODGKINSON

Iain,

As discussed, I would greatly appreciate it if you could pass the attached discussion paper to David Hodgkinson.

Many thanks and regards

Steve

[redacted]

[redacted]

Memo
21 Oct 2003 17:08

From: David W J BAGLEY/HGHQ/HSBC Tel: 7991 8645
44 2079 918645
(Mail Stop: 44X3)

Sent by: Marion O ROACH

Steve BANNER et al

To: Steve BANNER/MGR PLG MEM/HBME/HSBC@HSBC
cc: Tim W O'BRIEN/GGM PLG GHQ/HGHQ/HSBC@HSBC
David H HODGKINSON/DCH MEM/HBME/HSBC@HSBC
John F ROOT/HGHQ/HSBC@HSBC
bcc:

Subject: IRAN - STRATEGY DISCUSSION PAPER

Following the discussions initiated by Ajay Bhandoola with Paul Lee which I know happened at Youssef Nasr's suggestion, Paul Lee made contact with me expressing some concerns.

[redacted]

Having considered the strategy discussion paper, there seemed to me to be a number of issues which require clarification, particularly in relation to OFAC.

In no particular order these are as follows:-

I am not sure that the interpretation of the U-turn exemption relating to the Iran sanctions is accurate. A detailed consideration of the OFAC sanction in question makes it clear that the initiator and beneficiary of a U-turn qualifying payment must be both non-US and non-Iranian. I attach a summary note prepared by John Root (who happens to be a US lawyer) which I hope is of some assistance, although it is a general note relating to all OFAC sanctions not just those relating to Iran. The position is not helped however by what appears to be contradictory advice on OFAC's own website where in one example Bank Melli is described as being capable of benefiting from a U-turn exemption, but in another example is excluded by reason of the fact that it is a government owned Iranian bank. We will seek to clarify this apparent discrepancy.

I am of course aware from my past, of the existence of a number of USD denominated facilities issued in

relation to Iran. What concerns me is the extent to which such facilities, if they remain in USD, are viable once there is a requirement to disclose details of the remitter of settling payments. Would this not make settlement under these facilities somewhat complex.

I am not sure that HBUS are aware of the fact that HBEU are already providing clearing facilities for four Iranian banks, presumably including USD clearance. Bank Markazi is named in the OFAC sanctions as a government owned bank and thus on the face of it not able to benefit from U-turn exemptions. I think we should give consideration to the current PCM services and the identity of the banks to whom those services are currently provided in the context of considering our overall risk appetite.

When we considered the Bank Melli clearing proposition my understanding was that we would consider either enhanced screening of payments for the U-turn exemption within HBUS (with presumably that extra cost being supported by HBUS) or alternatively looking to pre-screen payments for U-turn compliance within HBEU. Is this contemplated by the proposed expansion of activity in relation to PCM?

I am not sure that the current political position with regard to the US has changed in any significant manner from the point at which we determined that Project Beluga, and the Bank Melli clearing proposition were inappropriate.

As I would be reluctant to undertake significant work, particularly in relation to the incurring of US Attorneys' fees, before it was clear that this was worthwhile, I would be grateful for an indication from you or those copied as to whether further work would be appropriate at this stage.

Regards

David

[redacted]

## Purpose

This paper has been prepared to seek GHQ's "in-principle" agreement, and HBUS' "no objection", to:

- the adoption of a more aggressive approach to the pursuit of Iranian business opportunities; and
- an acceleration of the Group's strategy of "gradual engagement" with Iran.

## Brief Country Overview

The Iranian market offers substantial untapped potential for the HSBC Group. That said, there are socio-demographic and political challenges that need to be considered when determining strategy. To briefly summarise some of the country-specific highlights:

### Economy

- With a GDP of c. 110bn in 2002 Iran is the 2nd largest economy (after Saudi Arabia) in the Middle East and North Africa region. The country experienced an average 5.8% growth in GDP over the past three years, and GDP is forecast to reach 8% next year. This growth has been largely driven by government policy changes (some of which are described below). The strong performance of the oil and agricultural sectors have also contributed.
- Iran's economy is heavily reliant on oil. The country has proven reserves of c. 90bn barrels, the 3rd largest in the world (after Saudi Arabia and Iraq), accounting for 8.5% of the global total. The development of Iran's oil industry has, however, suffered as a consequence of the US sanctions. Iranian oil production has remained relatively stable for the past decade, whilst global oil production has shown steady, albeit small, year-on-year growth (c. 14% up since 1993). Whilst the oil sector's share of Iranian GDP has declined from 30-40% in the 1970s to less than 20% today, oil revenue still accounts for c. 80% of the country's export earnings and anywhere between 40-70% of government revenue, depending on the prevailing oil price.
- Iran has an estimated 26.6tr cubic metres of natural gas, the second largest proven reserves in the world (after Russia), accounting for c. 15% of the global total. Iran is far behind some other Middle East countries (e.g. Qatar and Oman) in the development of its export capabilities. The Iranian government has recognised the potential for significant growth in this area and has set an ambitious target of doubling production by 2005.
- According to the Economist Intelligence Unit, Iran has only USD7.8bn of external debt, a relatively small proportion of annual GDP (c. 7%). The country has, in recent years, enjoyed a positive trade balance and had, at September 2002, approximately USD21bn of foreign currency reserves (approx. 10 months import cover).
- Although Iran's economic development has been strong in recent years it could, arguably, be much stronger. The recent reforms (discussed briefly below) have had a positive affect but these have proceeded as a relatively slow pace. The country's growth is still significantly hindered by the ongoing US economic sanctions as well as an archaic domestic banking system dominated by bureaucratic and inefficient government owned banks. Should the sanctions ever be lifted, and the liberalisation initiatives accelerated, the economic growth potential (and opportunities for strategically well-positioned banks) would be enormous.

### Socio-Demographic

- Iran's population of c. 65m is the second largest in the MENA region (after Egypt). On a per capita basis, the country's GDP is a relatively low USD1,700.
- Iran has a strong education system. The country has a c. 85% literacy rate (97% amongst those under 29).
- However, like several other countries in the region, Iran faces a significant demographic challenge with c. 50% of the population under 20 years of age.
- The Iranian government has been making a concerted effort to create jobs, with some success in 2002. That said, the unemployment rate remains high (estimated at 15% in 2003) and with 700,000 educated youths entering the labour market each year, there are inevitable social tensions (see Political comments below).

### Political

- Iran's 1979 constitution laid the foundation for an Islamic theocracy, with a supreme religious leader acting as the country's most powerful political figure, presiding over a legal system based on Sharia law. Following

Permanent Subcommittee on Investigations
EXHIBIT #47

Khomeini's death in 1989 the constitution was amended and some of the supreme religious leader's executive powers were transferred to the elected president. As a result the country now has an, at times, "uncomfortable" dual power structure in which decision making authority is shared between (amongst others) the supreme religious leader and an elected president.

- There has been significant media coverage, in recent years, of the ongoing internal conflicts within Iran between the so-called "conservatives" (notably the Guardian Council, a legislative watchdog run by conservative clerics) and the "reformists" (led by President Khatami). Although Khatami's government has a clear mandate from the populace (he was re-elected with 78% of the vote in June 2001), the Guardian Council have succeeded in blocking a number of social, political and economic reforms that had been approved by the parliament. The Expediency Council (another government body headed by former President Akbar Rafsanjani) has, however, helped mediate some of the disputes, enabling the introduction of various reforms. For example:
  - a new Foreign Direct Investment Law;
  - abolition of foreign exchange control;
  - the unification of the exchange rate;
  - tax & tariff reforms;
  - the creation of an oil stabilisation fund;
  - laws allowing the establishment of private banks.

  These reforms have helped create a more positive environment for foreign investment and have facilitated, amongst other things, Iran's successful entrance into the international capital markets with 2 Eurobond issues.

  That notwithstanding, the pace of change is, for many, not fast enough and the country's demographic pressures and unemployment problems (60% of those that are unemployed are between 16-24) provide for potential unrest. The frustration amongst some student groups boiled over into street demonstrations earlier this year. These were quelled easily enough but most international commentators continue to believe that domestic tensions will remain for the foreseeable future, slowing the pace of reform and economic development.

- In 2001, the US renewed sanctions on Iran for 5 years under the Iran Libya Sanctions Act (ILSA). They also succeeded in blocking Iran's accession to the World Trade Organization (WTO). Tensions escalated last year when President Bush designated Iran as one of the principal countries supporting international terrorism. Relations between Iran and the US (and certain other countries) have further deteriorated in the past 12 months. A few notable examples of recent problems include:
  1) The withdrawal of Moody's B2 rating on Iran - following a US Treasury investigation into whether the rating agency may have violated US sanctions against the country - further soured relations.
  2) The US has repeatedly accused Iran of harbouring terrorists and destabilising reform efforts in Iraq.
  3) The death of a Canadian journalist, in Iranian police custody, has undermined Iran's relations with Canada.
  4) The UK and Iran have had a diplomatic spat over the detainment (for potential extradition) of an Iranian diplomat who was studying in the UK. The British embassy in Tehran was subsequently shot at in what may (or may not) have been a related event.
  5) Iran's nuclear policy (notably its unwillingness to sign additional protocols to allow enhanced inspections of its nuclear facilities) has put the country at loggerheads with, not only the US, but also some of the countries that are more favourably disposed to Iran politically (e.g. various European countries and Russia).

  THR believe "Past experience shows that Iran will eventually find a pragmatic solution to stabilize the situation". It is worth noting that French and German companies / banks have been able to gain considerable credibility and business in Iran through their adoption of a pragmatic approach to the international political tensions.

## HSBC's Association with Iran

**Long History in Iran.** HBME was founded under a British Royal Charter as the Imperial Bank of Persia in 1889. The Bank's first Chief Manager moved to Tehran that year and, by 1893, the Bank had opened branches in each of Persia's eight largest cities. By the Second World War the Bank had 14 branches across what was, by then, Iran. After the war, the Bank adopted an expansionary policy across the Middle East, establishing branches in Dubai, Muscat, Lebanon, Syria, Jordan and Saudi Arabia between 1946 and 1950. The 60-year banking concession

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8873950

expired in 1949, following which the various Iranian branches were gradually closed. The Tehran main office was the last to close in July 1952, at which time the Bank was re-named BBME.

BBME re-entered the country through a joint venture (Bank of Iran and the Middle East) in 1959. This bank was, however, nationalised in 1979 following the Islamic revolution.

**Initial Re-engagement.** HSBC re-entered Iran in 1999, establishing an HBME representative office in Tehran (THR). This office has, during the past four years, focused on a) raising the profile of the HSBC Group in Iran and b) actively supporting various Group members in their pursuit of business opportunities in Iran. The representative office has been very successful on both counts, with significant business wins in the areas of Project and Export Finance, Trade Finance and Treasury & Capital Markets. THR estimate that Iranian business generates c. USD7m p.a. in revenues for various Group entities.

The articulated strategy of the representative office has been one of "gradual engagement". The objective has been to systematically develop the Group's presence, capabilities and business flows in Iran in a steady and measured manner. Whilst business volumes, and the range of services offered, have continued to grow in the last two years the pace of "gradual engagement" has remained somewhat cautious. As a consequence, strategic initiatives such as "Project Beluga" (briefly described below) have, for a variety of justifiable reasons, been put on hold.

**Project "Beluga".** This initiative proposed the establishment of an offshore bank, modelled on First Direct, that would offer a range of banking services to customers on the Iranian mainland through remote distribution channels (further details are provided in Appendix A). Given legal restrictions, which inhibit foreign banks from establishing onshore banking operations in Iran, Beluga was seen as the most logical way to progress the strategy of "gradual engagement". The most recent iteration of this initiative (in 2002) did not progress very far as GHQ indicated that, whilst strategically sound, the timing of was not right. (Iran was then, as now, facing strains in its relationship with the US government and the Group was, at the time, actively pursuing acquisition opportunities in the US).

**The Next Stage?** Iran clearly represents one of the most significant potential growth markets for HBME in the short, medium and long term (a brief synopsis of the potential business opportunities is outlined below). HBME believes that there is a need to:

- Adopt a more proactive / aggressive approach to the pursuit of new business in Iran; and
- More clearly define the next stage of its process of gradual engagement.

Guidance is required from GHQ (and HBUS) on whether they would have any concerns with HBME's proposals to accelerate business dealings with Iran.

## Business Opportunities

HBME believe that the strategy should now be progressed in two phases:

1) **Phase 1.** The Group should seek an immediate increase in the quantum of cross-border business undertaken with Iranian counter-parties. Such will generate incremental business revenues whilst demonstrating, to both the Iranian authorities and our customers, the Group's continued commitment to developing its business / presence in this strategically important market.
2) **Phase 2.** In the medium term, there is a need for a more tangible presence in the country. If legislation were in place to allow us to establish an on-the-ground presence, the preferred route would be the establishment of an HBME branch or wholly owned HBME subsidiary in Tehran. In the absence of such legislation, a "revitalisation" of Project Beluga, in some form, may be a viable option.

Further details are provided below:

### Phase 1 – Immediate Opportunities

We perceive there to be immediate opportunities to undertake significantly more profitable and creditworthy business in a variety of different business areas. Specifically:

1. **Trade Finance.** The Group has, at present, a USD120m short-term (<365 days) trade cap for Iran, with a forfaiting sub-limit of USD20m. The utilization of this limit is very high (consistently > 85%) and, based on market feedback, our limits are substantially below those of our competitors (Standard Chartered, for example,

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

reportedly have a USD500m limit). HBME believe there to be immediate opportunities for further profitable business if the HSBC credit limit were significantly increased and the maximum tenor extended up to 3 years.

2. **Project and Export Credit Finance.** HBEU provides a multi-source ECA covered Medium-Term Export Credit line of USD1bn to six Iranian banks. The Group have established a strong working relationship with [redacted] and HPEF have, as a consequence, worked on a large number [redacted] export credit transactions. The competition for business with [redacted], however, increasingly fierce and there is a danger that the Group will lose its competitive edge unless it is able to support / supplement the ECA backed facilities with a degree of commercial lending. Several European (notably French and German) banks have medium term commercial lending limits (BNP's limit is said to be USD500m) and they are becoming increasingly successful in pursuing business. THR and HPEF strongly believe that an ability to take medium term commercial risk in Iran will help the Group to retain a strong position in pursuing [redacted] Moreover, the availability of such country risk limits will open the door for the Group's participation in a variety of [redacted] backed initiatives relating to oil and gas, power, steel, telecommunication and transportation projects.

3. **Islamic and Corporate Bonds.** The government in Iran are considering issuing an Islamic Government Bond (Sukuk) and various substantial Iranian corporate bodies have expressed an interest in undertaking Islamic or conventional corporate bond issues. HSBC Amanah has already secured a working mandate from [redacted] to study the possibility of issuing a corporate Islamic bond and, should this lead to a specific issuance, there will be related ancillary business opportunities. If the Group is to have any chance of winning such business it will need a medium term credit limit for Iran.

4. **Advisory Services.** There is a growing demand in Iran, from both private and public sector bodies, for corporate finance advisory services. HSBC will pursue such business opportunities irrespective of whether there is an increase in credit risk limits. The likelihood of success would, however, be enhanced if HSBC's continued commitment to develop its Iranian business can be clearly demonstrated to "Iran Inc.".

5. **Financial Institutions.** THR has been able to nurture profitable business relationships with a variety of Iranian banks. Associated income is derived from trade services, project finance, treasury / money market operations and correspondent banking. The Iranian banking system is, effectively, controlled by the Iranian government. THR believe that our relatively small appetite to book s-t and m-t Iranian risk undermines the Group's position in the eyes of the Iranian authorities. This could undermine our chances of retaining the current volumes of business from Iranian banks.

6. **Payments & Cash Management.** Iran undertakes approximately USD25bn of international trade annually, c. 80% of which is denominated in USD.

   HBEU PCM currently offer USD payment services to 4 Iranian banks. There is an opportunity to actively market our PCM capabilities to other Iranian commercial banks, including Iran's Central Bank (Bank Markazi). HBME PCM believe that the potential business to be won would be worth up to USD4m pa.

   The US sanctions and the impending UK legislation resulting from the FATF recommendations, however, significantly complicate the USD payments process for Iranian counter-parties. HBME PCM has identified a practical solution that requires additional support from both HBEU and HBUS. As explained under "Issues for Consideration" below, there are still some reservations about undertaking more of this type of business.

To support HBME's desire to more aggressively pursue Iranian business opportunities, and to provide a foundation for the ongoing evolution of our strategy of "gradual engagement", HBME will shortly prepare a paper for GHQ CRF's consideration requesting appropriate increases in relevant country risk limits for Iran.

The identified PCM opportunities have, if pursued, several potential implications (examined under "Issues for Consideration" below). As such, HBME require the "in-principle" support of GHQ (and HBUS) before actively marketing our PCM capabilities in Iran.

### Phase 2 – Medium Term Strategy

The request for an increase in credit limits will, if approved, enable the Group to generate increased income from Iran in a variety of business areas. In the medium to long term, however, we need a strategy that provides the Group with the ability to provide a wider range of corporate banking services, domestic personal financial services

(probably a limited offering for high end customers) and various Islamic banking services. (The domestic banking market in Iran is entirely Shariah compliant. There are potential opportunities for HSBC Amanah Finance to develop products for sale / distribution through either an HSBC owned / managed entity or through local banks).

HBME's preferred strategy, when the legislation and market conditions in Iran allow, would be to establish an onshore branch (or, if the law required, a locally incorporated wholly owned subsidiary).

In the absence of any such legislation a "Project Beluga" type structure offers an alternative vehicle through which the process of "gradual engagement" can be progressed. (The establishment of a remote banking operation would not prevent the Group from potentially establishing an onshore branch at a future date).

The business case for the establishment of a Project Beluga type vehicle is not as robust/compelling as would be the case for an onshore branch. That said, HBME believe that the Beluga option is still worthy of consideration in the medium term as a method of ensuring that HBME remain one of the dominant international banks in Iran. (Standard Chartered have already attained "first mover" status by announcing their intention to establish a branch in Kish Island). Whilst HBME are not advocating any immediate action in this regard they would like to keep their options open to pursue such an initiative in one or two year's time, subject to market developments.

HBME request guidance from GHQ and HBUS on the potential implications for the Group of pursuing such an initiative sooner rather than later, both in terms of reputation and our US business interests.

## Issues for Consideration

In assessing HBME's recommendation, GHQ will (in consultation with HBUS), need to consider a number of specific issues:

**1) Domestic Political Situation**

One of the reasons to accelerate our process of engagement is to demonstrate, to the authorities within Iran, that we are committed to the development of their country. This is seen to be particularly important given the more aggressive / pragmatic approach to Iranian business adopted by French and German competitor banks.

Such a demonstration should, theoretically, enable HBME to develop a stronger market position in what remains, for the time being, a state-controlled economy. That said, the internal conflicts within Iran's political structure are significant and not all parties within Iran will welcome increased involvement of foreign owned banks in Iran. We consider there to be two potential scenarios with respect to the domestic political situation:

a) **Significant Upheaval.** In extreme circumstances (which HBME consider to be highly unlikely) it is possible that the ongoing internal political conflict will escalate, leading to further social unrest and, ultimately, enforced regime change. If such a scenario were considered likely it would, of course, seriously dampen the Group's appetite for Iranian credit risk and would necessitate a deferral of any Project Beluga-type initiative. (Such a scenario need not, necessarily, discourage the immediate pursuit of PCM business).

b) **Gradual Process of Reform.** HBME believe that it is far more realistic to assume that there will be a gradual process of economic and social reform with, admittedly, inevitable internal conflicts along the way. Whilst this latter scenario will result in sub-optimal economic growth, it does suggest that the economic situation will continue to improve over time and, as such, an increase in credit limits and provision of PCM services is entirely appropriate. The bureaucracy that might be created by any internal conflict could act as a deterrent to the pursuit of a "Phase 2" initiative in the short term. That said, if there is a belief that Iran will, over time, become an increasingly attractive market, then a compelling case can be made for increasing our profile sooner rather than later, notwithstanding the logistical challenges.

**2. US Regulations.** There are two principal areas of US law that would affect any attempt to a) provide USD PCM services to Iranian counter-parties and b) establish a more tangible presence in Iran. (These regulations are unlikely to directly impact the various initiatives that are reliant on the provision of increased credit limits):

1) *US Office of Foreign Assets Control (OFAC) regulations*, which prohibit US transactions with Iranian entities. HBME has received legal advice in 2000, 2001 and 2002 on the OFAC regulations.

   * Implications for the provision of PCM services. The sanctions against Iran prohibit US banks from

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8873953

providing correspondent banking services for Iranian banks. The OFAC regulations do, however, allow a mechanism (the "U-Turn exception") whereby USD payments can be settled on behalf of Iranian counter-parties, through a US settlement bank, provided that neither the originating or beneficiary bank are US institutions. In practice, the U-Turn mechanism currently works as follows in HSBC:

a) An Iranian bank opens a USD account with HBEU;

b) HBEU receive USD payment instructions from an Iranian bank in favour of a beneficiary account held at a non-US bank. HBEU instructs the beneficiary bank and arranges for settlement through its own USD account with HBUS;

c) Provided there is no reference to the Iranian counter-party in the USD settlement instruction, the transaction would pass through HBUS seamlessly. If, however, the name of the Iranian counter-party is included in the settlement instruction, HBUS will be obligated to check whether the transaction qualifies for the OFAC U-Turn exception. If in doubt, HBUS will refer the transaction to OFAC. OFAC would then either approve or reject the transaction. In certain circumstances (e.g. the remitter is a known terrorist), OFAC has the right to arrange for the funds to be frozen.

Until now HBEU have not been required to reveal the identity of the originating Iranian counter-party. UK legislation related to FATF regulations will henceforth require the identity of the ordering customer to be clearly communicated in all such payments. If, therefore, the Group decides to pro-actively promote USD payments services to Iranian banks the payments will need to be processed by HBUS with full details to satisfy OFAC requirements. There will, therefore, will be a need for additional resources in HBUS to identify, check and process such payments. Two concerns, in addition to the costs and logistical difficulties, have been raised:

i) HBUS could be held liable (and staff within HBUS, *personally* liable) if mistakes are made.

ii) The increased volume of Iran related transactions would be noted by OFAC. In the current political environment it is conceivable that the US administration will think less highly of HSBC if it grows its business dealings with Iran (see below commentary on the international political situation).

We understand that the impending change in UK legislation has led Lloyds TSB to give notice that they will be withdrawing their existing payments service offered to Iranian banks.

- Implications for the establishment of a more tangible presence.

2) *The USA Patriot Act*, passed in the aftermath of the various attacks on 11 September 2001, governs US correspondent banking arrangements for foreign banks generally.

Under the OFAC regulations no Iranian incorporated bank can have a bank account in the US. As such, the provisions of the Patriot Act apply ***indirectly*** to any Iranian bank that uses HBEU to process U-Turn payments. Patriot Act requirements would, in such circumstances, be imposed on HBEU by virtue of its maintaining a correspondent account at HBUS. HBEU would therefore have to satisfy itself that each of the relevant Iranian banks has a rigorous know-your-customer and anti-money laundering program.

Neither of the two applicable laws present an insurmountable barrier to either the relevant Phase 1 strategy (i.e. the provision of PCM services to Iranian banks, including Bank Markazi) or the potential Phase 2 strategy. That said, the laws do create a significant amount of additional workload and, in the case of the OFAC regulations, open the Group to additional potential risks. Other issues are raised by the need to liaise with the US authorities to ensure compliance with these laws (see below).

### 3. International Political Situation

Iran has, as already explained, faced a variety of international political problems in recent years. The country's standing in the international community is, at time of writing, not strong and it looks extremely unlikely that the US sanctions against Iran will be lifted in the short to medium term. That said, the prospect of the US escalating its anti-Iran rhetoric and taking direct military action against the country can be considered to be highly remote. The international political tensions influence different elements of the strategy in different ways:

- **Credit Limits.** If the external political environment for Iran remains tense, it could complicate the domestic reform effort and, in turn, undermine the economic prospects for the country. That said, the country has a strong

economy, despite the existence of sanctions. As long as we believe that there is little chance of either:

a) the imposition of UN sanctions related to the nuclear conflict (highly unlikely) or

b) a direct military conflict with Iran (extremely unlikely),

we need not let the rather delicate international political situation deter us from seeking increased credit limits / business flows from Iran. (The US government is unlikely to view the provision of USD750m of credit facilities dramatically different from the provision of USD100m or USD250m).

- **PCM Business.** The international political tensions are, however, of relevance when considering whether to offer USD payment arrangements to Iran's banking sector and, specifically, its Central Bank. Such arrangements would (as explained above) necessitate the use of US based banks for USD clearing. The US authorities would, given changes in the UK law, be aware of the Group's increased interaction with Iranian counter-parties. Given the delicate political climate, there is the potential for HBUS to lose the valuable goodwill of the US authorities if the Group is perceived to be co-operating with what the US perceive to be an unfriendly nation. From a Middle East perspective its is in the Group's commercial and strategic interests to provide greater PCM services to Iran's financial sector. GHQ, in consultation with HBUS, need to advise whether it is in the Group's strategic interests to do so.
- **Phase 2 strategies.** The most recent iteration of Project Beluga (informally proposed in 1H02) did not proceed as, in the view of GHQ, the timing was not right given, inter alia, the ongoing tensions with the US. Iran's present international political situation is, if anything, more tense than in mid-02. That said, the HSBC situation has evolved since that time as the Household acquisition has been completed. This could, depending on one's perspective, justify an adoption of either a greater or lesser level of sensitivity to international / US political concerns vis a vis Iran.

## Summary & Recommendation/Request

Iran is a resource rich country which is in the process of developing / liberalising its economy and finance sector. There will, in the short term, be attractive transactional opportunities for financial institutions that have the appropriate marketing resources and requisite credit appetite. In the long-term a compelling strategic case can therefore be made for the Group to strengthen its foothold in what will become an increasingly important market.

With this in mind, HBME wishes to accelerate the pace of its engagement with IranThe extent of HBME's engagement has, in the recent past, been curtailed by either:

a) lack of credit appetite (largely at GHQ level) or

b) concerns regarding the political implications of a closer association with Iran.

This paper has been raised to seek GHQ's approval (and HBUS' "no objection") to a two-phased, three pronged strategy which sees the Group, in the short term:

i) formally acknowledging an increased appetite for Iranian risk;

ii) actively marketing PCM services to a larger number of Iranian financial institutions, including Iran's Central Bank;

and, in the medium to long term:

iii) actively pursuing the opportunity to enhance our presence in Iran through either the establishment of an onshore branch/subsidiary or, if the law does not allow that, the pursuit of a Project Beluga type offshore banking solution.

Whilst recommending that the process of engagement is accelerated, HBME are mindful of the potential implications for other HSBC businesses and the HSBC name in general. As such, the guidance and views of both GHQ and HBUS are sought.

## Appendix A – Background to Project Beluga

HBME has, since, mid-2000, been considering "Project Beluga" (in various forms) as the logical next step in the process of "gradual engagement". The rationale behind this initiative, and a basic outline of the business model, follows:

*Background.* Foreign banks are not presently permitted to establish anything more than a representative office on the Iranian mainland. Various Central Bank officials have indicated that the market will "soon" open up to foreign banks but opinions differ on when exactly this might happen. Legislation introduced in 2000 does, however, allow foreign banks to incorporate a wholly owned "offshore bank" in one of Iran's three Free Trade Zones (FTZs). Such banks can offer services remotely to individuals and corporations on the Iranian mainland.

*Rationale.* In line with the strategy of "gradual engagement" HBME have, in both 1H01 & 1H02, looked at the possibility of establishing an HSBC branded / managed remote distribution bank (modeled on First Direct) in Iran's Kish Island FTZ. Such was, at the time, seen to be the most logical way to progress our Iran strategy.

*Business Model.* The most recent iteration of this initiative involved a JV with two of Iran's largest banks (Bank Melli and Bank Saderat). The business model envisaged the Kish incorporated JV providing a limited range of financial services to customers on the mainland through a combination of a) direct banking channels and b) JV representatives based in selected Melli and Saderat branches. It envisaged a relatively simple product offering initially (i.e. deposits, payments) which would gradually evolve (i.e. credit cards, wealth management, trade facilities) over time. The primary objectives of the initiative were to:

- build the HSBC brand in the Iranian market,
- gain "first entry" status and position the Bank for future growth; and
- develop new revenue streams.

Negotiations with Melli and Saderat did not progress very far in 2002 as GHQ indicated that, whilst strategically sound, the timing of such an initiative was not right.

**From:** John F ROOT
**Sent:** Thu Oct 23 11:07:41 2003
**To:** David W J BAGLEY; Susan A WRIGHT; John ALLISON
**Cc:** Paul PROCTOR; John F ROOT
**Subject:** USD Clearing - Iranian Banks
**Importance:** Normal

EPS 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.

EPS have apparently been instructed by Compliance to cease this practice. (It is somewhat unclear whether this instruction was in writing, or when it was given and by whom.) However, given "long-standing valuable relationships", IBL have purportedly negotiated a cut-off date of 31DEC03 for the current practice to stop. (Brian Richardson and John Wilkinson in essence deny that they were even aware of the practice, let alone that they have been pushing for an extension of it.)

After 31DEC03 complete payment instructions will be sent on to HBUS. EPS also intend to consider MT202 cover payments to be "unacceptable" after such date, and payment instructions will be fully formatted on a MT100/103 serial basis only. However, there has been some question as to whether the MT100/103 format is an actual legal requirement. So far this does not appear to be the case. A further wrinkle is FATF Special Recommendation 7, which calls for accurate and meaningful originator information. Individual countries are then expected to exempt FI-to-FI transfers.

There are approximately 11 payments every business day. USD clearing services are provided for the following banks:

Melli
Tejarat
Keshavarzi
Markazi
Export Development Bank
Sepah

All of the banks are on the OFAC list of state-owned banks, except for the Export Development Bank. As it is a reasonable assumption that the Export Development Bank is a state-owned bank, either its omission is an oversight by OFAC, or one of the other banks may in fact be the Export Development Bank. At any rate, it is prudent to assume that it is also a target of the OFAC sanctions.

Two banks - Tejarat and the Export Development Bank - account for around 90% of monthly payments (210 out of 233).

John Wilkinson, the HBEU RM, should notify the Iranian banks of the above payment instruction changes by letter at the end of October. Wilkinson is awaiting HBUS agreement before sending the letter. The Iranian banks will be given a disclaimer on the possibility of the application of OFAC sanctions. The disclaimer will state that the Iranian bank in question will remain responsible for complying with OFAC sanctions. The full effectiveness of such a disclaimer can be doubted, particularly as it is not market practice to have written agreements with correspondent banks.

Project Wolf, which should be effective at the end of November, will not necessarily screen for compliance

Permanent Subcommittee on Investigations
EXHIBIT #48

with the "U-turn" payments exception, according to Paul Proctor. Wolf's focus will be to screen for, e.g., terrorists and drug traffickers against government-issued lists. HBUS will continue to be responsible for full screening with regard to OFAC sanctions, which have a broader application than the names screened by the Wolf system.

A related issue is the effectiveness of Iranian correspondent bank money-laundering control procedures for the purpose of USA Patriot Act certification.

The business state that they intend to keep payments "at a low level" but then add that higher payments will require a re-negotiation of fees. Also, there are plans under consideration to increase the USD clearing business with Iranian banks - provided that HBUS are in "full agreement".

John Root

**From:** John F ROOT
**Sent:** Fri Oct 24 13:06:33 2003
**To:** David W J BAGLEY; Susan A WRIGHT; John ALLISON
**Cc:** John F ROOT
**Subject:** Iran
**Importance:** Normal
**Attachments:** image_0.gif; image_1.gif

Please see below the memo from Rod Moxley in Payment Services.

Regards,

John Root

---- Forwarded by John F ROOT/HGHQ/HSBC on 24 Oct 2003 13:06 ----

Memo
24 Oct 2003 12:15

[redacted]

From: Paul PROCTOR/HBEU/HSBC

Tel: 799 12778
44 20 7991 2778
Mail Size [illegible]

To: John F ROOT

To: John F ROOT/HGHQ/HSBC@HSBC
cc:
bcc:

Subject: Iran

John,

Latest status info on this issue from Rod Moxley in Payments Services.

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. I have never seen anything in writing to show how/when this practice commenced or who authorised it but clearly the proposed termination will need to

Permanent Subcommittee on Investigations
EXHIBIT #49

be handled with sensitivity if relationships with the Iranian banks are not to be damaged.

I am on leave next week, I am sure that John Wilkinson/Brian Richards (London RMs) would be happy to answer any further questions in my absence. At this time though, they are unaware from me of your high-level involvement.

Regards.

Paul.

----- Forwarded by Paul PROCTOR/HBEU/HSBC on 24 Oct 2003 12:08 -----

Memo

24 Oct 2003 09:40

[redacted]

From: Rod MOXLEY/HBEU/HSBC

Tel: 790 44479
44 20 7260 4479

Mail Size: 3754

John R WILKINSON et al

To: John R WILKINSON/HBEU/HSBC@HSBC

cc: Geoff ARMSTRONG/HBEU/HSBC@HSBC
Quentin R AYLWARD/MDBK/HSBC@HSBC
Brian W RICHARDS/MDBK/HSBC@HSBC
Paul PROCTOR/HBEU/HSBC@HSBC
Nasser HOMAPOUR/HSBU/HSBCAPAC@HSBC
Julie A CLARKE/HBEU/HSBC@HSBC
Malcolm G EASTWOOD/MDBK/HSBC@HSBC
Tony P COLLINS/HBEU/HSBC@HSBC
Dan SALE/HBEU/HSBC@HSBC
Simon R VICKERY/HBEU/HSBC@HSBC
Gary BOON/MGR PCM MEM/HBME/HSBC@HSBC
Martin S CLARK/HBEU/HSBC@HSBC

bcc:

Subject: Iran

John,

Further to recent exchanges of emails, I detail below my responses to the queries raised, together with a synopsis of my concerns on this issue.

**Responses**

HBUS have not been advised of the new procedures- we have attempted to engage them in our proposals before but have been expressly forbidden from continuing dialogue with them. I have been given a further directive from Malcolm Eastwood, Senior Manager Payment Services in the last few days not to contravene these instructions from our colleagues in US.

The procedures have therefore not been agreed and any potential changes in volumes of traffic are unknown to them.

Iranian banks have not been provided with clear guidelines with regard to the new formatting requirements. Possible solutions have been put forward by HBEU Payment Services but I do not believe they have been communicated to the Iranian banks. We can suggest that payments on behalf of the Iranians for small amounts are sent to us on a test basis but this does not give us or them a guarantee that all payments will be effected without problem.

The implications regarding OFAC are purely what we have gleaned from the OFAC website and previous historical correspondence. We have had no direct contact with OFAC and, being a US government agency, I understand that this would prove fruitless. In short, I believe straight MT202s are acceptable to US banks, providing full disclosure of the U-turn payment is apparent, althoughMT202 cover payments in support of direct MT103s are not acceptable. Additionally, OFAC have stated that they retain the right to freeze payments at their own discretion.

**Concerns**

U-turn payments- there have been a number of views expressed regarding the validity, or otherwise, of the U-turn payments submitted to us. As a UK bank, our own understanding of US legislation is limited and, whilst we might believe we know what constitutes a U-turn payment, it would seem extremely risky for us to start telling Iranian banks what will and what will not comply. Lengthy discussions, per se, may expose us to unnecessary risks.

It was my understanding that the original business case submitted by Rick Pudner, Head of CIB, Middle East in January 2003 was not signed off. Indeed, Marilyn Spearing has underlined the strong operational and reputational risks involved and further support to this view was given by Bagley who suggested holding off due to the acquisition of Household. I would be grateful if you could confirm that the appetite for this business has been authorised at the appropriate level.

The position of Risk Management Services (RMS) is becoming increasingly untenable. RMS controls the Project Wolf filter and yet we have been requested to find ways to circumnavigate our own and other institutions' compliance filters. My own role is predominantly to protect the Bank from reputational risk and I now feel uncomfortable in compromising my position by leading IBL, PCM or Iranian counterparties down certain routes which may directly contravene the spirit of the Compliance framework. If this business is to be progressed or expanded (as indicated in Nigel Weir's note) the impetus for formatting solutions will need to come from PCM MEM. HBEU's role is to pay as instructed and with effect from 1 January 2004 this will be reinforced, as no Iranian payments will be amended.

Despite coherent arguments being put forward by a number of parties within HSBC, it is still worth noting that some US banks, notably Bank of New York, refuse to deal with U-turn payments due to the high risk nature of these transactions and the potential for possible fines, censure or reputational risk. I have copied Group Compliance in on this note to ensure they are aware of and do not have a problem with this continuing risk to HSBC.

I have been alarmed by recent inferences that Payment Services have been amending the Iranian banks' payments without the knowledge or consent of IBL RM or IBL Compliance. This has been a long standing practice and to avoid future doubt, I will reiterate the points made in Malcolm Eastwood's memo to Nigel Weir of 22 Jan 03. If we are to continue to effect these payments, we will require your commitment that Iranian customers will be provided with a template and it is made clear at the proposal stage that:

-payments must be submitted in this format only.

-that payments submitted in the wrong format which may be sequestrated by OFAC are entirely at the Iranian remitter's risk, albeit we will submit the appropriate OFAC request forms licences to retrieve funds when sanctions are lifted.

-that we will not be liable for any funds sequestrated as a result of changes in Iranian Sanctions by the US authorities which might lead to a payment "correctly" formatted being sequestrated.

I am uncertain as to the extent to which the Iranian banks are aware of the differing views and procedures adopted by individual US banks which complicates this issue, but it is imperative that they are aware of our stance from 1 January 2004.

I think you now have all the information which is available at this stage but please let me have your views when you have had a chance to digest and discuss with your customers.

Regards

Rod

From: DENISE A REILLY/HBUS/HSBC
Sent: 12/17/2003 9:40:38 AM
To: TERESA PESCE/HBUS/HSBC@HSBC
CC:
Subject: COMPLIANCE - OFAC ISSUES IN GENERAL AND SPECIFIC TO IRAN

Attached is the memo that we discussed yesterday in our meetng with Michael Gallagher.

---------- Forwarded by Denise A Reilly/HBUS/HSBC on 12/17/2003 09:40 AM ----------
Denise A Reilly on 14 Nov 2002 15:02
Note
14 Nov 2002 15:02

From: Denise A Reilly Tel: 302.636.2500 Del
Title: Senior Vice President Location: Delaware
WorkGroup:
Payment Services Mail Size: 45451

To: Carolyn M Wind/HBUS/HSBC@HSBCAMERICAS

cc: Michael B Gallagher/HBUS/HSBC@HSBCAMERICAS
Subject: COMPLIANCE - OFAC ISSUES IN GENERAL AND SPECIFIC TO IRAN

We need to discuss.

---------- Forwarded by Denise A Reilly/HBUS/HSBC on 11/14/2002 03:03 PM ----------
Valerie ROLLE @ HSBC on 14 Nov 2002 12:56
Memo
14 Nov 2002 12:56

From: Valerie ROLLE @ HSBC Tel: 7904 5557
44 2072 605557
Title: Location:
WorkGroup:
Mail Size: 41980

To: Denise A Reilly/HBUS/HSBC@HSBCAMERICAS
Geoff ARMSTRONG/HBEU/HSBC@HSBC

cc: Pat N CONROY/HBEU/HSBC@HSBC
Marilyn H SPEARING/HD PCM/HBEU/HSBC@HSBC
Quentin R AYLWARD/MDBK/HSBC@HSBC
Rod MOXLEY/HBEU/HSBC@HSBC
Paul PROCTOR/HBEU/HSBC@HSBC
Steve WEBSTER/HBEU/HSBC@HSBC
Nigel J WEIR/RM IB MEM/HBME/HSBC@HSBC
John R CHAPPENDEN/HBEU/HSBC@HSBC
Subject: COMPLIANCE - OFAC ISSUES IN GENERAL AND SPECIFIC TO IRAN

Denise/Geoff,

For your information.

Permanent Subcommittee on Investigations
EXHIBIT #50a

Regards,

Malcolm

Attachment: COMPLIANCE - OFAC ISSUES IN GENERAL AND SPECIFIC TO IRAN.doc.zip

**HSBC Bank plc** **Memo**

| | | |
|---|---|---|
| To<br>Denise Reilly<br>Geoff Armstrong | | Date<br>14 November 2002 |
| From<br>Malcolm Eastwood | | Sender's Reference |
| CC<br>Pat Conroy<br>Marilyn Spearing<br>Quentin Aylward<br>Rod Moxley<br>Paul Proctor<br>Steve Webster<br>Nigel Weir<br>John Chappenden | | |
| Subject<br>**COMPLIANCE – OFAC ISSUES IN GENERAL AND SPECIFIC TO IRAN** | | Receiver's Reference |
| To Facsimile No. | From Facsimile No.<br>020 7260 9796 | Total No. of pages |

This note forms a discussion paper formulated following various conversations that have taken place over the last few weeks. As the custodian of HBEUs payments operation I currently feel that we may be exposing ourselves to unnecessary and unacceptable Reputational and Operational Risk when we are handling payments originating from FIs domiciled in or who are a local branch of an FI domiciled in an OFAC regulated country. As a result there is a need to firstly clarify both the OFAC and HBUS position with regard to these payments and then to determine/communicate the way forward to the RM and PCM Sales teams.

I would emphasise that in no way we are seeking to avoid the OFAC filtering/sequestration arrangements here. Indeed whilst HBEU are not bound by these requirements the FATF principles which are scheduled to become legislation early next year and our own payments filter which is currently being built will take us closer to the US model. I merely wish to establish which way OFAC are looking to deal with the sequestration issue so that we can plan compliance and avoid substantial potential losses which can result from the "incorrect" processing of these payments.

## BACKGROUND CASES

The above comments are prompted by two high profile OFAC related cases seen in the last few months.

The first is a case involved Ing Bank sending a payment for USD 3M to BBVA from and to the account of the same Cuban Bank beneficiary. HBEU forwarded this payment to HBUS via the Serial Payment route. The HBUS filter identified the Cuban bene and the funds were sequestrated by OFAC. The result of all this is that we are in the closing stages of correspondence between HBEU and Ing lawyers pending a Court case between our two banks. Ing are contending that HBEU should not have sent this payment via a Serial method and that we should have converted the message to generate a cover payment which would not have then been sequestrated by OFAC. We are defending our action vigorously and have a strong case built around the fact that we "paid as instructed". Prudence dictates

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03793161
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3407519

that we have found it necessary to raise a general provision of GBP 2M to cover a potential negative result if and when this goes to Court.

Continued



**Compliance – OFAC Issues In General And Specific To Iran**

The second case involves Iran and Bank Markazi when a payment for USD 7.5M was frozen again because the payment was sent via a Serial Route and the OFAC filter identified it as being subject to OFAC rules. Following assertions by HBEU that there was no commercial transaction involved (this was the Iranian Central Bank paying itself at another European bank ie a Money Market transaction) these funds were released but only after a couple of sleepness nights for all of us in London. I have subsequently been advised that this sequestration may have been the result of a clerical error by HBUS but this has not been confirmed to me. Nevertheless HBEU are left settling Standard Chartered's interest claim for late receipt and with an underlying feeling of uncertainty with regard to the Iranian payment issue and the subject of U Turn Payments (we believe that the above payment should have been treated as U Turn) and had thought that this practice was established in the US as a valid payment method specific to Iran.

COMPLIANCE WITH OFAC ISSUES GENERALLY

HBEUs historical practice has been to send these types of payments where the U Turn principal applies (ie funds are generally moving from an European bank to another European bank for the credit of an OFAC regulated entity) via the Cover Payment method. This means that the payment instruction received by HBUS contains no mention of the country or entity involved. My understanding is that this has been accepted practice for many years and that HBEU IBL hold accounts, some in USD for FIs domiciled in these countries ie Cuban, Iranian etc.

There is also evidence (the Ing Bank case being a case in point) that some other European FIs are using HBEU to transact business with these banks, primarily because the benes hold accounts with HBEU but also because they use us as a form of "Filter" for payments being made to the US. Whether we should be supporting this latter business going forward is highly questionable particularly in the light of the FATF regulations. Indeed Ing Bank will be asked to close their account shortly. I feel that there is a need for HBEU IBL to examine the accounts of these OFAC regulated customers to see if there are other examples of other banks with accounts in our books using us for this purpose.

My understanding is that OFACs tolerance of the Cover Payment method is lessening and that there is some pressure being applied to follow the Serial Payment route for all transactions (Denise can you confirm?). Clearly if this is reality this will have major implications for HBEU both from a payments processing and IBL relationship stand point. We therefore need to seek clarification of HBUS/OFACs stance so that we can determine our future payments strategy. Certainly the FATF requirements, whilst not specifying Serial instead of Cover do point toward the principle of "transparency" which the Serial Payment method would support.

Continued

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03793162
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3407520

IRANIAN PAYMENTS

Turning specifically to Iran we have seen the various papers on the subject of U Turn Payments and I believe that we have a reasonable understanding of what these are. The above Markazi situation has put uncertainty in my mind on the validity of this payment method and also highlighted the fact that HBUS have yet to formally "sign off" the process described in your last note. Our conversation suggests that HBUS are now looking at another "U Turn plus" option and I would like to understand what this means for us as payment processors.

I believe that we need to resolve this issue as a matter of some urgency if we are to avoid incidents like the one highlighted above. The Iranian banks continue to send us what I describe as conditional payment instructions which for HBEU require an element of amendment by ourselves. This introduces operational risk and under FATF principles we should not be amending these payment instructions. Acceptance of these items over many years means that we are bound by the precedents currently in place, and I believe that we need to break these precedents by

1. **Establishing with HBUS and OFAC the validity of the U Turn Payment principles for Iranian payments. Whether this be by U Turn or U Turn plus I would like these to be signed off by HBUS as soon as possible and certainly by no later than 31/12/02.**

2. **To agree a "template" payment instruction for these U Turn Payments which can be used by PCM Sales and the RM team and sent to the Iranian Banks stipulating that payments must be formatted in this way, confirming that we will be sending these via the Serial method and that any deviation from this template will be at the Iranian Banks own risk. We would also have to state that the validity of this template would be subject to any change in OFAC legislation in the US. In this way we can give ourselves a level of protection from claims relating to capital or interest which may arise from funds being 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 HBEU to consider its business strategy for the continuation/development of its business with OFAC regulated countries. Whilst I am told that there are significant business opportunities particularly with countries such as Iran there are also substantial Reputational and Operational Risks, not to mention Financial losses associated with it.

Continued

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03793163
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3407521

Whilst I am not suggesting that we should discontinue these established relationships there is a need, in the light of the charging regulatory climate for us to review our position and ensure that we have a correct balance between risk and reward.

I apologise for writing at some length but there has been much happening on this front recently and I thought it appropriate to try and pull all of the somewhat fragmented information together and to share our concerns with you.

The only certainty from all of this is that we cannot delay and prevaricate in this matter for too much longer. We have seen potential losses in excess of USD 10M in the last couple of months and it is now time for HBUS to define exactly what is and what is not acceptable to them.

Your views and those of your colleagues in Compliance would be much appreciated.

Regards.

Malcolm

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03793164
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3407522

**From:** John F ROOT
**Sent:** Tue Jun 17 15:28:16 2003
**To:** David W J BAGLEY; John ALLISON; Susan A WRIGHT
**Subject:** Re: PLC - Re "do not mention our name"
**Importance:** Normal
**Attachments:** image_0.gif; image_1.gif; image_2.gif; image_3.gif; Doc Link.htm; r0074483.tif

Further information, as requested by David.

Kind regards

John Root

---- Forwarded by John F ROOT/HGHQ/HSBC on 17 Jun 2003 15:26 ----

Note
17 Jun 2003 15:05



**From: Elizabeth Protomastro/HBUS/HSBC @ HSBCAMERICAS** **Tel: 212-525-6692**

Mail Stop: 61139

John F ROOT et al

To: John F ROOT/HGHQ/HSBC@HSBC
cc: Carolyn M Wind/HBUS/HSBC@HSBCAMERICAS
bcc:

Subject: Re: PLC - Re "do not mention our name"

The payment was initiated by PLC and received in the HBUS Delaware Funds Transfer area for processing. It stopped for review in the OFAC queue due to the originater "Melli Bank PLC". When Funds Transfer staff noted the message 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. (Even if the payment qualifies as a "u-turn", we will not process it if it contains such a message in any field on the payment.) It will be reported to OFAC as a rejected item as required under the Iranian Transactions Regulations.

I checked with our Investigations area, and they can't tell what department in PLC initiated the payment. All the instructions received on the wire appear on the payment copy attached, which include "do not mention our name" in the BBI field. Funds Transfer in Delaware does not alter the payment instructions

Permanent Subcommittee on Investigations
EXHIBIT #50b

[redacted] = Redacted by the Permanent Subcommittee on Investigations

as received.

There are several reference numbers on the payment that may help you trace its processing in London. The numbers are:

IRN [redacted]
Sender's Ref [redacted]
SRN [redacted]

In case you have trouble reading the attached payment details are given below.

Business date: 13-Jun-2003
Debit: 000[redacted] HSBC Bank PLC London USD Clearing, International Division, 8 Canada Square, London
Credit: JP Morgan Chase Bank, NY, NY
3rd party: Lloyds TSB Bank PLC, London
BBI: BNF/REF/[redacted] Pse do not mention our name in n'
ORG: MELIGB2L, Melli Bank PLC, 4 Moorgate, London
USD 150,000

The payment was rejected on the same day, June 13, 2003.

Please let me know if you have any other questions.

---------- Forwarded by Elizabeth Protomastro/HBUS/HSBC on 06/17/2003 09:32 AM ----------

Note 17 Jun 2003 09:02

| | | | |
|---|---|---|---|
| From: | Carolyn M Wind | Tel: | 212-525-5503 |
| Title: | Executive Vice President | Location: | 452 5th Ave, Floor 07 |
| WorkGroup: | Corporate Compliance | [redacted] | [redacted] |

To: Elizabeth Protomastro

To: Elizabeth Protomastro/HBUS/HSBC@HSBCAMERICAS
Subject: Re: PLC - Re "do not mention our name"

Please provide John the details of this transaction. Thank you.
---------- Forwarded by Carolyn M Wind/HBUS/HSBC on 06/17/2003 09:01 AM ----------

Note 17 Jun 2003 03:54

From: John F ROOT @ HSBC Tel: 799 25555
44 20 7992 5555

Title: Location:

WorkGroup: Mail Date: 06/16/

To: Carolyn M Wind/HBUS/HSBC@HSBCAMERICAS

Subject: Re: PLC - Re "do not mention our name"

Carolyn,

Where did it come from? Where was it processed?

Yours

John

Carolyn M Wind/HBUS/HSBC @ HSBCAMERICAS on 16 Jun 2003 16:34

[redacted]

Note
16 Jun 2003 16:34

From: Carolyn M Wind/HBUS/HSBC @ HSBCAMERICAS Tel: 212-525-5503

Mail Size: 5063

To: John F ROOT

To: John F ROOT/HGHQ/HSBC@HSBC

cc:
bcc:

Subject: PLC - Re "do not mention our name"

FYI

---------- Forwarded by Carolyn M Wind/HBUS/HSBC on 06/16/2003 11:34 AM ----------

Note 16 Jun 2003 11:26

| | | | |
|---|---|---|---|
| From: | Elizabeth Protomastro | Tel: | 212-525-6692 |
| Title: | Vice President | Location: | 452 5th Ave, Floor 07 |
| WorkGroup: | Compliance | Mail Stop: | |

To: Carolyn M Wind

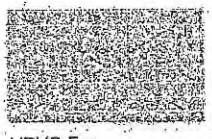
To: Carolyn M Wind/HBUS/HSBC@HSBCAMERICAS

cc: Anne Liddy

cc: Anne Liddy/HBUS/HSBC@HSBCAMERICAS
Subject: PLC - Re "do not mention our name"

FYI, attached please find a copy of MeiII payment rejected on Friday with the above message in the "BBI" field.

---------- Forwarded by Elizabeth Protomastro/HBUS/HSBC on 06/16/2003 11:26 AM ----------



HBUS Fax
06/13/2003 10:53 AM

To: BSA Fax

Subject: Distribution of 74483: Fax from "302 636 2005"

Status: Received
Time: June 13 2003 10:53:12
Pages: 3
Receiver's Name: BSA Fax
Receiver's DID: [redacted]
Receiver's ID: [redacted]
Calling Fax Machine ID: 302 636 2005

[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: David W J BAGLEY
Sent: Tue Jun 17 17:31:17 2003
To: John F ROOT
Cc: John ALLISON; Susan A WRIGHT
Subject: Memo: Re: PLC - Re "do not mention our name"
Importance: Normal

John,

Regardless of the wider issue as to the applicability of OFAC to non -US persons should we be allowing a payment with this sort of instruction to be passed to HBUS, or is there in fact nothing we can do to screen for this at least pre-WOLF.

Regards

From: ELIZABETH PROTOMASTRO/HBUS/HSBC
Sent: 5/4/2005 9:59:42 AM
To: TERESA PESCE/HBUS/HSBC@HSBC
CC: ANNE LIDDY/HBUS/HSBC@HSBC;GRACE C SANTIAGO-DARVISH/HBUS/HSBC@HSBC;DENISE A REILLY/HBUS/HSBC@HSBC
Subject: Re: Fw: Wire Payments Suspended

For the most part, the u-turns that we have processed for HBEU are fully disclosed as per the conditions stated in the attached document last December.

(Document submitted by Denise Reilly to PCM management December 2004)

The remitter, Credit Suisse Zurich, is well aware of the u-turn practices of other U.S. organizations and the requirement for full disclose of the name and address of the originator and the beneficiary.

Please let us know if should return the funds to Credit Suisse Zurich "as per internal policy".

Thank you.

From: Teresa Pesce on 04 May 2005 08:15

To: Elizabeth Protomastro
Anne Liddy

Subject: Fw: Wire Payments Suspended

Anne mentioned this to me yesterday. Is this standard per David's question below?

From: Marion O ROACH
Sent: 05/04/2005 08:11 AM
To: Teresa Pesce
Subject: re: Wire Payments Suspended

Terry,

I attach a self-explanatory exchange of correspondence forwarded to me.

What concerns me is whether the underlying action taken at your end denotes a change of policy and approach within HBUS to what I would normally expect to be cover payments.

As you are aware, there are no Group standards which require that the originator and beneficiary details go in all payments. Accordingly, Group Operation globally will not habitually require or input this information if the underlying customer instruction is received on a basis permitted by the SWIFT format and by local regulation.

If the action that has now been taken represent the change of policy on the part of HBUS, however understandable in the current regulatory environment, it concerns me that any such change of policy may not have been communicated across the Group and subject to appropriate levels of consultation with business colleagues.

Permanent Subcommittee on Investigations
EXHIBIT #50c

I would be grateful if you would clarify whether there has in fact been a change of policy, as if so, there does not appear to have been any external consultation or notification from HBUS.

Alternatively, if the payment has been blocked because of a reference to Iran then this is understood.

Kind regards

David W J Bagley

Memo
04 May 2005 08:21

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Susan A WRIGHT/HGHQ/HSBC Tel: 7992 5554
44 2079 925554
Mail Size: 7848

To: Joe E BROWNLEE/IBEU/HSBC@HSBC
cc: David W J BAGLEY/HGHQ/HSBC@HSBC
bcc:

Subject: Wire payment suspended re "Iran" - USD 6,912,607.82

Joe,

I have copied this one to you for attention given the size of the transaction. Regards SW
---- Forwarded by Susan A WRIGHT/HGHQ/HSBC on 04 May 2005 08:20 ----
Elizabeth Protomastro/HBUS/HSBC on 03 May 2005 22:02

Note
03 May 2005 22:02

From: Elizabeth Protomastro/HBUS/HSBC Tel: 212-525-6692
Mail Size: 2857

To: John ALLISON/HGHQ/HSBC@HSBC
cc: Susan A WRIGHT/HGHQ/HSBC@HSBC
Rod MOXLEY/IBEU/HSBC@HSBC
Grace C Santiago-Darvish/HBUS/HSBC@HSBC
bcc:

Subject: [redacted]

FYI, the following payment was suspended today while we request information as to the originator and beneficiary's full name and address.

3-May-2005
SRN [redacted]
IRN [redacted]
Debit: [redacted] Credit Suisse, Zurich
Credit: [redacted] HSBC Bank PLC London
Org: Credit Suisse

[redacted] = Redacted by the Permanent Subcommittee on Investigations

BBI: Bnf/Yr participation of 30.6.04 our ref: BAHA [redacted] L/C No. [redacted] of Bank Melli Iran
USD 6,912,607.62

Though the payment appears to meet the U-turn under the Iranian Transactions Regulations, we require that the payments should be fully disclosed as to the originator and beneficiary information before processing. We know that this policy is in line with the stance of other U.S. financial institutions, such as Bank of New York and American Express. You are also aware, from past discussions, that this is required by HBUS.

Let us know if you have any questions. Please advise on your side of the delay in processing.

Thank you.

Attachment: U-Turn Conditions.doc

From: ANDY H IM/HBUS/HSBC
Sent: 2/28/2008 5:21:47 PM
To: JOHN ALLISON/HGHQ/HSBC@HSBC;SUSAN A WRIGHT/HGHQ/HSBC@HSBC
CC: GLORIA STRAZZA/HBUS/HSBC;ELIZABETH PROTOMASTRO/HBUS/HSBC@HSBC02;MARY A CASKIN/HBUS/HSBC@HSBC;
ANNE LIDDY/HBUS/HSBC@HSBC;PATRICIA DACOSTA/HFSC/HSBC@HSBC;DENISE A REILLY/HBUS/HSBC@HSBC;
DONALD W MCPHERSON/HBUS/HSBC@HSBC02;CAROLYN M WIND/HBUS/HSBC@HSBC
Subject: Rami Makhlouf

Hello,

We have determined that accounts held in HSBC Cayman are not in the jurisdiction of, and are not housed on any systems in the United States. Therefore we will not be reporting this match to OFAC. Please let us know if you have any questions.

Thanks,

Andy H Im
AVP, AML Compliance, HSBC Bank USA, N.A.
452 Fifth Avenue, Tower 7
New York, NY, 10018

Phone. 212-525-8139
Fax. 212-525-5769
Email. andy.h.im@us.hsbc.com

Patricia Dacosta/HFSC/HSBC@HSBC
02/28/2008 09:01 AM

To
Andy H Im/HBUS/HSBC@HSBC02
cc
Michelle P Williams/HFSC/HSBC@HSBC, David Ford/PBRS/HSBC@HSBC, Amanda Wayman/HFSC/HSBC@HSBC
Subject
Re: Fw: Search #029-08 - HFSC # 1028 - Due 25 February 2008

Dear Andy

Please be advised that we currently maintain a relationship with Settlor, Mohamad Makhlouf in our capacity as Trustee and the individual named in your search request (Rami Makhlouf) is actually a beneficiary of the Trust (his date of birth matches the individual named in your search request which is 10July1969). The Trust is administered by HSBC Geneva.

We raised concerns with this client in August 2007 however we were assured by David Ford that the relationship had been reviewed at Group level and a



Permanent Subcommittee on Investigations
EXHIBIT #50d

decision had been taken to continue with the relationship.

---

I have copied in David Ford to see if he wishes to add any comments prior to you responding directly to OFAC. In the meantime, please confirm if OFAC indicated grounds for their request?

Kind Regards
Patricia DaCosta
Head of Compliance
HSBC Bank (Cayman) Limited
P.O.Box 1109 GT
Strathvale House
North Church Street
Grand Cayman KY1-1102
Cayman Islands
Tel: (345) 914 7572

Andy H Im/HBUS/HSBC@HSBC02
02/27/2008 05:39 PM

To
Patricia Dacosta/HFSC/HSBC@HSBC
cc
Michelle P Williams/HFSC/HSBC@HSBC
Subject
Fw: Search #029-08 - HFSC # 1028 - Due 25 February 2008

Hi Patricia,

As this case is urgent, can you let me know the details of the account(s) in question below?

Thanks,

Andy H Im
AVP, AML Compliance, HSBC Bank USA, N.A.
452 Fifth Avenue, Tower 7
New York, NY, 10018

---

Phone. 212-525-8139
Fax. 212-525-5769
Email. andy.h.im@us.hsbc.com

---

---- Forwarded by Andy H Im/HBUS/HSBC on 02/27/2008 05:36 PM ----

Andy H Im/HBUS/HSBC
02/27/2008 04:39 PM

To
Michelle P Williams/HFSC/HSBC

cc

Subject
Re: Search #029-08 - HFSC # 1028 - Due 25 February 2008

Hi Michelle,

Can you make sure this is a positive match? This is an OFAC request. Does your client's DOB match up with the person in question? Also, can you tell me more on the account where Makhlouf is the trustee?

Thanks,

Andy H Im
AVP, AML Compliance, HSBC Bank USA, N.A.
452 Fifth Avenue, Tower 7
New York, NY, 10018

Phone. 212-525-8139
Fax. 212-525-5769
Email. andy.h.im@us.hsbc.com

--- Forwarded by Andy H Im/HBUS/HSBC on 02/27/2008 04:36 PM ---

Michelle P Williams
27 Feb 2008 16:24

To: ICRO IIP@HSBC

Subject: Search #029-08 - HFSC # 1028 - Due 25 February 2008

Dear Colleague,

Please note that we currently maintain a relationship with "Rami Makhlouf" as Trustee of a established trust.

Kindly confirm what actions if any HSBC Group has taken in relation to the above mentioned individual.

Sincerely,

Michelle Williams
Internal Control Officer - Compliance
HSBC Bank (Cayman) Limited
2nd Floor, Strathvale House North Church Street
Grand Cayman KY1-1107
Direct Line: 345 914 7560

**From:** Susan A WRIGHT
**Sent:** Wed Mar 10 14:56:49 2004
**To:** David W J BAGLEY
**Subject:** Re: BankMarkazi Payment
**Importance:** Normal
**Attachments:** image_0.gif; image_1.gif; image_2.gif; image_3.gif; Doc Link.htm

David,

As requested SW

---- Forwarded by Susan A WRIGHT/HGHQ/HSBC on 10 Mar 2004 14:58 ----

Memo
10 Mar 2004 12:25

[redacted]

From: Malcolm G EASTWOOD/MDBK/HSBC Tel: 799 12300
44 207 991 2300
Mail Stop: 01041

Quentin R AYLWARD et al

To: Quentin R AYLWARD/MDBK/HSBC@HSBC
cc: Phil BAINES/MDBK/HSBC@HSBC
Geoff ARMSTRONG/HBEU/HSBC@HSBC
Rod MOXLEY/HBEU/HSBC@HSBC
Susan A WRIGHT/HGHQ/HSBC@HSBC
bcc:

Subject: Re: BankMarkazi Payment

Q,

Thanks. Having reviewed the attachments and the payment itself I have asked Rod Moxley to ensure that it is paid with immediate effect.

Regrettably we are now reaping the rewards of the inability of IBL and Compliance to resolve the Iranian payment issue for in excess of 12 months. We in CSD now have the tools to identify both potential Sanction and Terrorist payment activity and we have to use them and protect the Bank from financial loss and reputational risk, therefore I have no issue with the action taken by RMS.

Permanent Subcommittee on Investigations
EXHIBIT #51

The information about stage payments gives some comfort although in my opinion OFAC would be perfectly within their rights to sequestrate this item. It is only the beneficiary name and repeat nature of the payment which will perhaps mitigate this risk. It is on the basis that if this is sequestrated the risk is IBLs or its customers I am making the payment.

On the wider issue of Iranian payments in general I remain extremely uncomfortable with the practice of amending Iranian payment orders for whatever means. Although much of this activity is historic the political climate has moved on and such practices are no longer acceptable to the regulatory authorities. On this basis I would urge both Compliance and IBL to get this issue resolved as soon as possible. My own Compliance certificate is heavily caveated to reflect what we are not compliant in respect of Iran and this will become a problem for me if we have not progressed a solution when I am asked to sign the next one.

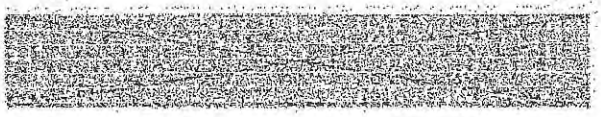
I regret that until we achieve clarity on this issue we will continue to see items delayed and debated. Clearly I have no wish to jeopardise good relationships with IBL customers but whilst this matter remains in my pending file I am left with little choice but to hold and challenge these items on a case by case basis.

Regards,

Malcolm

---

Maria WYATT/HBEU/HSBC on 10 Mar 2004 11:18



Memo
10 Mar 2004 11:18

From: Maria WYATT/HBEU/HSBC

Tel: 7991 2764
44 2079 912764
Mail size: 14079

---

Malcolm G EASTWOOD et al

To: Malcolm G EASTWOOD/MDBK/HSBC@HSBC
cc: Phil BAINES/MDBK/HSBC@HSBC
Geoff ARMSTRONG/HBEU/HSBC@HSBC
bcc:

Subject: BankMarkazi Payment

This is a classic.I am sure that you are aware that Bank Markazi is the Iranian Central bank. From the information given the ultimate beneficiary is in America. As such it is NOT a U turn transaction thus I have some sympathy for the position taken. But in reality it is a [redacted] so in practical terms is a credit to a Supra national which operate without country barriers. However I find it hard to believe that we should stop a repayment [redacted]

Q.

---- Forwarded by Maria WYATT/HBEU/HSBC on 10 Mar 2004 11:12 ----

Memo

10 Mar 2004 10:57

[redacted]

**From: Nigel J WEIR/RM IB MEM/HBME/HSBC** **Tel: 971 4 5077622**

[redacted]

Sent by: Shariq Z SIDDIQI

David W J BAGLEY et al

To: David W J BAGLEY/HGHQ/HSBC@HSBC

cc: David H HODGKINSON/DCH MEM/HBME/HSBC@HSBC
John BLANTHORNE/HD CIB MEM/HBME/HSBC@HSBC
Tim M EVANS/HBAP/HSBC@HSBC
Quentin R AYLWARD/MDBK/HSBC@HSBC
Brian W RICHARDS/MDBK/HSBC@HSBC

bcc:

Subject: BankMarkazi Payment

David,

As Nigel is currently travelling, I enclose a self-explanatory memo from Nasser Homapour for your urgent attention. It is a serious issue and we must resolve it immediately, as it may have potentially damaging effect on our relationship with Bank Markazi.

Kind Regards,

Shariq Siddiqi

------- Forwarded by Sharig Z SIDDIQI on 03/10/2004 -------

10Mar2004

Memo

[redacted]

To: Nigel J WEIR/RM IB MEM/HBME/HSBC et al

To: Nigel J WEIR/RM IB MEM/HBME/HSBC
cc: David H HODGKINSON/DCH MEM/HBME/HSBC@HSBC
John BLANTHORNE/HD CIB MEM/HBME/HSBC@HSBC
Tim M EVANS/HBAP/HSBC
bcc:

From: Nasser HOMAPOUR Tel: 98 21 2040467

Our Ref: Your Ref:

Subject: Bank Markazi Payment

Nigel,

We are facing a critical issue with the Central Bank of Iran whereby a regular payment comprising an installment for a [redacted] is being withheld in London on the basis that it contravenes OFAC sanctions. This is a repeat payment and to date it has always been passed. It would appear that a change in the 'scanning' of transactions by the system in London has flagged it out as being worthy of investigation. This saga has been on going since 5FEB04 and the Central Bank is becoming increasingly irritated with the stance taken by HSBC in the UK. The transaction actually involves 2 HSBC accounts and therefore does not involve a 3rd party bank. The delay in the payment of the installment is causing delays in other [redacted] in favour of Iran which will only become effective once this final installment is effected.

The blockage appears to have been caused by Janette King in Compliance. Can I suggest you send an LN to Bagely highlighting the impact that this intransigent position will have on our efforts to grow business with Bank Markazi.

For ease of reference, here are the transaction details:

[redacted]

Best Regards,

Nasser

**From:** Malcolm G EASTWOOD
**Sent:** Thu Mar 11 18:37:32 2004
**To:** David W J BAGLEY
**Cc:** Quentin R AYLWARD; Phil BAINES; Geoff ARMSTRONG; Rod MOXLEY; Susan A WRIGHT
**Subject:** Memo: Re: Bank Markazi Payment
**Importance:** Normal
**Attachments:** image_0.gif

David,

Thank you. I do understand the complexities having been embroiled in them for many months myself, but my team are placed in an impossible position. We either have to pay or return items on a daily basis and given the lack of clarity I am sure that you can understand my concerns.

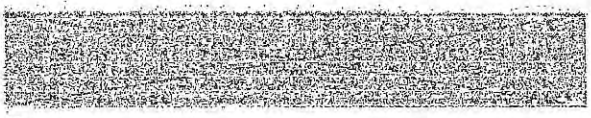
My note merely seeks to raise awareness of an issue which in terms of resolution appears to have gone uncomfortably quiet of late but is very much alive in the world of payments. I take some comfort from your note and that we have a legal opinion. Hopefully we can share the contents shortly and finally produce something workable for all concerned.

With kind regards,

Malcolm

---

David W J BAGLEY/HGHQ/HSBC on 11 Mar 2004 11:52



**Memo**
11 Mar 2004 11:52

**From: David W J BAGLEY/HGHQ/HSBC** Tel: 7991 8645
44 2079 918646
Mail Size: 7321

**Sent by:** Marion O ROACH

---

Malcolm G EASTWOOD et al

To: Malcolm G EASTWOOD/MDBK/HSBC@HSBC
cc: Quentin R AYLWARD/MDBK/HSBC@HSBC
Phil BAINES/MDBK/HSBC@HSBC

Permanent Subcommittee on Investigations
EXHIBIT #52

Geoff ARMSTRONG/HBEU/HSBC@HSBC
Rod MOXLEY/HBEU/HSBC@HSBC
Susan A WRIGHT/HGHO/HSBC@HSBC
bcc:

Subject: Bank Markazi Payment

Malcolm

I have had sight of your note of 10 March.

Whilst I understand your concerns, which I share, particularly when taking a Group view, I believe your note rather underestimates the complexity of the OFAC regulation, and the competing competitive pressures across the Group.

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.

A legal opinion has now been obtained from American lawyers, and a recommendation will be made shortly with regard to what we would hope will be a compliant approach, which reflects both the regulatory situation, seeks to address the competing competitive driver, and hopefully also addresses the political risks.

It is not that Compliance is unable to find a solution, rather the solution is anything but easy to arrive at.

Regards

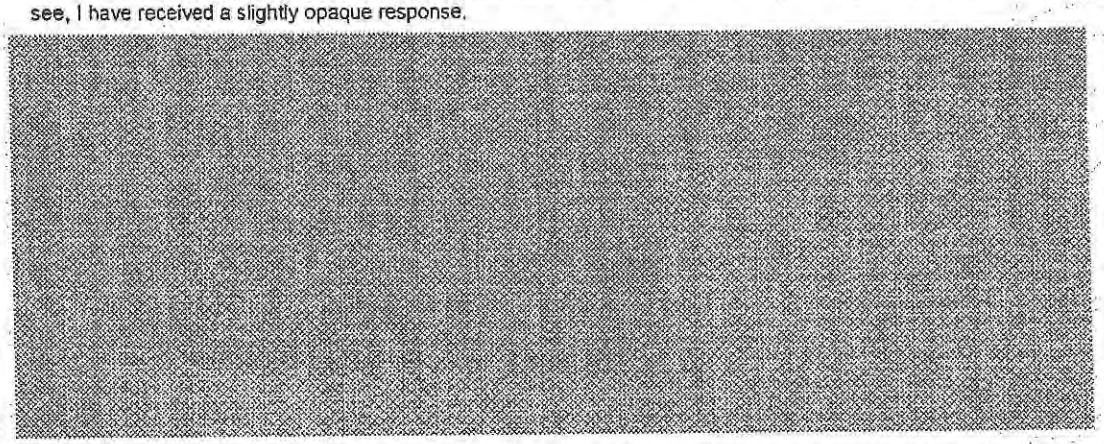
David Bagley

**From:** Marion O ROACH
**Sent:** Mon Apr 19 13:40:17 2004
**To:** Richard E T BENNETT
**Subject:** Iran Correspondent Banking Services - OFAC
**Importance:** Normal
**Attachments:** image_0.gif; image_1.gif; Doc Link.htm

Richard,

I refer to your note concerning the above, and attach the results of a recent exchange of correspondence with David Hodgkinson on this subject. You may recall that we discussed this matter in our previous meeting with SKG where he gave a clear indication that Martin Glynn's views should be sought before there was any expansion of activity in relation to Correspondent Banking services for Iranian Banks.

My note of 22MAR04 to David was intended to ascertain exactly what was intended, although as you will see, I have received a slightly opaque response.



I will follow up with Warren in terms of the work David says is underway, but as you will see 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. Do not believe that we can allow this situation to continue very much longer, which is the point I will make to David in my response.

I recognise that there is a need to act on SKG's suggestion for a solution. It occurs to me however that this solution may not be workable given the multiplicity of pointers involved. We are dealing with payments for the customers of Iranian Banks. These will not therefore lend themselves to a vetting approach given that we will have no control over who acts for the various remitters and beneficiaries.

Kind regards

---

Permanent Subcommittee on Investigations
EXHIBIT #53

[redacted]

Memo
22 Mar 2004 16:54

From: David W J BAGLEY/HGHQ/HSBC

Tel: 7991 8645
44 2079 918645
Mail Size: 5746

Sent by: Marion O ROACH

---

David H HODGKINSON et al

To: David H HODGKINSON/DCH MEM/HBME/HSBC@HSBC
cc: Warren G LEAMING/RLA LGA MEM/HBME/HSBC@HSBC
bcc:

Subject: IRAN - CORRESPONDENT BANKING SERVICES

David

[redacted]

Whilst the above steps are possible, it is likely that HBUS will need to satisfy itself that the procedures are robust and adequate given the significant regulatory and reputational risks they run if errors were to be made.

[redacted]

[redacted] I am uncomfortable with this activity in its current form and think that we need to make an early decision both with regard to this business and the extent to which we wish to expand our activities involving Iranian banks.

I spoke personally to the US lawyer who has provided us with advice, and separately with Paul Lee who as you know is a senior lawyer in our in-house legal department.

[redacted]

My reason for writing to you at this stage is that I think it would be sensible for us to make an early commercial decision before we spend any more money on legal opinions, or in upgrading our activities in the UK so as to achieve a compliant approach. My sense of the value of the existing business is that it is relatively modest. When I spoke to Nigel Weir, my recollection is that he was talking about the value of increased business as being some USD3m. If these figures are accurate, then the amount of revenue may not justify either the additional work and investment that will be required, nor would it justify running the reputational and regulatory risk in the US. I recognise however the significance of this activity in terms of our image in Iran and our ability to expand our business there.

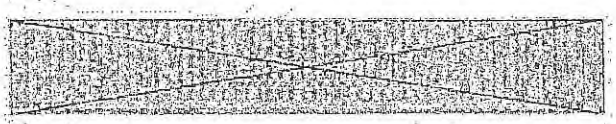
I would be happy to discuss this issue more generally with you if that would help, although suspect that perhaps the next conversation you might wish to have would be with Martin Glynn. Could I suggest however that any such conversation take place over the telephone, as we are seeking to avoid correspondence with HBUS on this sensitive issue other than through lawyers so as to preserve privilege.

I would stress that I do think we need to make an early decision given the current activity that is taking place.

---

Regards

David Bagley



Memo
17 Apr 2004 07:55

From: David H HODGKINSON/DCH MEM/HBME/HSBC

Mail Size: 2547

David W J BAGLEY et al

To: David W J BAGLEY/HGHQ/HSBC@HSBC
cc: Marion O ROACH/HGHQ/HSBC@HSBC
Warren G LEAMING/RLA LGA MEM/HBME/HSBC@HSBC
bcc:

Subject: Re: IRAN - CORRESPONDENT BANKING SERVICES

David

I have been in regular contact with Mukhtar Hussain and his team on this topic which is still open. The current position as briefed to me last week was that we have not yet found a way to handle major USD clearing business, and I am anticipating having to explain this to the Central Bank on my visit to Teheran in early May. I have asked our people to put forward the basis on which they believe this could be undertaken with the lowest level of perceived risk, so that if circumstances change we know our preferred way forward.

Regards

David

From: David H HODGKINSON
Sent: Wed Jun 30 11:50:21 2004
To: Michael F GEOGHEGAN
Subject: Memo: Re: Iran
Importance: Normal
Attachments: Doc Link.htm

Michael,

I should be grateful for your assistance with an issue relating to the processing of USD payments for Iranian Banks.

You may be aware that, together with your payments team and GHQ Compliance, we have been working for some time to try and establish a practical solution which will enable HBEU to continue processing USD payments on behalf of our Iranian Bank customers. [redacted] Until a definitive solution is found GHQ Compliance granted a temporary dispensation to HBEU to continue making payments without full disclosure. This dispensation cannot last indefinitely.

[redacted] HBEU's payments team have advised that they feel uncomfortable recommending continuation of this business and unless compelling commercial reasons exist will be advising relevent parties that this business will cease on 30/9/04.

You will note from the attached correspondence that we have appealed and the reasons have been articulated. I am now seeking your intervention and support in resolving positively this long outstanding issue so that we can continue to effect USD payments for our Iranian Bank customers in line with US regulatory requirements. I am aware that the volume of payments is small (20 per day) and that they will be manually intensive but as you know Iran is of significant strategic importance to the Group and our refusal to continue to undertake this business for Government owned banks will undoubtedly have a very negative impact.

Thank you in advance

David
----- Forwarded by David H HODGKINSON/DCH MEM/HBME/HSBC on 06/30/2004 02:47 PM -----

Nigel J WEIR
RM IB MEM/HBME
30 Jun 2004 14:00
971 4 5077622

To: Rod MOXLEY/HBEU/HSBC@HSBC

Permanent Subcommittee on Investigations
EXHIBIT #54

Redacted Material
Confidential - FOIA Treatment Reques

cc: David H HODGKINSON/DCH MEM/HBME/HSBC@HSBC
Mukhtar M HUSSAIN/CEO IB&M HFSM/HBME/HSBC@HSBC
Geoff ARMSTRONG/HBEU/HSBC@HSBC
Phil BAINES/MDBK/HSBC@HSBC
Nasser HOMAPOUR/HSBL/HSBCAPAC@HSBC
John ALLISON/HGHQ/HSBC@HSBC
Susan A WRIGHT/HGHQ/HSBC@HSBC
Warren G LEAMING/RLA LGA MEM/HBME/HSBC@HSBC
John E ROOT/HBEU/HSBC@HSBC
Gary BOON/MGR PCM MEM/HBME/HSBC@HSBC
Ajay BHANDOOLA/RM PCM MEM/HBME/HSBC@HSBC
Malcolm G EASTWOOD/MDBK/HSBC@HSBC
Simon R VICKERY/HBEU/HSBC@HSBC
Jeremy R WALKER/HBEU/HSBC@HSBC
Tony P COLLINS/HBEU/HSBC@HSBC
Subject: Memo: Re: Iran
Your Ref:
Our Ref:

Rod,

Thank you for your note. I would ask you to reconsider your suggested proposal as 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.

You may be aware that the Iranian Banks that use HSBC for these payments are State owned banks. If we advise them that we will no longer continue to process these payments we will be effectively insulting the Government and State of Iran. The implication of this action is difficult to predict with certainty but we expect that it will adversely impact our overall business with Iranian banks and, more importantly, our operations in Iran. In the current sensitive political situation we have declined to accept new USD payments business from Iranian banks but to exit business which we have been conducting for many years would jeopardise all other existing business activities. It will specifically impact the servicing of our trade business with Iran where our current turnover is in excess of USD1Bn p.a. For your information, overall, the Group earns about USD10M p.a. from these business activities.

We believe the low volumes are reasonably cost effective to control and as such I should be grateful if you could revisit this issue and, working with Group Compliance (and the PCM team in HBME Dubai if appropriate), prepare a solution which will enable HBEU to effect USD payments in accordance with US regulations for our Iranian Bank customers. GHQ Compliance can then present this to HBUS for their consideration.

Thank you and Regards

Nigel

09Jun2004
Memo

To: John ALLISON/HGHQ/HSBC@HSBC
cc: Susan A WRIGHT/HGHQ/HSBC@HSBC
John E ROOT/HBEU/HSBC@HSBC
Nigel J WEIR/RM IB MEM/HBME/HSBC@HSBC
Gary BOON/MGR PCM MEM/HBME/HSBC@HSBC
Malcolm G EASTWOOD/MDBK/HSBC@HSBC
Simon R VICKERY/HBEU/HSBC@HSBC
Jeremy R WALKER/HBEU/HSBC@HSBC
Tony P COLLINS/HBEU/HSBC@HSBC
bcc:

From: Rod MOXLEY Tel: 799 13664;44 20 7991 3664

Our Ref: Your Ref:
Subject: Iran

John,

I have reviewed US Counsel's proposed solution on Iranian U-turn payments and my brief opinion is as follows.

Operational difficulties

i) Duplication of payments.

[redacted] will involve much additional detail on the MT202s and it is my belief that this additional detail may lead to some recipients treating this as a direct payment rather than the cover of an original payment. Duplication of payment may result.

ii) Global market practice.

The procedure we would now be adopting would be at variance with standard market practice and this in itself could produce processing problems

iii) STP.

The suggested procedure would lead to more manual intervention, greater cost and potentially less control, as 3 or 4 different sites can be involved in the processing of any transaction. The level of control which RMS could exercise over such payments diminishes as payment processing is divided between RSC (NHQ27), EPS (Livingston) and GSC (India).

iv) Other US banks.

The stance of other US banks who have withdrawn from the Iranian market means that we are still in a vulnerable position if our customers are asking us to give guarantees that payments will reach their ultimate destination without problem.

v) U-turn payments criteria.

The definition of what constitutes a U-turn payment is open to interpretation and the accuracy of information on the OFAC website has also been questioned. This can lead us on occasions to making subjective decisions

which could lead to operational losses or reputational damage.

Proposal

For the reasons stated above, I feel very uncomfortable recommending that we continue to process Iranian payments. It is possible to continue but the higher level of costs, the reduction of control, possible systems enhancements and the potential for error make this unattractive.

We have discussed this situation at length and so, rather than re-open another round of talks, I should be grateful if you could let me have your formal response, (and that of any other interested copy parties to this email) by Friday 18th June 2004.

Thereafter, unless compelling commercial reasons exist, which have been endorsed by Group Compliance and HBUS, I shall be formally advising interested Relationship Managers that we will no longer be able to handle Iranian payments after 30 September 2004.

Regards

Rod Moxley
Regulatory and Operational Risk Manager

<<_>>

From: John RANALDI
Sent: Wed Jun 30 12:23:23 2004
To: Michael F GEOGHEGAN
Subject: Memo: Re: Fw: Iran
Importance: Normal

mike; i was aware of this. will get an update and let you know. basically, our interpretation was that we were being asked to "fudge" the nature of the payments to avoid the U.S. embargo and seizure. a few days;
jr

Permanent Subcommittee on Investigations
EXHIBIT #55

**From:** John RANALDI
**Sent:** Tue Jul 06 15:07:22 2004
**To:** Michael F GEOGHEGAN
**Subject:** HBEU Iranian Payments Business
**Importance:** Normal
**Attachments:** IRANIAN PAYMENT - EXECUTIVE SUMMARY.doc; IRANIAN PAYMENT PROCESSING PROPOSALS.doc

michael; reference your earlier query;
this is clearly not a simple matter. our posture has been to respect the law and our bank,s reputation. 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. we should not take on that responsibility. essentially, a payment clerk is asked to judge upon a payment kicked out by the filtering system, whether to release, or return. there is an irony; someone could argue that by returning payments to iran that we are contrevening the ofac rules(office of foreign asset control).
today we run the risk of 1) having the payment seized and incurring the operational loss, and 2) jeopardising the group,s reputation and incurring hefty fines.
even if we receive an indemnity, our people would continue to be asked perhaps to decide whether a payment is acceptable despite being kicked-out by the filtering system, so as to avoid seizure. we will make mistakes. lloyds has been fined i,m told and few if any u.k. banks are in the business.
we may discuss at your leisure. i will bring the experts.
jr
----- Forwarded by John RANALDI/HBEU/HSBC on 06 Jul 2004 14:48 ----
Malcolm G EASTWOOD/MDBK/HSBC on 06 Jul 2004 14:26

Memo
06 Jul 2004 14:26

From: Malcolm G EASTWOOD/MDBK/HSBC Tel: 799 12300
44 207 991 2300
Mail Size: 94011

To: John RANALDI/HBEU/HSBC@HSBC
cc: Pat N CONROY/HBEU/HSBC@HSBC
Rod MOXLEY/HBEU/HSBC@HSBC
bcc:

Subject: HBEU Iranian Payments Business

John

Please find attached a detailed note on the subject of Iran. I have attached to this email a one page Executive Summary which provides the headlines.

This is an extremely sensitive area. To date we have steered away from detailing exactly what we are doing with these particular payments because of the sensitivities. I would certainly counsel against a wide distribution and we should definitely resist any move to send the detail to anyone in HBUS as it may well compromise their position with the US Authorities.

Permanent Subcommittee on Investigations
EXHIBIT #56

The Fed would certainly frown on any process either deliberately or accidentally designed to prevent the legitimate sequestration of Iranian funds under OFAC rules which is why we currently use the Wolf filter to identify potential terrorist related payments and not to block other payments. The proposals are written to reflect an adjustment in the use of Wolf to check that Iranian payments are legitimate U Turn items and then to release these rather any attempt to prevent US legislation doing its job which might then compromise the Groups US licence. It also places the risk and responsibility for ensuring payment legitimacy firmly with the Iranian FI community rather than with ourselves.

This is a difficult area for many reasons, not the least of which is the fact that the OFAC regulations relating to Iran tend to be grey and are subject to different interpretations by the US Banks. In this proposal we are attempting to walk a difficult path between protecting our US licence whilst also protecting a not insubstantial income stream and future potential income stream from Iran. The safest option from my perspective would be to exit the Iranian FI payments business as indeed others have but in the knowledge that this will denude our income stream Rod and I have tried to build an alternative solution.

Please let me know if you wish to discuss.

Malcolm

----- Forwarded by Malcolm G EASTWOOD/MDBK/HSBC on 06 Jul 2004 13:56 -----
Rod MOXLEY/HBEU/HSBC on 06 Jul 2004 13:35

Memo
06 Jul 2004 13:35

From: Rod MOXLEY/HBEU/HSBC Tel: 799 13664
44 20 7991 3664
Mail Size: 54054

To: Phil BAINES/MDBK/HSBC@HSBC
cc: Geoff ARMSTRONG/HBEU/HSBC@HSBC
Malcolm G EASTWOOD/MDBK/HSBC@HSBC
Bob A WESTON/HBEU/HSBC@HSBC
Jeremy R WALKER/HBEU/HSBC@HSBC
Tony P COLLINS/HBEU/HSBC@HSBC
bcc:

Subject: Iran

Phil,

Further to recent discussions with Malcolm regarding potential solutions for the Iranian payments issue, I attach a document encompassing a potential way forward. I shall be pleased to have your comments in due course or, if you

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.AHSBC OCC 8876862

feel it appropriate, we can discuss over the phone.

Regards

Rod Moxley
Regulatory and Operational Risk manager, Payment Services

<<...>> <<...>>

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.AHSBC OCC 8876863

From: DENISE A REILLY/HBUS/HSBC
Sent: 11/30/2004 3:00:54 PM
To: SANDRA PETERSON/HBUS/HSBC@HSBC
CC: "MICHAEL GALLAGHER" <MICHAEL.B.GALLAGHER@US.HSBC.COM>
Subject: Re: Fw: U-turns

Thanks for reviewing. My responses are in blue on the attached.

I'll let you know what comes out of the meeting.

Sandra Peterson on 30 Nov 2004 14:42
Note
30 Nov 2004 14:42

From: Sandra Peterson Tel: 302-636-2500
Title: Senior Vice President Location: Delaware/3, Floor 3
WorkGroup:
Central Services Mail Size: 10546

To: Denise A Reilly/HBUS/HSBC@HSBC

cc: "Michael Gallagher" <michael.b.gallagher@us.hsbc.com>
Subject: Re: Fw: U-turns

Denise, thanks for re-sending the doc. Just a few questions:

It is my understanding that initially there were concerns about the potential intentional removal of wording "off limit payments" from these payments. Based on what we are being asked to do now, has that concern been addressed?
I'm not familiar with the use/removal of "off limit payments" but the recommendation from a legal and compliance perspective is to have full disclosure of all parties and payment details. HBEU would be advised to not alter the payment details in any way.

Is this proposal for Bank Melli only or is the intent to grow this business? When this topic first arose it was to support Bank Melli but my understanding is that the business under discussion now is more general, with no specific clients named to date. I also heard sometime ago that Bank Melli established a elationship with another institution for their USD correspondent needs. I



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB02545303

Confidential - FOIA Treatment Requested by HSBC Bank USA, N.A. HSBC OCC 0616127

Confidential Treatment Req

Permanent Subcommittee on Investigations
EXHIBIT #57

BC-PSI-PROD-0096165

don't think the volume of transactions would be comparable to what was discussed for Bank Melli (400/day).

Out of curiosity, how did legal respond (internal and external)?
Legal advised that we should have full disclosure of payment details and ensure appropriate controls were in place. However, the final decision on accepting the payments was viewed as a business decision.

Thanks,
Sandra

From: Denise A Reilly on 30 Nov 2004 07:09

To: "Sandra Peterson" <sandra.peterson@us.hsbc.com>

cc: "Michael Gallagher" <michael.b.gallagher@us.hsbc.com>
Subject: Fw: U-turns

I'm not sure if you are aware that the possibility of doing U-turn transactions has been raised once again as a business initiative. This topic has come up several times since 2001. Terry Pesce was asked to meet with Martin Glynn on the topic and she asked Michael and I to join her (today at 4pm). In preparation, attached are the required control procedures for doing such transactions. The document was developed with Anne Liddy and Carolyn Wind and was vetted by external counsel when the topic was last active in 2001-2002. Please let me know if you have any comments or concerns from a Payment Ops perspective.

Thanks.

From: Michael B Gallagher
Sent: 11/29/2004 09:22 PM
To: Denise Reilly
Subject: Re: U-turns

Has Sandra not reviewed?



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB02545304

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0616128

Confidential Treatment Requested HSBC-PSI-PROD-0096166

From: Denise A Reilly
Sent: 11/29/2004 07:45 PM
To: Michael Gallagher
Cc: Teresa Pesce; Grace C Santiago-Darvish; Alan T Ketley
Subject: U-turns

Attached are the control procedures (slightly updated) that I put together when I was in Payments. This should be part of our discussion with Martin tomorrow. Give me a call if you would like to discuss before our 4pm.



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB02545305

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0616129

Confidential Treatment Requested HSBC-PSI-PROD-0096167

From: DENISE A REILLY/HBUS/HSBC
Sent: 12/2/2004 4:39:01 PM
To: MICHAEL B GALLAGHER/HBUS/HSBC@HSBC
CC: TERESA PESCE/HBUS/HSBC@HSBC;SANDRA PETERSON/HBUS/HSBC@HSBC;GRACE C SANTIAGO-DARVISH/HBUS/HSBC@HSBC
Subject: U-Turns

Attached are the conditions under which HBUS will accept U-Turn transactions. I have reviewed with Sandra and Grace.

Please call if you have any questions or need additional information.

Attachment: U-Turn Conditions.doc.zip

Permanent Subcommittee on Investigations
EXHIBIT #58

**HBUS Conditions for Processing U-Turns**

Agreement to the following conditions is required for HBUS to accept U-Turn payments.

- Transactions will be formatted in accordance with SWIFT standards and will be fully transparent serial payments that reflect full payment details. Payments must include complete name, street address, city and country of the originator and beneficiary.
- HBEU will agree to strictly abide by U-turn processing requirements (to be provided by HBUS) and will not alter "as received" payment instructions in a manner other than that required to meet payment formatting requirements. Payment details will in no case be dropped from the instructions forwarded to HBUS.
- HBEU will indemnify HBUS for all potential penalties that may result from violations of OFAC sanctions, regardless of the cause and source of the action that precipitated the violation.
- A separate processing account will be established under the name of "HBEU Special Account" on HBUS books. Only Iranian originated transactions will pass through this account.
- The account number of "HBEU Special Account" will be entered into the HBUS payments system OFAC filter so that every transaction for this account will be stopped in the OFAC queue for review and approval before processing.
- HBUS will be reimbursed for any additional FTE's required due to increased process burden attributable to OFAC review of Iranian payments.
- HBUS pricing for the transactions will reflect incremental processes and risk.

**From:** David H HODGKINSON
**Sent:** Mon Jun 27 11:29:30 2005
**To:** David W J BAGLEY
**Cc:** Richard E T BENNETT
**Subject:** Re: IRANIAN PAYMENTS
**Importance:** Normal

David,

By way of update, HBME is currently seeking to open a USD account with JP Morgan Chase as our first choice (or Bank of America as second choice), in order to process Iranian related USD payments. Whilst JPMC have verbally agreed to open the account they have warned us that any cover payment could be subject to their compliance process whereby they would seek full details of the underlying transaction either before or after processing. There could be a risk of referral to OFAC should their interpretation of a U-Turn transaction be different to ours. We have been advised that an account could be opened within a few weeks should we proceed down this road.

At the same time, new USD accounts for our Iranian correspondents will have to be opened with HBME in Dubai, which will have to be communicated, with the assistance of our Tehran office, in order to get their USD payments re-routed appropriately. We will also need to establish procedures in order to ensure compliance with OFAC regulations regarding U-Turn payments, which involves an operational review and staff training. With London's assistance, this should be completed by early September.

I note your comments in point 2 with interest as we never envisaged anything other than U-Turn compliant payments being processed. Accordingly we agree that there is no reason to use anyone other than HBUS and can confirm that there is no misunderstanding in this regard. I understood that the only reason we considered using another US correspondent was purely because HBUS had shown an unwillingness to process these transactions for reputation risk reasons. Having considered this further it appears to us that using another correspondent may not completely overcome the reputation risk issue.

When the USD accounts of Iranian banks are opened in Dubai, HBME will take over the payments from HBEU. We will establish a specialist team to manually review each transaction (including running them through WOLF) ensuring they are U-Turn compliant. We intend to continue with the cover payment method as our understanding is that if serial payments are used other US banks in the chain may interpret the U-Turn process differently which may lead to delays and other problems as payments are referred mistakenly to OFAC. We envisage providing HBUS seperately with full details of each payment (but in a manner to avoid duplication) so that they are in a position to satisfy themselves and anybody else that the payments are genuine compliant transactions.

For the sake of clarity we would repeat the definition of a U-Turn payment defined by OFAC on their website as a payment "...involving Iran where US Dollar transactions are cleared through a US bank. Generally speaking, there must be a third-country bank on both sides of a transaction to qualify as a 'U-Turn.' For example, Bank Melli Iran can send funds from its account at a German bank through the German bank's correspondent in New York to an Italian

Permanent Subcommittee on Investigations
EXHIBIT #59

bank to pay for goods purchased from Italy. The originating and beneficiary banks may not be US banks."

In light of the position, assuming that the decision to use another bank is re-visited and the above process is acceptable to HBUS and yourselves, HBME will be happy to meet HBUS counterparts to provide them with any further comfort or explanation that they require. I have not copied this message to Stephen Green, as your message was not.

Your thoughts and guidance will be appreciated.

Regards,

David

David W J BAGLEY
HGHQ
20 Jun 2005 19:27
;7991 8645;44 2079 918645
Sent by: Marion O ROACH

To: David H HODGKINSON/DCH MEM/HBME/HSBC@HSBC
cc:
Subject: IRANIAN PAYMENTS
Our Ref:
Your Ref:
Entity: HSBC Holdings plc - HGHQ

---

David

The above topic surfaced in the routine meeting which Richard Bennett and I

had with Stephen in advance of the monthly GMB meeting.

Stephen raised with me the following points:-

He sought my assurance that the agreed arrangements in relation to Iranian payments had been put in place. For obvious reasons I was not able to give that confirmation but did emphasise that in failing to do so I was not suggesting that the arrangements were not in fact complete. I thought it only right and proper however to alert you to the fact that Stephen is looking for confirmation that all payments are not being routed through HBME via a non-Group clearer, or that a reasonably proximate date has been set by which time those arrangements will be in place. His sense of urgency is possibly explained by the information contained in the third bullet point below.

Stephen also asked for confirmation that the payments that would pass through the US would all be payments which were U-turn exempt even if they went through the US in the form of a cover payment. Although I may have misunderstood our discussions I was not previously aware that this was a precondition nor did my original paper envisage that if we used a non-Group correspondent we would necessarily consider passing only U-turn exempt payments through them. In fact in such circumstances there would be no reason to use anyone other than HBUS given that HBUS could not be criticised were it to carry out exempt payments. I would be grateful if you would confirm that there is no misunderstanding in this regard and that we will only be passing payments through the US, whether or not through our own correspondent, that we have validated as being U-turn exempt. If this not the intention then I suspect some further discussions with Stephen may be required. [redacted] apparent [redacted] I understand this point, but believe that we also need to consider the extent to which we are at risk if we fail to consider the transaction as a whole (i.e. both the cover payment instruction and any linked bank to bank message) which if put together would lead to a different determination in terms of that U-turn exemption. [redacted]

The reason for my additional caution is that I had a number of discussions at a recent Wolfsberg meeting which raised my concerns with regard to the level of scrutiny that US authorities are giving to cover payments generally but also specifically in relation to OFAC compliance on the part of US banks offering correspondent banking services.

One major European entity has made a decision to apply OFAC regulation and restrictions across the entirety of its operations, inside the US and outside, in all currencies. Although they were hesitant in explaining their reasons for taking this decision I suspect it is because they have had recent fairly well-publicised difficulties with OFAC compliance.

Another European institution indicated that they were facing a criminal prosecution in the US for deliberating evading OFAC sanctions by failing to link a cover payment and an underlying bank to bank message together thus

allowing the sanctions to be evaded. Admittedly their activity appeared to have been through their own correspondent branch in the US, and I was unable to elicit any further details. Nonetheless this does seem to me to justify further scrutiny and consideration on our part.

As I may have mentioned the US regulatory authorities, OCC and Federal Reserve, are carrying out a joint peer review of correspondent banking from an AML and OFAC compliance perspective. The visit to HBUS will commence shortly if it has not already commenced. As part of that review I believe that the US authorities have focused upon cover payments both in relation to AML procedures but also in relation to OFAC compliance. I believe that a potential account of the scrutiny and the resultant recommendations will be an expectation that US banks should not merely accept cover payments without seeking full details of any underlying transaction. That would of course mean that we would probably be required to disclose both details of the cover payment and the linked message to any US correspondent we employ even if they were a non-Group correspondent. I recognise that this is something primarily for the US correspondent to resolve but I suspect you may need to factor this potential development into your thought processes going forward. Of course if this is a wider requirement of all US Dollar clearers then the potential for damaging our relations with Iran would be minimised given that we are merely following restrictions imposed on all market participants by a more zealous application of US law.

I am in fact out of the office travelling on business this week, I will however monitor my BlackBerry, but it may be that you would prefer to correspond with Stephen direct with regard to the first two points on which he was seeking assurance.

If there is any news with regard to the further legal advice that is being taken then I will ask John Root to consider a joint note to us.

Regards

David Bagley
(sent not seen by DWJB)

From: ROB MUTH/HGHQ/HSBC
Sent: 5/8/2006 11:07:51 AM
To: CAROLYN M WIND/HBUS/HSBC@HSBC
CC:
Subject: Fw: INFO: Fw: TP GATEWAYS

Carolyn, are you OK with this? I would have thought the US regulators would have taken a dim view of routing stuff around the US. Pls comment. Rob
----- Forwarded by Rob Muth/HGHQ/HSBC on 08/05/2006 17:06 -----

Peter C L DE MONTFORT/HGHQ/HSBC
HGHQ
08/05/2006 17:00
Phone No. 799 23755
+44 (0) 20 799 23755
Mail Size: 5769

To
Rob Muth/HGHQ/HSBC@HSBC
cc

Subject
INFO: Fw: TP GATEWAYS
Entity
HSBC Holdings plc - HGHQ

As discussed, I am expecting the impact of this to be some delay in Panama and Mexico migrations from their current dates of 20MAY and 3JUN respectively.

David W J BAGLEY/HGHQ/HSBC
HGHQ
Sent by: Marion O ROACH
10/04/2006 15:58
Phone No. 7991 8645
44 2079 918645
Mail Size: 2830

To
Luis EDUARDO/HBBR/HSBC@HSBC, David Leighton/HBMX/HSBC@HSBC, Brigitte SCHIMUNEK/HBCL/HSBC@HSBC, David S DUNCAN/HBAR/HSBC@HSBC, Andy GENT/HBBM/HSBC@HSBC, Virginia SUAREZ/HBUY/HSBC@HSBC, Joseph L SALTERIO/HBPA/HSBC@HSBC
cc
John ALLISON/HGHQ/HSBC@HSBC
Subject
TP GATEWAYS
Entity
HSBC Holdings plc - HGHQ

We propose that the countries in the Americas outside USA disconnect their



Permanent Subcommittee on Investigations
EXHIBIT #60

Confidential - FOIA Treatment Reque[illegible]s, Inc. HSB08071341
Confidential - FOIA Treatment Reque[illegible] HSBC OCC 7687437

payment routing link to the USA TP Gateway and reconnect to the UK TP. This will provide two main benefits, firstly the ability to make payments in currencies other than USD to countries/names/entities sanctioned by USA OFAC (as permitted by GCL 050047), and secondly to take data records outside USA.

Can you please advise John Allison by 30 April 2006 whether you agree with this proposal.

David Bagley



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB08071342
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7687438

From: ALAN T KETLEY/HBUS/HSBC
Sent: 5/26/2006 11:14:07 AM
To: "JUDY STOLDT" <JUDY.P.STOLDT@US.HSBC.COM>
CC:
Subject: U Turns

Judy

Can you look at this please and help be decode it.

We are likely to be handling U turns for Dubai going forward.

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 05/26/2006 12:09 PM -----

Teresa Pesce/HBUS/HSBC
05/26/2006 08:28 AM

To
Alan T Ketley/HBUS/HSBC@HSBC
cc

Subject
Fw:

Forget what I said yesterday.
---
Sent from my BlackBerry Wireless Handheld

From: David W J BAGLEY
Sent: 05/26/2006 03:29 AM
To: Teresa Pesce
Cc: Warren G LEAMING; Alan KERR; Gary BOON

Terry,

The attached is all I hope self-explanatory and whilst I am not suprised at the reaction from JPMC, it is important to emphasise that we are talking about exempt U-turn payments. HBME have no choice but to now pass the paymments via HBUS, but as they are exempt, you have previously confirmed with Martin that HBUS are comfortable this does not seem to me to be problematic.

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. Could you let me know and copy Gary Boon and Alan Kerr as I am out for part of today, Monday is a public holiday and I at Wolfsberg next week.

Give me a call if you need to discuss and I appreciate that you may want to

Permanent Subcommittee on Investigations
EXHIBIT #61

recheck with Martin.

Regards
---- Forwarded by David W J BAGLEY/HGHQ/HSBC on 26/05/2006 08:22 ----

Alan KERR/HBME/HSBC
HBME
26/05/2006 06:45
Phone No. 971 4 5077674
Mail Size: 7618

To
Warren G LEAMING/RLA LGA MEM/HBME/HSBC@HSBC, Ian EDEN/HBME/HSBC@HSBC, Ben HOLT/HBME/HSBC@HSBC, David W J BAGLEY/HGHQ/HSBC@HSBC
cc
Gary BOON/HBME/HSBC@HSBC, Ken C MATHESON/HBME/HSBC@HSBC
Subject
Fw: US Dollar Transactional Activities via DDA at JPM
Entity
HSBC Bank Middle East Limited

All,

Please see attached message received from JPMC regarding transactions acceptable for transmission through our USD account with them, which follows on from our discussion with them yesterday morning regarding our imminent move to serial payments + cover payments with Field 72 completed.

Please could you provide guidance as to how we may continue to effect OFAC U-turn compliant transactions on behalf of our Iranian customers.

Alan Kerr
Head of Institutional Banking
Tel : 971 4 5077 674
Fax : 971 4 3535079

---- Forwarded by Alan KERR/HBME/HSBC on 05/26/2006 09:37 AM ----

Ali.Moosa@jpmorgan.com
05/25/2006 09:49 PM
Mail Size: 5256

To
Gary BOON/HBME/HSBC@HSBC, Alan KERR/HBME/HSBC@HSBC
cc
Layla.Qaseer@jpmorgan.com, Carmel.Speers@jpmorgan.com, colin.j.nutt@jpmorgan.com
Subject
US Dollar Transactional Activities via DDA at JPM
Entity
HSBC Bank Middle East Limited

Dear Gary,

It was a great pleasure speaking to you and Alan today.

First, many thanks for keeping us informed on the group decision regarding the payments method. This is to confirm that we will be pleased to continue processing HSBC's Middle East dollar payment transactions, (both MT103 and 202) with the exceptions of the Iranian referenced transactions that should be directed to other correspondent banking account. Unfortunately, as a business decision we will not be able to process such Iranian referenced details on the payment narratives.

We look forward to continuing our excellent business relationship. Please do not hesitate to contact us if we can be of any further assistance or if you have any questions.

Have a nice week end.

Ali

Ali Moosa
Vice President & Area Manager
Middle East & N. Africa
Treasury Services

Tel. +973 17 522741
Fax +973 17 535135
Mobile [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

This communication is for informational purposes only. It is not intended as an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. All market prices, data and other information are not warranted as to completeness or accuracy and are subject to change without notice. Any comments or statements made herein do not necessarily reflect those of JPMorgan Chase & Co., its subsidiaries and affiliates.
----- Forwarded by David W J BAGLEY/HGHQ/HSBC on 26/05/2006 08:22 -----

David W J BAGLEY/HGHQ/HSBC
HGHQ
26/05/2006 08:15
Phone No. 7991 8645
+44 (2079) 20 7991 8645
Mail Size: 16663

To
Stephen K GREEN/HSBH/HSBCMERIDIAN@HSBC
cc

Subject

Fw: US Dollar Transactional Activities via DDA at JPM
Entity
HSBC Holdings plc - HGHQ

Stephen,

I apologise for troubling you on what I know is a busy day.

As discussed I advised HBME DUB to continue to pass U-turn payments through JPMC, and I think quite rightly HBME advised JPMC that we would start to cross-reference the underlying 103 message in the cover message.

As you will note from the attached JPMC have indicated that they are not willing to process these payments, I assume for reputational rather than regulatory reasons(given that they are within the U-turn exemption), which means that we will now have to pass these payments through HBUS. We have previously received concurrence from HBUS , confirmed by Martin. On this basis I do not believe we have any choice but to proceed on this basis .

I would be grateful for your views, but anticipate that HBME will need to reach a decision in time for the opening of the USD payment window on Monday.

David
---- Forwarded by David W J BAGLEY/HGHQ/HSBC on 26/05/2006 07:58 -----

Alan KERR/HBME/HSBC
HBME
26/05/2006 06:45
Phone No. 971 4 5077674
Mail Size: 7618

To
Warren G LEAMING/RLA LGA MEM/HBME/HSBC@HSBC, Ian EDEN/HBME/HSBC@HSBC, Ben HOLT/HBME/HSBC@HSBC, David W J BAGLEY/HGHQ/HSBC@HSBC
cc
Gary BOON/HBME/HSBC@HSBC, Ken C MATHESON/HBME/HSBC@HSBC
Subject
Fw: US Dollar Transactional Activities via DDA at JPM
Entity
HSBC Bank Middle East Limited

---

All,

Please see attached message received from JPMC regarding transactions acceptable for transmission through our USD account with them, which follows on from our discussion with them yesterday morning regarding our imminent move to

serial payments + cover payments with Field 72 completed.

Please could you provide guidance as to how we may continue to effect OFAC U-turn compliant transactions on behalf of our Iranian customers.

Alan Kerr
Head of Institutional Banking
Tel : 971 4 5077 674
Fax : 971 4 3535079

---- Forwarded by Alan KERR/HBME/HSBC on 05/26/2006 09:37 AM ----

Ali.Moosa@jpmorgan.com
05/25/2006 09:49 PM
Mail Size: 5256

To
Gary BOON/HBME/HSBC@HSBC, Alan KERR/HBME/HSBC@HSBC
cc
Layla.Qaseer@jpmorgan.com, Carmel.Speers@jpmorgan.com, colin.j.nutt@jpmorgan.com
Subject
US Dollar Transactional Activities via DDA at JPM
Entity
HSBC Bank Middle East Limited

Dear Gary,

It was a great pleasure speaking to you and Alan today.

First, many thanks for keeping us informed on the group decision regarding the payments method. This is to confirm that we will be pleased to continue processing HSBC's Middle East dollar payment transactions, (both MT103 and 202) with the exceptions of the Iranian referenced transactions that should be directed to other correspondent banking account. Unfortunately, as a business decision we will not be able to process such Iranian referenced details on the payment narratives.

We look forward to continuing our excellent business relationship. Please do not hesitate to contact us if we can be of any further assistance or if you have any questions.

Have a nice week end.

Ali

Ali Moosa
Vice President & Area Manager
Middle East & N. Africa
Treasury Services

Tel. +973 17 522741
Fax +973 17 535135

Mobile +[redacted]

This communication is for informational purposes only. It is not intended as an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. All market prices, data and other information are not warranted as to completeness or accuracy and are subject to change without notice. Any comments or statements made herein do not necessarily reflect those of JPMorgan Chase & Co., its subsidiaries and affiliates.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

**From:** Rod MOXLEY
**Sent:** Tue Jan 02 09:55:48 2007
**To:** Andy M NEWMAN
**Subject:** Fw: Transactions with Iran / Cuba, etc
**Importance:** Normal

Andy

Fyi.

I'll let you know if I hear further on this one-an interesting concept, though, let's set up a completely different Swift address to help avoid any problems with Cuba and Iran. Wish I'd thought of it.

Regards

Rod
----- Forwarded by Rod MOXLEY/HBEU/HSBC on 02/01/2007 09:53 -----

**Martin S CLARK/HBEU/HSBC** 21/12/2006 22:41
Mail Size: 7704

| | |
|---|---|
| To | Rod MOXLEY/HBEU/HSBC@HSBC |
| cc | |
| Subject | Fw: Transactions with Iran / Cuba, etc |
| Entity | HSBC Bank plc - HBEU |

**********

HSBC Bank plc
Registered Office: 8 Canada Square, London E14 5HQ
Registered in England - Number 14259
Authorised and regulated by the Financial Services Authority

**********

Malcolm G EASTWOOD

**From:** Malcolm G EASTWOOD
**Sent:** 21/12/2006 21:43
**To:** Bill E F RICE; Jon H CURL
**Cc:** Vikram BOSE; Douglas MACLEAN; Martin S CLARK; Alison J WOOD; John ALLISON; James J Y MADSEN; Jim LARGE

Permanent Subcommittee on Investigations
EXHIBIT #62

**Subject:** Fw: Transactions with Iran / Cuba, etc

Bill/Jon,

We have heard that this might be coming and here it is ! I note that they want to split their traffic - is this possible ?

What are the practical IT and Operational issues with this - ie with GMG going down in the middle of the night fairly regularly could we be taking on a problem we dont need here if Brazil are open when this happens?

I have copied John Allison to see whether Group Compliance have a view given that they are only proposing to send US sanctioned items via this route. I have concerns that we might be breaching at least the spirit of the US Serial Routing GCL if not the letter of it.

Thanks,

Malcolm Eastwood
Head of Payment and Commercial Operations
UK Operations
Tel: 020 799 12300 (799 12300)
---- Forwarded by Malcolm G EASTWOOD/MDBK/HSBC on 21/12/2006 21:34 -----

| | | |
|---|---|---|
| **Morgana CASAGRANDE/HBBR/HSBC HBBR**<br>18/12/2006 14:28 Mail Size: 3196 | To | Malcolm G EASTWOOD/MDBK/HSBC@HSBC |
| | cc | Cezar JR/HBBR/HSBC@HSBC, Eric STRIEGLER/HBBR/HSBC@HSBC |
| | Subject | Transactions with Iran / Cuba, etc |
| | Entity | HSBC Bank plc - MDBK |

Malcolm

Your contact has been provided by Mr Neil Chantry

Appreciate if you could assist us with the following. Not sure anyone has briefed you yet.

HBBR has some payments going into Iran, Cuba and other sanctioned countries, which are compliant with the Group Compliance Policy. Currently our GMG is based in the US, so we run the risk of having such payments blocked. For these specific transactions (circa 50/year), we would like to use the GMG based in the UK and perform the transactions in EUR. To enable it, we have been informed that we have to create a second SWIFT address (BIC ?) to be used exclusively for this purpose, which should also not be published by SWIFT in their books.

Could you assist us with obtaining this second SWIFT address? Any idea how long it would take? Grateful for any other information you could provide.

I look forward to hearing from you.

Kind regards,

Morgana Casagrande
Trade & International - HBBR
Tel: +55 11 3847 9141
Tie line: 7 237 9141
Fax: +55 11 3847 5869
E-mail: morgana.casagrande@hsbc.com.br

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.AHSBC OCC 8876923

**From:** Rod MOXLEY
**Sent:** Thu Jan 04 17:57:26 2007
**To:** Malcolm G EASTWOOD
**Subject:** Re: Fw: Transactions with Iran / Cuba, etc
**Importance:** Normal
**Attachments:** Doc Link.htm

Malcolm

You and me both.

I do think this requires further investigation before it is "dumped" on us as a fait accompli. Bitter experience, or [redacted] payments to you and I, have shown that we are faced with a real dilemma when trying to identify and then eventually pay transactions which have so many conditions attached to them. Slightly irritating too that GHQ CMP seem to have bent over backwards to accommodate a system which looks very dodgy to me. How about no you can't do this?

Speak further tomorrow

Regards

Rod

---

Malcolm G EASTWOOD/MDBK/HSBC

**Malcolm G EASTWOOD/MDBK/HSBC MDBK**
04/01/2007 16:38 Phone No . 799 12300
+44 (0) 20 7991 2300 Mail Size: 17321

To Rod MOXLEY/HBEU/HSBC@HSBC
cc
Subject Fw: Transactions with Iran / Cuba, etc
Entity HSBC Bank plc - MDBK

Rod,

Just fyi. This all makes me very nervous !

Malcolm Eastwood
Head of Payment and Commercial Operations
UK Operations
Tel: 020 799 12300 (799 12300)

----- Forwarded by Malcolm G EASTWOOD/MDBK/HSBC on 04/01/2007 16:36 -----

**Malcolm G EASTWOOD/MDBK/HSBC MDBK**
04/01/2007 16:37 Phone No . 799 12300
+44 (0) 20 7991 2300 Mail Size: 14217

To Jim LARGE/HBEU/HSBC@HSBC
cc
Subject Fw: Transactions with Iran / Cuba, etc
Entity HSBC Bank plc - MDBK

Jim,

I mentioned this one this morning and here is the background. I am doing some more work on it with IT and my people, will then have a confracall with Brazil and give you some input so that we can discuss with Dyfrig.

Malcolm Eastwood
Head of Payment and Commercial Operations
UK Operations
Tel: 020 799 12300 (799 12300)
---- Forwarded by Malcolm G EASTWOOD/MDBK/HSBC on 04/01/2007 16:34 ----

**John ALLISON/HGHQ/HSBC HGHQ** 28/12/2006
16:11 Phone No . 799 18643
+44 (0) 20 7991 8643 Mail Size: 11724

To Malcolm G EASTWOOD/MDBK/HSBC@HSBC
cc Alison J WOOD/MDBK/HSBC@HSBC, Bill E F RICE/HBEU/HSBC@HSBC, Douglas MACLEAN/IBEU/HSBC@HSBC, James J Y MADSEN/HBEU/HSBC@HSBC, Jim LARGE/HBEU/HSBC@HSBC, Jon H CURL/HBEU/HSBC@HSBC, Martin S CLARK@HSBC, Vikram BOSE/HBEU/HSBC@HSBC, David W J BAGLEY/HGHQ/HSBC@HSBC
Subject Re: Fw: Transactions with Iran / Cuba, etc
Entity HSBC Holdings plc - HGHQ

Malcolm

Sending payments via USA GMG subjects Brazil to an all currency prohibition for all OFAC entries. Brazil is, however, permitted under current Group policy to make payments in currencies other than USD to entries on the OFAC list, provided that the reason for inclusion on the list is a reason other than Terrorism/Weapons of Mass Destruction (where payments cannot be made in any currency). We believed that this small volume of these permissible payments would be sent by Brazil by "manual" means (telex?).

Whilst we therefore do not have an issue with Brazil's request from a policy point of view, we would be concerned if a second SWIFT address entry drew attention to itself, or contained some reference to this address being used for making payments to entries on the OFAC list, as this could result in a negative perception by those not aware of the detail of our policy.

Regards

John

---

Malcolm G EASTWOOD/MDBK/HSBC

**Malcolm G EASTWOOD/MDBK/HSBC MDBK**
21/12/2006 21:43 Phone No . 799 12300
+44 (0) 20 7991 2300 Mail Size: 8019

To: Bill E F RICE/HBEU/HSBC@HSBC, Jon H CURL/HBEU/HSBC@HSBC
cc: Vikram BOSE/HBEU/HSBC@HSBC, Douglas MACLEAN/IBEU/HSBC@HSBC, Martin S CLARK@HSBC, Alison J WOOD/MDBK/HSBC@HSBC, John ALLISON/HGHQ/HSBC@HSBC, James J Y MADSEN/HBEU/HSBC@HSBC, Jim LARGE/HBEU/HSBC@HSBC
Subject: Fw: Transactions with Iran / Cuba, etc
Entity: HSBC Bank plc - MDBK

Bill/Jon,

We have heard that this might be coming and here it is ! I note that they want to split their traffic - is this possible ?

What are the practical IT and Operational issues with this - ie with GMG going down in the middle of the night fairly regularly could we be taking on a problem we dont need here if Brazil are open when this happens?

I have copied John Allison to see whether Group Compliance have a view given that they are only proposing to send US sanctioned items via this route. I have concerns that we might be breaching at least the spirit of the US Serial Routing GCL if not the letter of it.

Thanks,

Malcolm Eastwood
Head of Payment and Commercial Operations
UK Operations
Tel: 020 799 12300 (799 12300)

--- Forwarded by Malcolm G EASTWOOD/MDBK/HSBC on 21/12/2006 21:34 ---

**Morgana CASAGRANDE/HBBR/HSBC HBBR** To: Malcolm G EASTWOOD/MDBK/HSBC@HSBC

18/12/2006 14:28 Mail Size: 3196

cc Cezar JR/HBBR/HSBC@HSBC, Eric STRIEGLER/HBBR/HSBC@HSBC

Subject Transactions with Iran / Cuba, etc

Entity HSBC Bank plc - MDBK

Malcolm

Your contact has been provided by Mr Neil Chantry

Appreciate if you could assist us with the following. Not sure anyone has briefed you yet.

HBBR has some payments going into Iran, Cuba and other sanctioned countries, which are compliant with the Group Compliance Policy. Currently our GMG is based in the US, so we run the risk of having such payments blocked. For these specific transactions (circa 50/year), we would like to use the GMG based in the UK and perform the transactions in EUR. To enable it, we have been informed that we have to create a second SWIFT address (BIC ?) to be used exclusively for this purpose, which should also not be published by SWIFT in their books.

Could you assist us with obtaining this second SWIFT address? Any idea how long it would take? Grateful for any other information you could provide.

I look forward to hearing from you.

Kind regards,

Morgana Casagrande
Trade & International - HBBR
Tel: +55 11 3847 9141
Tie line: 7 237 9141
Fax: +55 11 3847 5869
E-mail: morgana.casagrande@hsbc.com.br

**HSBC Bank plc** **Memo**

| | | |
|---|---|---|
| To<br>Lucas Fragoso | | Date<br>26 January 2007 |
| CC<br>Marisa Oliveira<br>Alison Wood<br>Rod Moxley<br>John Allison<br>Jon Curl<br>Bill Rice<br>Jim Large | | |
| From<br>Malcolm Eastwood | | Sender's Reference |
| Subject<br>**TRADE TRANSACTION WITH IRAN/CUBA ETC** | | Receiver's Reference |
| To Facsimile No. | From Facsimile No.<br>020 7260 9796 | Total No. of pages |

Lucas,

Further to our recent exchange of emails I have now sought views from Group Compliance, IT and my Operations team.

Whilst what you are proposing is technically achievable we are not attracted to a proposal which would segregate certain transactions through separate SWIFT address, albeit that these proposed transactions might be perfectly permissible under Group policy as this might bring unwelcome attention from external parties and at least make it seem as though we are taking action to avoid certain transactions being examined by the US authorities. Group Compliance share this view.

On this basis if we were to make a change I believe that it would have to be on the basis that all of your current SWIFT traffic be directed via the UK GMG. Of course this would be a much more significant challenge for all of us but if it is this route that you wish to pursue please could I ask your team to discuss with Bill Rice (UK Operations) and Jon Curl (UK IT) and Rod Moxley (Risk Management Services, UK Operations and Compliance).

The points I would like covered are

1. Message volumes including averages and peaks so that we can ensure that these volumes are manageable. Whilst the UK GMG is currently meeting our needs IT are currently looking to reshape our GMG infrastructure to ensure better reliability. We must avoid crating further instability.

2. That we can provide viable operational support given the time zone differences between UK and Brazil.

3. WOLF terrorist filtering support, who would undertake this function including case escalation?



Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A.HSBC OCC 8876930

Clearly this substantially broadens the scope of our original request, introducing more operational complexity and reputational issues from both the UK and Brazilian banks perspective.

If we are to progress this broader request then I believe that it would be prudent for me to discuss the proposal with the UK Banks CEO before we would formally agree to proceed.

Happy to discuss further with you once you have considered the above.

With kind regards.

Malcolm Eastwood
Head of Payment and Commercial Operations



Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.AHSBC OCC 8876931

**From:** David W J BAGLEY
**Sent:** Sat Jun 09 06:38:13 2007
**To:** Michael F GEOGHEGAN
**Cc:** Stephen K GREEN; David H HODGKINSON; Douglas FLINT
**Subject:** Re: Iran
**Importance:** Normal

Mike,

I should briefly clarify that there is very little left of our relationship with [redacted] although enough to mean that it would have been inaccurate to tell Levey there was nothing.

Without being able to look back over previous corresspondence on the issue my recollection of key recent decisions on Iranian banks include

1. We decided some time ago to stop using the U-turn exemption under OFAC.

2. We cancelled trade lines previously extended to certain Iranian banks including [redacted] and these have virtually run off in the case of [redacted]

3. We discovered that there was an agency banking relationship in HBEU both for [redacted] and other Iranian banks. Notice has been given on these and we have made it clear that these must be closed by end July [redacted]

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, where we may need co-operation from Central Bank of Iran. David is in the loop here.

I am in fact travelling next week but will monitor by BlackBerry. Apologies for the length of the e-mail but I thought the above detail may help deliberations next week

David

**********

HSBC Holdings plc
Registered Office: 8 Canada Square, London E14 5HQ, United Kingdom
Registered Number 617987

**********

---

Michael F GEOGHEGAN

**From:** Michael F GEOGHEGAN
**Sent:** 08/06/2007 20:30 GDT
**To:** David W J BAGLEY
**Cc:** Stephen GREEN; David H HODGKINSON; Douglas FLINT

Permanent Subcommittee on Investigations
EXHIBIT #63

Redacted Material
Confidential - FOIA Treatment Reque

Subject: Re: Iran

David

This is not clear to me because some time ago I said to close this relationship other than for previously contractually committed export finance commitments

Possibly we can discuss this next week when I will be able to review my past emails

Mike

**********

HSBC Holdings plc
Registered Office: 8 Canada Square, London E14 5HQ, United Kingdom
Registered Number 617987

**********

---

David W J BAGLEY

**From:** David W J BAGLEY
**Sent:** 08/06/2007 08:17 GDT
**To:** Michael F GEOGHEGAN
**Cc:** Stephen GREEN; David H HODGKINSON; Douglas FLINT
**Subject:** Iran

Mike,

Stuart Levey , the US Treasury Under Secretary for Counter Terrorist Financing and Sanctions was a speaker at the recent annual conference of the Wolfsberg Group , of which I currently act as Co-chair. Levey asked for a private meeting with me to discuss a number of matters including Iran. Levey has been extremely active in promoting the US policy on Iran , particularly the use of sanctions to deter weapons proliferation. He has in the past met with David and I to encourage us to refrain from dealings with Iranian banks. The key points raised with me, and the subsequent actions agreed with David are best summarised as folows:

Levey acknowledged that we as a Group have acted responsibly on Iran and I took the opportunity to emphasise to him that we applied OFAC across the Group when dealing in USD, and had acted whenever specific sanctions were enacted either by US, UK or UN.
Levey however expressed concern that we were still operating accounts for [redacted] who he asserted had clearly been identified as having acted as a conduit for Iranian governmental funding of [redacted] this is a repeat of allegations made previously by the US which hacve led to targetted sanctions in the US , but have not had support within the UN.
Levey essentially threatened that if HSBC did not withdraw from relationships with [redacted] we may well make ourselves a target for action in the US. It appears that we have been approached in this way as he

alleges that [redacted] use the fact that we have maintained accounts for them as an arguement in support of representations made to other banks for ongoing support.
We in fact have only limited relationships, with [redacted] and in fact overall with Iranian banks.
Following this meeting I have discussed the approach we should take with David. His decision is that we should immediately withdraw from [redacted] and also withdraw from all Iranian bank relationships in a co-ordinated manner, recognising that there may be some legally binding committments we will have to honour( for example PEF facilities), and we may need to allow for an orderly run -off.
Once the position is clear on precisely what steps are being taken I will then advise Levey of the steps we have taken.

I am aware that Levey has sought to persuade other non-US banks to withdraw from Iran, but the tone of his remarks were notably more direct and strident .

David Bagley

**From:** John ALLISON
**Sent:** Wed Jun 13 11:36:00 2007
**To:** Clive BISSETT
**Subject:** Fw: GROUP MESSAGING GATEWAY FOR LAM - CLEAR CHOICE REPORT
**Importance:** Normal
**Attachments:** Doc Link.htm

Clive

Any thoughts on how to deal with these countries?

Regards

John
----- Forwarded by John ALLISON/HGHQ/HSBC on 13/06/2007 11:35 -----

**Neelesh HEREDIA/HBMX/HSBC HBMX**
11/06/2007 16:02 Mail Size: 26167

| | |
|---|---|
| To | John ALLISON/HGHQ/HSBC@HSBC |
| cc | Clive BISSETT/HBEU/HSBC@HSBC, Tomas.davidovich@hsbc.com.mx, Jon H CURL/HBEU/HSBC@HSBC |
| Subject | Fw: GROUP MESSAGING GATEWAY FOR LAM - CLEAR CHOICE REPORT |
| Entity | HSBC Holdings plc - HGHQ |

John,

We have not engaged with CI and Nassau as we have no leadership responsibility for this geography. I trust they will deal direct with IT, PCM, et al and look after themselves.

Regards,
----- Forwarded by Neelesh HEREDIA/HBMX/HSBC on 11/06/2007 09:59 a.m. -----

**Sandy Flockhart/HBMX/HSBC** 01/06/2007 06:34 p.m.

| | |
|---|---|
| To | Neelesh HEREDIA/HBMX/HSBC@HSBC |
| cc | Alan BEATTIE/HBAR/HSBC@HSBC, Antonio M LOSADA/HBAR/HSBC@HSBC, Arturo RIVERA/HBMX/HSBC@HSBC, Clive BISSETT/HBEU/HSBC@HSBC, David W J BAGLEY/HGHQ/HSBC@HSBC, Eduardo Palacios Kahuam/HBMX/HSBC@HSBC, Emilson ALONSO/HBBR/HSBC@HSBC, Gary M PHILLIPS/HBMX/HSBC@HSBC, Graham MACNAUGHTON/HBMX/HSBC@HSBC, Jae PARK/HBBR/HSBC@HSBC, John ALLISON/HGHQ/HSBC@HSBC, John R RENDALL/HBMX/HSBC@HSBC, Jon H CURL/HBEU/HSBC@HSBC, Luis |

Permanent Subcommittee on Investigations
**EXHIBIT #64**

EDUARDO/HBBR/HSBC@HSBC, Luis M MARTINEZ/HBAR/HSBC@HSBC, Luiz SIMIONE/HBBR/HSBC@HSBC, Marian JEFFERY/HBEU/HSBC@HSBC, Paul A THURSTON/HBMX/HSBC@HSBC, Ramon GARCIA/HBMX/HSBC@HSBC, Tomas DAVIDOVICH/HBMX/HSBC@HSBC

Subject: Re: GROUP MESSAGING GATEWAY FOR LAM - CLEAR CHOICE REPORT

Neelesh,

As this is the most cost effective solution you have my approval to proceed as proposed.

Regards,

Sandy

Alexander A. Flockhart
President & Group Managing Director
Latin America and the Caribbean
Paseo de la Reforma 347
Oficina 23 Piso 32
Col. Cuauhtemoc
06500 México, D.F.
Tel: 52-55-5721-3914

---

Neelesh HEREDIA/HBMX/HSBC

**Neelesh HEREDIA/HBMX/HSBC** 05/31/2007 05:59 PM

To: Sandy Flockhart, Gary M PHILLIPS/HBMX/HSBC@HSBC, Eduardo Palacios Kahuam/HBMX/HSBC@HSBC, David W J BAGLEY/HGHQ/HSBC@HSBC, Ramon Garcia, Jae PARK/HBBR/HSBC@HSBC, Graham Macnaughton, Luis EDUARDO/HBBR/HSBC@HSBC, Alan BEATTIE/HBAR/HSBC@HSBC, John R RENDALL/HBMX/HSBC@HSBC

cc: Paul A THURSTON/HBMX/HSBC@HSBC, Emilson ALONSO/HBBR/HSBC@HSBC, Antonio M LOSADA/HBAR/HSBC@HSBC, Tomas DAVIDOVICH/HBMX/HSBC@HSBC, Clive BISSETT/HBEU/HSBC@HSBC, John ALLISON/HGHQ/HSBC@HSBC, Jon H CURL/HBEU/HSBC@HSBC, Marian JEFFERY/HBEU/HSBC@HSBC, Arturo RIVERA/HBMX/HSBC@HSBC, Luis M

MARTINEZ/HBAR/HSBC@HSBC, Luiz
SIMIONE/HBBR/HSBC@HSBC

Subject: GROUP MESSAGING GATEWAY FOR LAM - CLEAR CHOICE REPORT

All,

As you are aware, we have been assessing the most viable and Group policy compliant Group Messaging Gateway (GMG) for future processing of LAM payments. Attached is the final version of the Clear Choice (CC) and to which I request your approval to proceed.

For ease of reference, I advise that the CC report recommends migration of all LAM non US Based SWIFT addresses to the UKGMG.

The CC was collectively put together by: IT, PCM and CMP in the UK and IT, CMP, PCM in LAM, representatives from HBBR, HBAR and OPSCO (for HBMX, LAM International and CC sponsorship). My thanks to all participants.

Post approval, priority next steps include:

Definition of : Project sponsor, Project Coordinators for LAM and the UK from Business and IT, In-country Business and IT representation and supporting LAM and UK Project teams. *Action: Davidovich.*
Preparation and approval of a Project Terms of Reference. *Action: Project Coordinators in LAM and UK.*
Advice to all LAM countries of CC decision. *Action: Heredia.*
Progress with HBEU IT the need for spanish speaking support during LAM's working hours at the SYDGC. *Action: Heredia with Phillips.*
Identify and agree Pilot site. *Action: Heredia with Macnaughton.*

Follow on actions will include: prioritised list of countries to be migrated, roll-out plan and timelines, project plans per country, SLAs between countries and the SYDGC, formalisation of the migration of Keys and Access rights, demise of SWIFT Alliance etc.

Please address any queries arising to me.

Regards,

Neelesh

[attachment "Clear Choice - Non US SWIFT Address GMG Migration - FINAL.doc" deleted by Neelesh HEREDIA/HBMX/HSBC]

----------x----------

David,

The contact should be Neelesh Heredia but Graham Macnaughton Head of International and Eduardo Palacios Head of PCM should be copied in all correspondence.

Regards,

Sandy

Alexander A. Flockhart
President & Group Managing Director
Latin America and the Caribbean
Paseo de la Reforma 347
Oficina 23 Piso 32
Col. Cuauhtemoc
06500 México, D.F.
Tel: 52-55-5721-3914

---

David W J BAGLEY/HGHQ/HSBC

**David W J BAGLEY/HGHQ/HSBC** Sent by: Marion O ROACH 22/03/2007 11:11 a.m.

To Sandy Flockhart/HBMX/HSBC@HSBC
cc
Subject GROUP MESSAGING

Sandy

I refer to your e-mail of 14th March.

Clive Bissett, Global Project Manager, GTB has been nominated to assist with the preparation of a Clear Choices document. Could I suggest therefore that someone be nominated for LATM to liaise closely with Clive which will ensure that a proper and complete consideration will be given, including to the capacity issues.

I am aware from my contact with CMP in Brazil that they were giving some consideration to giving up certain payments activity given the challenges of passing that activity through the US. We have indicated that any final decision should be deferred in this regard pending a proper consideration as to whether the payments messaging can be migrated elsewhere thus allowing us to preserve as much activity and business as possible. There may also need to be a conversation at some stage with Paul Lawrence if it is necessary to persuade HBUS to continue with payment messaging pending any migration. I will however advise further if this proves to be the case.

At my end I will ask one of my team, John Allison, to support Clive. I look forward to receiving details of your nominated contact whereupon I will ask Clive to make appropriate contact and commence the necessary work.

I am grateful for your assistance.

Regards

David Bagley

---

Sandy Flockhart

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

**From:** Sandy Flockhart
**Sent:** 03/14/2007 12:45 PM
**To:** David W J BAGLEY
**Cc:** David Leighton; Neelesh HEREDIA; Paul A THURSTON; Graham MACNAUGHTON
**Subject:** Re: Group Messaging

David,

We are similarly keen to ensure that payments continue to operate smoothly, whilst being completely compliant with Group requirements, and to this end would not be averse in principle to re-routing payments traffic via Sheffield, rather than as present, via the USA.

Whilst clearly this would need to be fully evaluated, not least in respect of the cost savings that would presumably accrue, as well as the ability to meet specific Latin American requirements (time zone, language etc), we would want to ensure that all Latin American countries met the most stringent requirements, possibly by centralising all payments through a Payments Services Centre such as the one we recently commissioned in Mexico. One component of this might be to ensure that we used precisely the same algorithms and screening parameters as are used by the US, but this too would be part of the abovementioned evaluation.

Clearly a decision will need to taken soon as we are in the process of defining the migration of Banistmo, which, until your communication was received were going to be routinely routed through the United States in the usual way. However, you mention there may be capacity issues in the UK, and of course these would need to be resolved without disproportionate cost implications for LATAM. It would therefore be helpful if you would advise the name of a contact with whom we could discuss various points of detail prior to reaching a final decision, and with who we could work with afterwards to convert if such was decided to be the way forward.

I look forward to receiving your thoughts on the above.

Regards,

---

Sandy

Alexander A. Flockhart

President & Group Managing Director
Latin America and the Caribbean
Paseo de la Reforma 347
Oficina 23 Piso 32
Col. Cuauhtemoc
06500 México, D.F.
Tel: 52-55-5721-3914

David W J BAGLEY/HGHQ/HSBC

**David W J BAGLEY/HGHQ/HSBC** Sent by: Marion O ROACH 13/03/2007 09:08 a.m.

To Sandy Flockhart/HBMX/HSBC@HSBC
cc
Subject Group Messaging

Sandy

With apologies for the length of the note set out below, I need to raise an issue with you which relates to payment messaging for large, if not all, parts of Latin America. This is an issue that has been around for some time, but probably now needs a strategic high-level decision given the potential, commercial and cost consequences. The key issues are as follows:-

You will of course be aware of the increased significance of compliance with the US sanctions promulgated by OFAC. This has led to the Group reinforcing and reiterating a requirement for all Group offices to comply with OFAC in relation to transactions denominated in USD regardless of their place of incorporation or operation. This policy is well-established, and appears to be adhered to very closely by Group companies.

Obviously our operations in the US are obliged to comply with the requirements of OFAC in all currencies, not just USD. This obviously reflects the fact of either their US incorporation, or the fact that they were operating within the US. Within the US however there is an increased focus upon effective compliance with the requirements OFAC on the part of both OFAC itself but also our banking regulators.

At present, cross-border payments, regardless of currency, initiated by most, if not all of our operations in Latin America pass through the payment gateway operated by HBUS in the US. The increased focus upon OFAC compliance has led us to consider various situations where transactions pass through the US, but are not initiated by and do not involve our Group companies in the US. They are, in effect, merely a service provider.

This also applies to certain of our internet offerings where servers were located in the US for all sorts of technical reasons (e.g. hsbc.com and hsbc.net) but are in effect owned or operated by US companies.

[redacted]

This clearly has the potential for adverse commercial consequences, in that transactions in currencies other than USD involving countries or entities covered by US sanctions would be caught even though overall they were permitted by Group policy by reason of their non-USD denomination. For this reason, we are in the process of relocating the .net and .com services, and made a conscious decision to develop a stand-alone WHIRL system server in the UK where the original proposal was to host all Group credit card transactions through servers located in the US.

Obviously the significance of the above is that where payments are processed through the New York gateway on behalf of Latin American operations then HBUS, taking a cautious approach justified by the current regulatory environment, will need to filter all transactions regardless of currency and reject those transactions where they would breach OFAC regardless of currency. This would clearly be disadvantageous from Latin America's perspective, and equally I suspect the logistics of having to locally pre-screen all cross-border payments in all currencies would be commercially and operationally challenging for our operations in Latin America.

My own view is that commercially you would find the introduction of filtering by our US colleagues unattractive commercially, and I do remember the problems that a local US hotel chain got into when refusing access to certain Cuban visitors. If my assumption here is correct then on the assumption that you will want to carry out as many transactions permitted by Group policy as possible the most viable option and way forward would seem to be to relocated your payment processing to a different Group Messaging (GMG) gateway. This however would need your support and the generation of an appropriate business case and clear choices proposal. Any such proposal would need to take account of likely impacts upon operational support, time zones, performance and cost. We have informally explored the possibility of relocating Latin American flows to the UK GMG, but this centre has experienced some capacity issues.

Whilst we have lived with the current position for some time, it is fair to say that now that our US colleagues are on notice they feel extremely uncomfortable in allowing the position to continue indefinitely. In essence, we will either have to have a pass and timeline for a relocation of the payment messages or will need to turn the filtering on.

I thought it important to canvas this issue with you first, but recognise that you will probably want to nominate one of your team to take matters forward. Similarly, we will provide as much assistance as we can here in GHQ CMP, having developed some understanding and knowledge of the issues posed by OFAC, and possible solutions and approaches to resolve those challenges.

Regards

David Bagley

Confidential & Non-public OCC Information





From: ANNE LIDDY/HBUS/HSBC
Sent: 6/19/2008 11:54:26 AM
To: NANCY HEDGES/HBUS/HSBC@HSBC02
CC:
Subject: Re: OFAC processing in GSC's

ok, thanks Nancy. We are all feeling the pressure re not hiring onshore - only off. Keep me posted.

Anne Liddy
SVP, AML Compliance | HSBC Bank USA, N.A.
452 5th Avenue, Tower 7, New York, NY 10018

Phone 212-525-5906
Fax 212 525 5769
Email anne.liddy@us.hsbc.com

Nancy Hedges/HBUS/HSBC
06/19/2008 12:20 PM

To
Anne Liddy/HBUS/HSBC@HSBC02
cc

Subject
Re: OFAC processing in GSC's

fyi - I have put forth the suggestion of hiring up some first level checkers for OFAC processing in the GSC... we're strapped and getting behind in investigations (on OFAC cases) and have some of our key managers in the queues releasing items... I'm told I cannot hire first level staff unless it's offshored... so.... here we go! Have asked for the greenlight to commence further discussions with Compliance and will set something up with you when I get it.

Anne Liddy/HBUS/HSBC
05/30/2008 08:54 AM

To
Nancy Hedges/HBUS/HSBC@HSBC02
cc

Subject
Re: OFAC processing in GSC's



nfidential - FOIA Treatment Requested b
nfidential - FOIA Treatment Request

Permanent Subcommittee on Investigations
EXHIBIT #65

Nancy, currently we have offshore resources conducting first level reviews of customer hits with oversight and QC conducted by ICRO. We have emphasized to our regulators when offshoring is discussed (they get very nervous on this topic with respect to AML and OFAC) that the risk is lower in offshoring first level customer hit reviews vs payment hit reviews. The customers have already been vetted. We would really have to talk this one through internally and then potentially let the regulators know if the Bank decided to move forward on this - just my thoughts. I reached out to Denise on this as well and she agrees.

Anne Liddy
SVP, AML Compliance | HSBC Bank USA, N.A.
452 5th Avenue, Tower 7, New York, NY 10018

Phone 212-525-5906
Fax 212 525 5769
Email anne.liddy@us.hsbc.com

Nancy Hedges/HBUS/HSBC
05/29/2008 12:37 PM

To
Anne Liddy/HBUS/HSBC@HSBC02
cc

Subject
OFAC processing in GSC's

Any issue that you know of with processing our OFAC hits out of one of the GSC's? The only thing I think there may be an issue with is how the Fed might view it and the fact that personal fines / incarceration of staff could occur (hopefully never here) and how would that be handled / looked at if the staff are in India / Malaysia?

Nancy Hedges
Sr PCM Dept Ops Mgr | HSBC Bank USA
90 Christiana Road, New Castle, DE

Phone. 302-327-2333
Fax. 302-327-2363
Mobile. 302-438-0336
Email. nancy.hedges@us.hsbc.com



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB02545485

Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0616350

From: MICHAEL B GALLAGHER/HBUS/HSBC
Sent: 12/11/2009 2:38:40 PM
To: CHRIS P DAVIES/HBUS/HSBC@HSBC
CC: LESLEY MIDZAIN/HBUS/HSBC@HSBC02
Subject: Fw: OFAC Payments

This is concerning.

Michael B. Gallagher
Executive Vice President
Global Transaction Banking
452 5th Avenue
New York, NY 10018
Tel: 212-525-5680
----- Forwarded by Michael B Gallagher/HBUS/HSBC on 12/11/2009 02:38 PM -----

From: Camillus P Hughes/HBUS/HSBC
To: Sandra Peterson/HBUS/HSBC@HSBC02
Cc: Charles G DelBusto/HBUS/HSBC@HSBC02, Michael B Gallagher/HBUS/HSBC@HSBC02, "Thomas W Halpin" <thomas.w.halpin@us.hsbc.com>
Date: 12/11/2009 02:28 PM
Subject: Re: Fw: OFAC Payments

Sandra,

We have considered all options at this point the Compliance team in DE is already fully deployed dealing with wire camp alerts and bank examiner requests for the current exam. There is no bandwidth there at all they are behind on the current alert clearing process which we are also working on dealing with.

Thanks and regards,

Camillus P Hughes
Grp Dir-Specialized Compl II | HSBC Bank USA
452 Fifth Avenue

Phone. 212-525-8607
Fax. 212 382-5961
Email. camillus.p.hughes@hsbcpb.com

From: Sandra Peterson/HBUS/HSBC
To: Michael B Gallagher/HBUS/HSBC@HSBC02
Cc: "Camillus Hughes" <camillus.p.hughes@hsbcpb.com>, Charles G DelBusto/HBUS/HSBC@HSBC02, "Thomas W Halpin" <thomas.w.halpin@us.hsbc.com>
Date: 12/11/2009 01:21 PM
Subject: Re: Fw: OFAC Payments

Michael,

We have been providing headcount to the operations team here in Delaware as follows:

Nov. 24th --->Nov. 27th
Stephanie Brown
Denise Richards
Francisco Fernandez



Permanent Subcommittee on Investigations
EXHIBIT #66

Confidential - FOIA Treatment Requested ic. HSB00160335
Confidential - FOIA Treatment Requested HSBC OCC 7688668

Nov. 30----->Dec. 4th.
Francisco Fernandez

Dec. 11th
The above individuals to assist on addressing the investigation OFAC queue today.

Trying to manage our day to day and assist as best we can. I do not have other resources to give at this point, but will double check with ops to see if resources can be shifted.

Cam, have we tapped the compliance team here in Delaware?

Best regards,

Sandra Peterson, SVP, Global Payments and Cash Management
Regional Head Client Management, Americas | HSBC Bank USA
90 Christiana Road
New Castle, DE 19720

Phone. 302-327-2220
Fax. 302-327-2128
Email. sandra.peterson@us.hsbc.com

Michael B Gallagher/HBUS/HSBC
12/11/2009 10:01 AM

To
Charles G DelBusto/HBUS/HSBC, "Thomas W Halpin" <thomas.w.halpin@us.hsbc.com>, "Sandra Peterson" <Sandra.Peterson@us.hsbc.com>
cc
"Camillus Hughes" <camillus.p.hughes@hsbcpb.com>
Subject
FW: OFAC Payments

Do we have some bodies we can lend. This backlog is concerning and it is in our collective interest to get this cleaned up.

Cam - is this a blip or do we have a new staffing requirement?

---

----- Original Message -----
From: Camillus P Hughes
Sent: 12/11/2009 09:44 AM EST
To: Michael Gallagher
Subject: OFAC Payments
Michael,



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB00160336
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7688669

Spoke with our OFAC team, 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.

Skillset is fairly straight forward. They would need to understand how to read a wire and be able to review the information provided by the client against payment information to determine if the item is a false positive and can be processed. We have all of the materials printed for review and can set this up as an assembly line.

You can reach me on 212-525-8607.

Thanks and regards,

Camillus P Hughes
Grp Dir-Specialized Compl II | HSBC Bank USA
452 Fifth Avenue

Phone. 212-525-8607
Fax. 212 382-5961
Email. camillus.p.hughes@hsbcpb.com



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB00160337
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7688670

**From:** David W J BAGLEY
**Sent:** Sun Aug 22 20:20:52 2010
**To:** Warren G LEAMING
**Subject:** Fw: Project Topaz US Urgent Requirements
**Importance:** Normal

Warren

Result of the push.

Regards

**********

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

**********

**From:** Andrew P LONG
**Sent:** 22/08/2010 18:51 GDT
**To:** Irene M DORNER/HBUS/HSBC@HSBC02
**Cc:** David W J BAGLEY; Michael B Gallagher/HBUS/HSBC@HSBC02; Niall S K Booker/HBUS/HSBC@HSBC02; Nicholas J TAYLOR/HBUS/HSBC@HSBC02
**Subject:** Re: Project Topaz US Urgent Requirements

Irene

I will work with the rest of Group as requested.

Because the relationships are not actually owned by FIG, being orphans, I have sent the note to Heads of International in the regions to forewarn them and I expect to hear by tomorrow from them. I will try and push this through in the next 48 hours.

Andrew

**Andrew P LONG**
Group General Manager & Head of Global Transaction Banking HSBC Holdings plc
Level 28, 8 Canada Square, London E14 5HQ, United Kingdom

Phone (44) (0) 20 7991 2100 Internal: 799 12100
Email andrewlong@hsbc.com



Permanent Subcommittee on Investigations
EXHIBIT #67

Confidential - FOIA Treatment Req

| | | |
|---|---|---|
| Irene M DORNER/HBUS/HSBC@HSBC02 Aug 20 2010 22:16 Mail Size: 275155 | To | "Andrew LONG" <andrewlong@hsbc.com> |
| | cc | Niall S K Booker/HBUS/HSBC, Nicholas J TAYLOR/HBUS/HSBC@HSE Gallagher/HBUS/HSBC@HSBC02 |
| | Subject | Project Topaz US Urgent Requirements |

Andrew

Following the Topaz meeting, I explained that the US would need some immediate assistance and probably an interim solution as we cannot wait for the outcome of a complex and prolonged project. We need to move quickly to reduce the AML alerts and the connected KYC issues as it is impossible to plan the required capacity unless we do and in addition, we need to show progress to our Regulator.

We have completed Phase 1 of a review of international banks and countries and HBUS must now move quickly to withdraw from those which do not meet either risk or return hurdles. We cannot get sufficient traction across the HSBC world to exit these names in a timely fashion.We have consulted widely and achieved broad consensus from Product and Global banking but inevitably, for some, there are still pockets of dissent, usually from regional/in-country teams.

Attached is a list of 121 international banks that we can no longer support and need to exit. For each it shows the country of origin, the country of parentage, the reason for exit and the direct revenue implications. The total revenue estimate for these banks is USD18.1m (although for a small number of primarily high risk exits this data is not immediately available). However, you will note that of this total Angola accounts for over USD15m and Sierra Leone and Belarus together close to another USD1m.

The rationale for exit will be one of two broad categories:

1. Where an independent review by FEDD has determined the credit or reputational risk is too high, or
2. Where rationalisation on the basis of commerciality is recommended following a country by country Panel review comprising Global Banking, TSC and PCM.

This is being managed and coordinated centrally by HBUS FIG but where there is no GRM, PCM Executives will be required to write to the clients. It is not viable for the CEO of HBUS to ask for closure of an account in another country and so, similar to Barron, I would be grateful for your help in getting prompt cooperation in the exit process.

In the absence of a compelling business case for retention, we need to start exiting these relationships next week. We cannot afford the time to negotiate each name, so rather than HBUS asking for a closure, waiting for the pushback and getting into multiple debates, I propose that we view the situation differently and we tell you which names we can no longer support and set timelines for the exits which need to be accomplished in the relevant geographies. For high risk clients we will give 30 days notice of termination and for all others 60 days. I am happy to discuss how we go about this but I believe that the communication of the names to be exited and the timelines needs to come from GMO.

Just to keep you in the loop, Phase 1 focuses on USD PCM only but will be followed rapidly by Phase 2 as you will appreciate the urgency with which we need to resolve our regulatory issues related to KYC and AML alerts. In Phase 2 there will be Trade names the exit for which may be more complicated but to give you a flavour of the problem, we seem to have 16 correspondent banks in Sudan which cannot be right. From our analysis of the situation aside from risk, it is clear that the sheer volume of clients we have contributes to the current problems. Phase 2 of our review will therefore concentrate on revenue and for HBUS PCM alone, it appears that



Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8876105

approximately 1,200 names collectively earn less than USD4.5m per year. This is an average revenue of less than USD3,600 each, which in many instances, does not cover our ongoing compliance costs. Whilst some of these are propositional, for high risk countries and high alert generators, we will propose a material further rationalization shortly. We will need your help here too.

Clearly, 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.

Regards

Irene

**Irene M Dorner**

President & CEO, HUSI & HBUS
HSBC Bank USA
452 Fifth Avenue | 10th Floor | New York, NY 10018

Phone. 212-525-4559
Fax. 212-525-8213
Email. irene.m.dorner@us.hsbc.com

[attachment "08-20 HBUS PCM Exits.xls.zip" deleted by Andrew P LONG/IBEU/HSBC]

**********
HSBC Bank plc may be solicited in the course of its placement efforts for a new issue, by investment clients of the firm for whom the Bank as a firm already provides other services. It may equally decide to allocate to its own proprietary book or with an associate of HSBC Group. This represents a potential conflict of interest. HSBC Bank plc has internal arrangements designed to ensure that the firm would give unbiased and full advice to the corporate finance client about the valuation and pricing of the offering as well as internal systems, controls and procedures to identify and manage conflicts of interest.

HSBC Bank plc
Registered Office: 8 Canada Square, London E14 5HQ, United Kingdom
Registered in England - Number 14259
Authorised and regulated by the Financial Services Authority.
**********



Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8876106

Confidential - FOIA Treatmer..
Confidential Treatment R
Permanent Subcommittee on Investigations
EXHIBIT #68
ngs, Inc. HSB09340592
HSBC-PSI-PROD-0197919

# EXCERPT

## RESULTS OF THE TRANSACTIONS REVIEW – UK GATEWAY

March 29 2012

This document is confidential and has been prepared solely for use by HSBC Holdings plc, Sullivan & Cromwell LLP and Cahill Gordon & Reindel LLP in accordance with Deloitte LLP's Terms of Reference. The findings should be read in the context of these terms and the associated limitations. This document may not be used, reproduced or circulated in whole or in part to any third party without prior written consent of Deloitte LLP.

This document should be read in conjunction with the explanatory notes on page 71.

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB09340603
Confidential Treatment Requested HSBC-PSI-PROD-0197930

# CONSOLIDATED RESULTS – TRANSACTIONS SENT VIA THE US PER SANCTIONS REGIME

| Reporting Category | Iran<br>Value $000<br>(Volume) | Cuba<br>Value $'000<br>(Volume) | Libya<br>Value $'000<br>(Volume) | Myanmar<br>Value $'000<br>(Volume) | North Korea<br>Value $'000<br>(Volume) | Sudan<br>Value $'000<br>(Volume) | Total<br>Value $'000<br>(Volume) |
|---|---|---|---|---|---|---|---|
| **1. Identified US Nexus transactions** | **19,422,415**<br>**(24,987)** | **53,932**<br>**(151)** | **21,836**<br>**(226)** | **110,231**<br>**(435)** | **502**<br>**(8)** | **188,546**<br>**(2,882)** | **19,797,462**<br>**(28,689)** |
| **2. Permissible Transactions** | **19,232,256**<br>**(24,651)** | **11,527**<br>**(45)** | **420**<br>**(34)** | **293**<br>**(52)** | **502**<br>**(8)** | **28,478**<br>**(608)** | **19,273,476**<br>**(25,398)** |
| *A. Iranian U-turn transactions* | *18,950,651*<br>*(24,171)* | *-*<br>*(-)* | *-*<br>*(-)* | *-*<br>*(-)* | *-*<br>*(-)* | *-*<br>*(-)* | *18,950,652*<br>*(24,171)* |
| *B. OFAC license or other exemption* | *271,252*<br>*(402)* | *11,475*<br>*(30)* | *420*<br>*(34)* | *139*<br>*(41)* | *502*<br>*(8)* | *25,335*<br>*(541)* | *309,123*<br>*(1,056)* |
| *C. Blocked, rejected or cancelled* | *10,353*<br>*(78)* | *52*<br>*(15)* | *-*<br>*(-)* | *154*<br>*(11)* | *-*<br>*(-)* | *3,143*<br>*(67)* | *13,702*<br>*(171)* |
| **3. Transactions of Interest** | **190,159**<br>**(336)** | **42,404**<br>**(106)** | **21,416**<br>**(192)** | **109,938**<br>**(383)** | **-**<br>**(-)** | **160,068**<br>**(2,274)** | **523,986**<br>**(3,291)** |
| 4. Potentially licensable | 145,052<br>(257) | 109<br>(29) | 1,555<br>(29) | 1,879<br>(51) | -<br>(-) | 7,991<br>(340) | 156,586<br>(706) |
| **5. Remaining Transactions of Interest** | **45,107**<br>**(79)** | **42,295**<br>**(77)** | **19,861**<br>**(163)** | **108,059**<br>**(332)** | **-**<br>**(-)** | **152,077**<br>**(1,934)** | **367,400**<br>**(2,585)** |

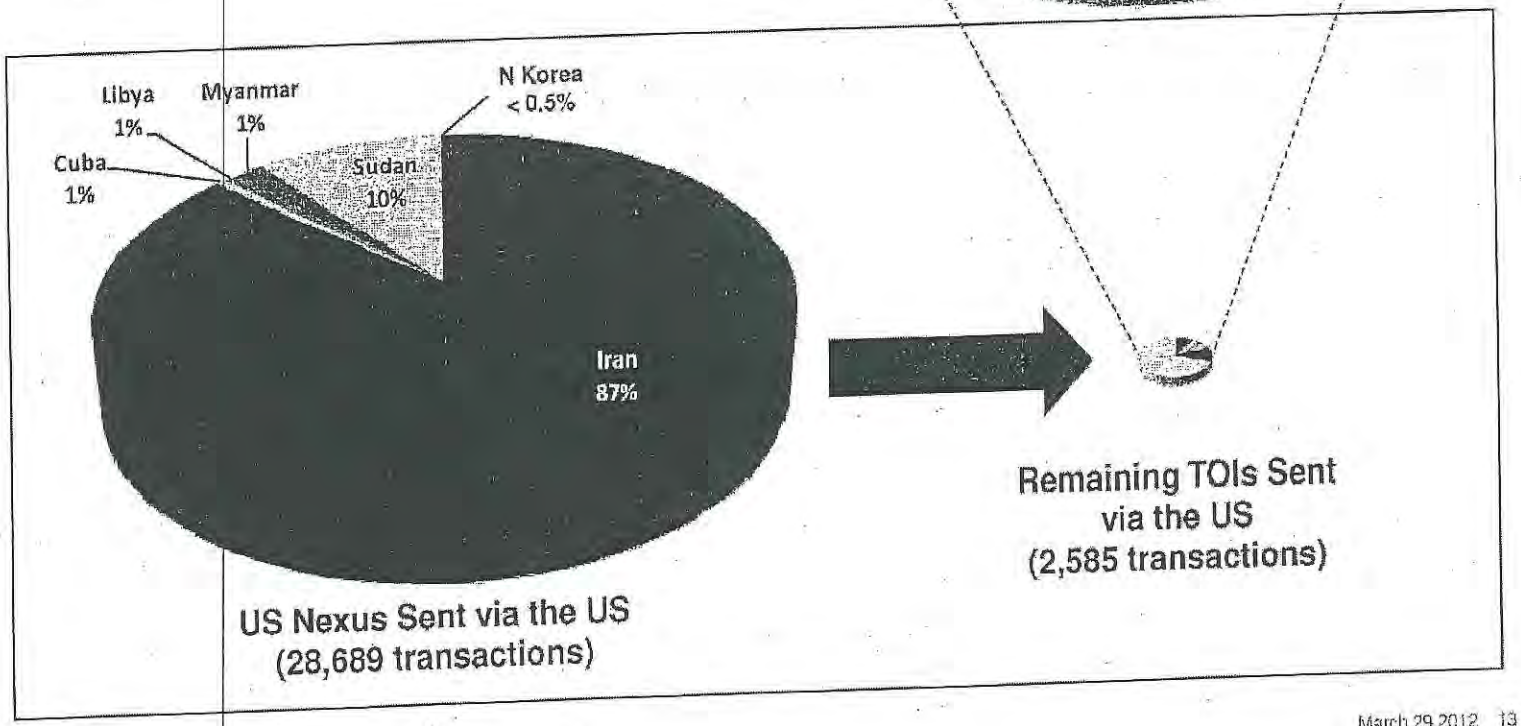
No transactions sent via the US were identified as being subject to Syrian or Iraqi sanctions. The Iran results include two transactions relating to charges of $15 each, that were processed from the correspondent accounts of two Iranian banks after they were designated as SDNs.
The total number of transactions set out above is higher than the total listed on Slide 10, as there are a small number of transactions which relate to more than one sanctions regime. These have been included in all applicable sanctions regimes in the table above.



Confidential – FOIA/FOIL Treatment Requested

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB09340604
Confidential Treatment Requested
HSBC-PSI-PROD-0197931

# CONSOLIDATED RESULTS – US NEXUS AND TOIs SENT VIA THE US BY VOLUME






Confidential – FOIA/FOIL Treatment Requested

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB09340613
Confidential Treatment Requested HSBC-PSI-PROD-0197940

# CORRESPONDENT ACCOUNTS BY SANCTIONS REGIME

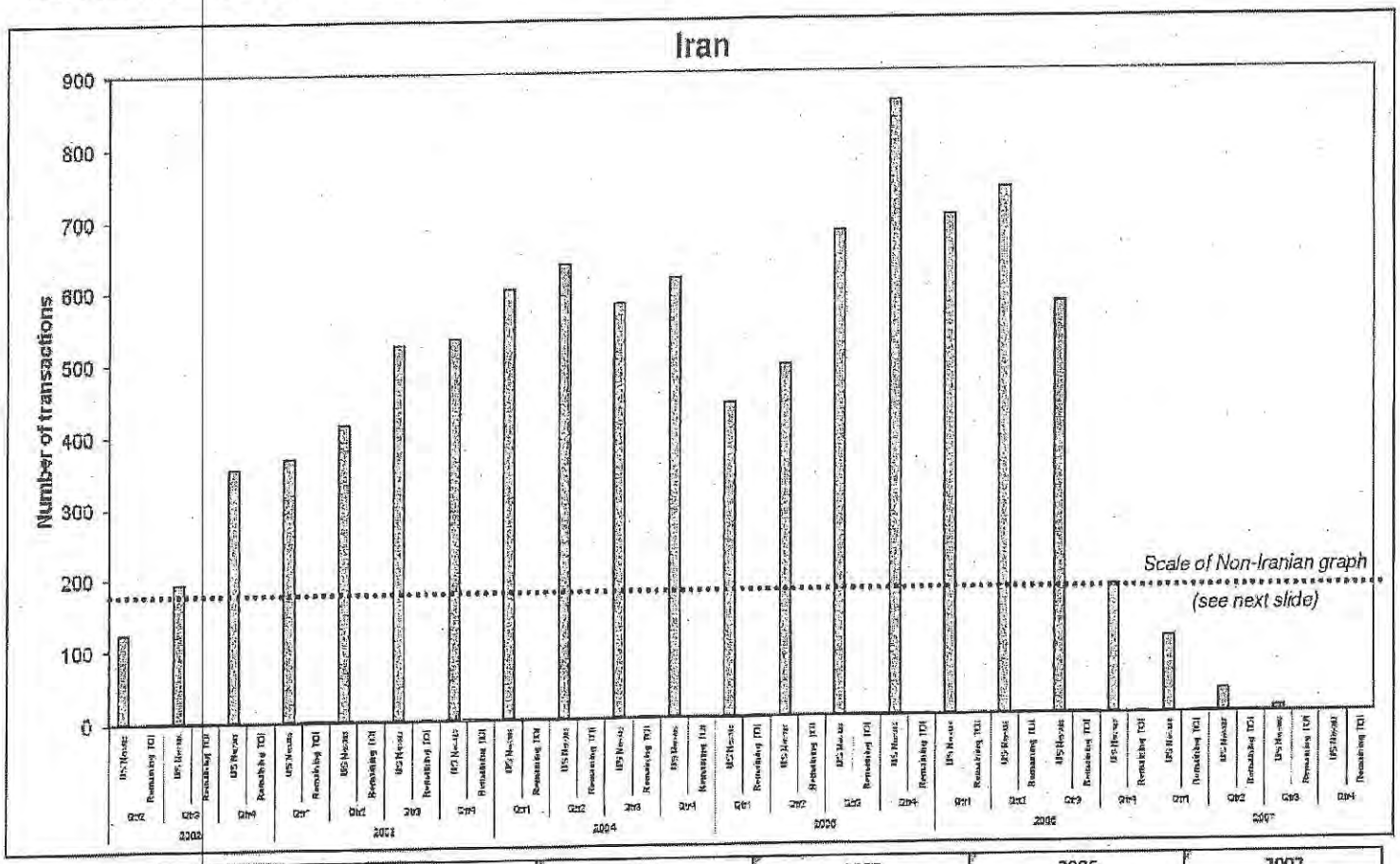
The table below summarises the number of all USD accounts and non-USD accounts, with USD transaction activity, by the location of the account and the related sanctions regime.

| Sanctions regime | UK | | Dubai | | Total | |
|---|---|---|---|---|---|---|
| | USD a/cs – USD transactions identified | Non-USD a/cs – USD transactions identified | USD a/cs – USD transactions identified | Non-USD a/cs – USD transactions identified | USD a/cs – USD transactions identified | Non-USD a/cs – USD transactions identified |
| Cuba | 6 | 6 | 0 | 0 | 6 | 6 |
| Iran | 11 | 11 | 8 | 2 | 19 | 13 |
| North Korea | 2 | 0 | 0 | 0 | 2 | 0 |
| Sudan | 18 | 13 | 0 | 0 | 18 | 13 |
| Syria | 1 | 1 | 0 | 0 | 1 | 1 |
| **Total** | **38** | **31** | **8** | **2** | **46** | **33** |

There are four additional accounts held by the Bank in another jurisdiction, subject to the Sudanese sanctions regime, which are not included in the table above. The names of these accounts cannot currently be disclosed, however the SWIFT transactions relating to these accounts are included within this document.

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB09340641
Confidential Treatment Requested HSBC-PSI-PROD-0197968

# PAYMENTS RESULTS – IRANIAN TRANSACTIONS SENT VIA THE US BY YEAR




| | 2002 | | | 2003 | | | | 2004 | | | | 2005 | | | | 2006 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Qtr2 | Qtr3 | Qtr4 | Qtr1 | Qtr2 | Qtr3 | Qtr4 | Qtr1 | Qtr2 | Qtr3 | Qtr4 | Qtr1 | Qtr2 | Qtr3 | Qtr4 | Qtr1 | Qtr2 | Qtr3 | Qtr4 | Qtr1 | Qtr2 | Qtr3 | Qtr4 |
| US Nexus | 123 | 193 | 354 | 368 | 415 | 524 | 531 | 600 | 634 | 578 | 614 | 438 | 492 | 678 | 857 | 701 | 736 | 575 | 180 | 106 | 33 | 8 | 1 |
| Remaining TOI | 0 | 0 | 0 | 1 | 1 | 4 | 2 | 4 | 0 | 4 | 1 | 1 | 0 | 2 | 4 | 0 | 0 | 1 | 2 | 0 | 1 | 0 | 0 |

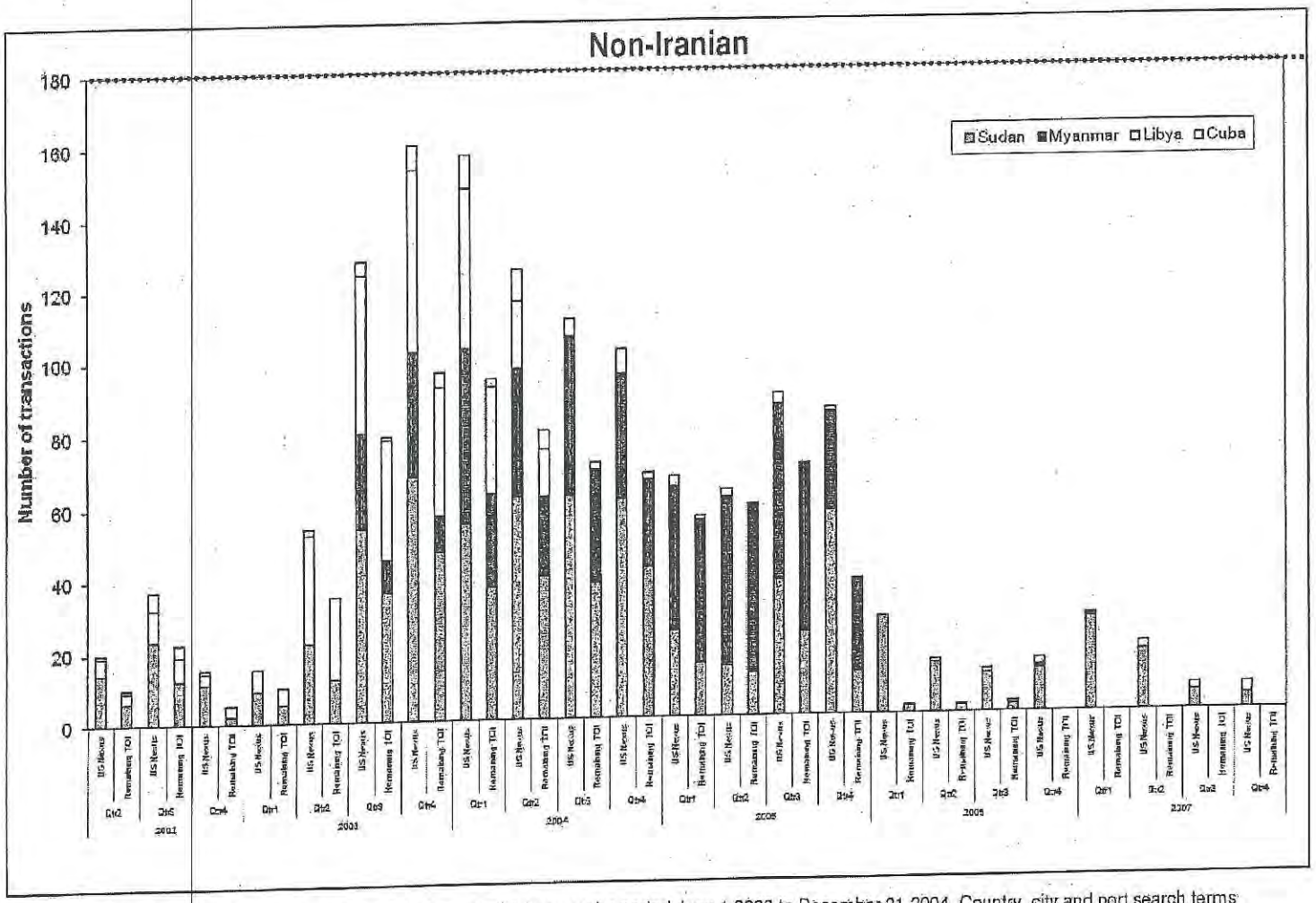
Note: Country, city and port search terms have only been applied across the period June 1 2003 to December 31 2004. Country, city and port search terms make up approximately 25% by volume (11% by value) of identified US Nexus transactions.



Confidential – FOIA/FOIL Treatment Requested

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB09340642
Confidential Treatment Requested HSBC-PSI-PROD-0197969

# PAYMENTS RESULTS – NON-IRANIAN TRANSACTIONS SENT VIA THE US BY YEAR




Note: Country, city and port search terms have only been applied across the period June 1 2003 to December 31 2004. Country, city and port search terms make up approximately 25% by volume (11% by value) of Identified US Nexus transactions.



Confidential – FOIA/FOIL Treatment Requested

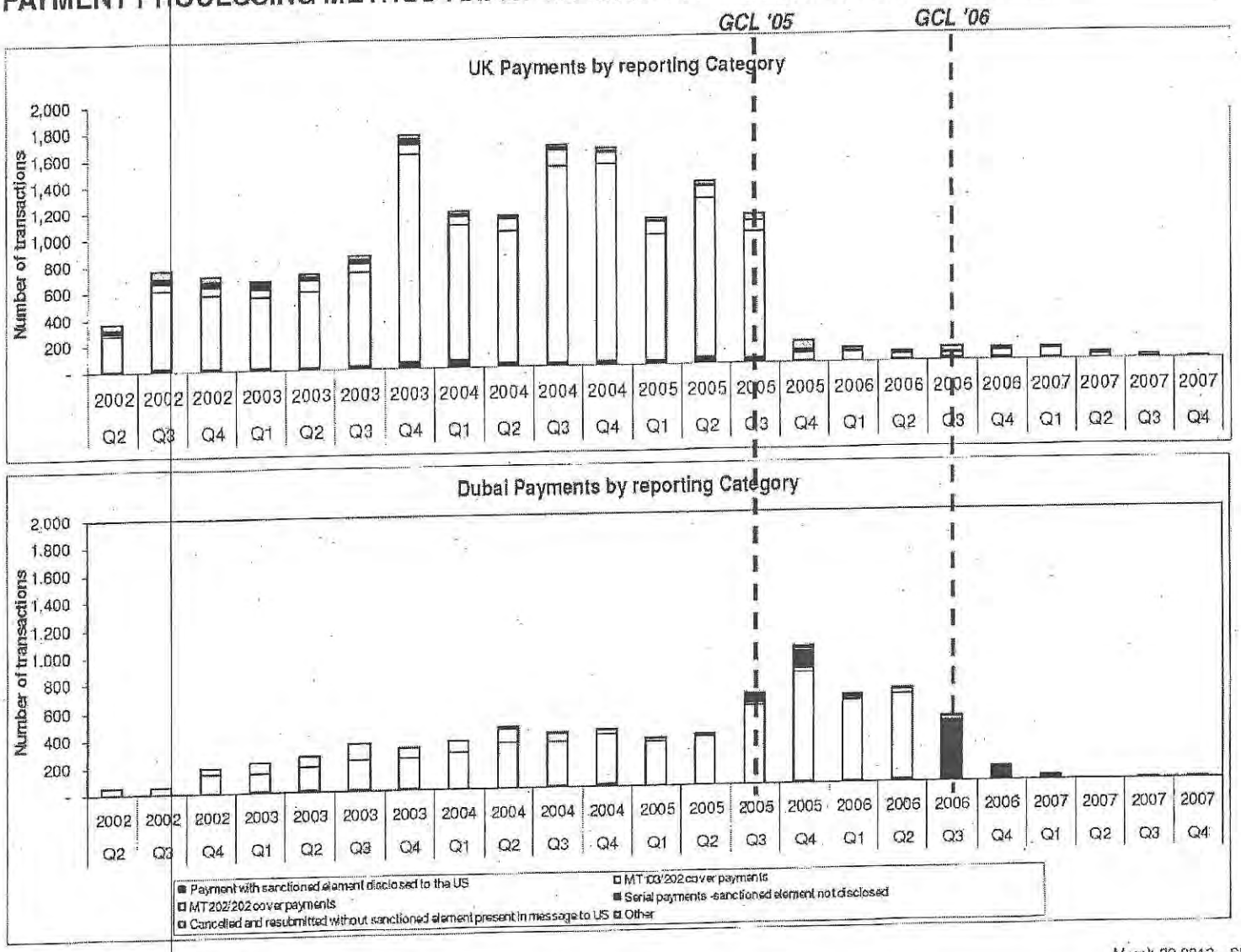
Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB09340649
Confidential Treatment Requested HSBC-PSI-PROD-0197976

# PAYMENT PROCESSING – CONSOLIDATED RESULTS

| Reporting Category | Total<br>Value $'000<br>(Volume) | Permissible Transactions<br>Value $'000<br>(Volume) | Transactions of Interest<br>Value $'000<br>(Volume) | Potentially Licensable<br>Value $'000<br>(Volume) | Remaining Transactions of Interest<br>Value $'000<br>(Volume) |
|---|---|---|---|---|---|
| 1. Payment with sanctioned element disclosed to the US | 325,371<br>(1,395) | 306,107<br>(1,257) | 19,264<br>(138) | 16,888<br>(46) | 2,376<br>(92) |
| 2. Cover payment – sanctioned element not disclosed to the US | 3,920,304<br>(22,339) | 3,553,661<br>(19,698) | 366,643<br>(2,641) | 132,258<br>(590) | 234,385<br>(2,051) |
| 3. Serial payment – sanctioned element not disclosed to the US | 1,189,753<br>(659) | 1,183,983<br>(569) | 5,770<br>(90) | 16<br>(3) | 5,754<br>(87) |
| 4. Cancelled and re-submitted without sanctioned element present in the message to the US | 8,085<br>(128) | 2,531<br>(60) | 5,554<br>(68) | 614<br>(22) | 4,940<br>(46) |
| 5. Other | 47,858<br>(683) | 38,366<br>(482) | 9,492<br>(201) | 4,061<br>(43) | 5,431<br>(158) |
| **Total** | **5,491,371<br>(25,204)** | **5,084,648<br>(22,066)** | **406,723<br>(3,138)** | **153,837<br>(704)** | **252,886<br>(2,434)** |

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB09340653
Confidential Treatment Requested HSBC-PSI-PROD-0197980

# PAYMENT PROCESSING METHOD ANALYSIS RESULTS – UK & DUBAI PAYMENTS



# EXCERPT

# March 29, 2012 Presentation

Sullivan & Cromwell LLP

Cahill Gordon & Reindel LLP



Permanent Subcommittee on Investigations
EXHIBIT #69

Confidential - FOIA Treatment Reqı
Confidential - FOIA Treatment Reqı
ngs, Inc. HSB09340663
HSBC OCC 8966113

# Payment Processing

## Systems at the U.K. Gateway

### PAYMENT PROCESSING – CONSOLIDATED (UK, DUBAI & OTHER COUNTRIES)

| Reporting Category | Total<br>Value $'000<br>(Volume) | Permissible Transactions<br>Value $'000<br>(Volume) | Transactions of Interest<br>Value $'000<br>(Volume) | Potentially Licensable<br>Value $'000<br>(Volume) | Remaining Transactions of Interest<br>Value $'000<br>(Volume) |
|---|---|---|---|---|---|
| 1. Payment with sanctioned element disclosed to the US | 325,367<br>(1,393) | 306,103<br>(1,255) | 19,264<br>(138) | 16,888<br>(46) | 2,376<br>(92) |
| 2. Cover payment – sanctioned element not disclosed to the US | 3,920,272<br>(22,335) | 3,553,629<br>(19,694) | 366,643<br>(2,641) | 132,258<br>(590) | 234,385<br>(2,051) |
| 3. Serial payment – sanctioned element not disclosed to the US | 1,189,753<br>(659) | 1,183,983<br>(569) | 5,770<br>(90) | 16<br>(3) | 5,754<br>(87) |
| 4. Cancelled and re-submitted without sanctioned element present in the message to the US | 8,085<br>(129) | 2,543<br>(61) | 5,542<br>(68) | 582<br>(19) | 4,960<br>(49) |
| 5. Other | 47,858<br>(683) | 38,366<br>(482) | 9,492<br>(201) | 4,061<br>(43) | 5,431<br>(158) |
| **Total** | **5,491,335<br>(25,199)** | **5,084,624<br>(22,061)** | **406,711<br>(3,138)** | **153,805<br>(701)** | **252,906<br>(2,437)** |

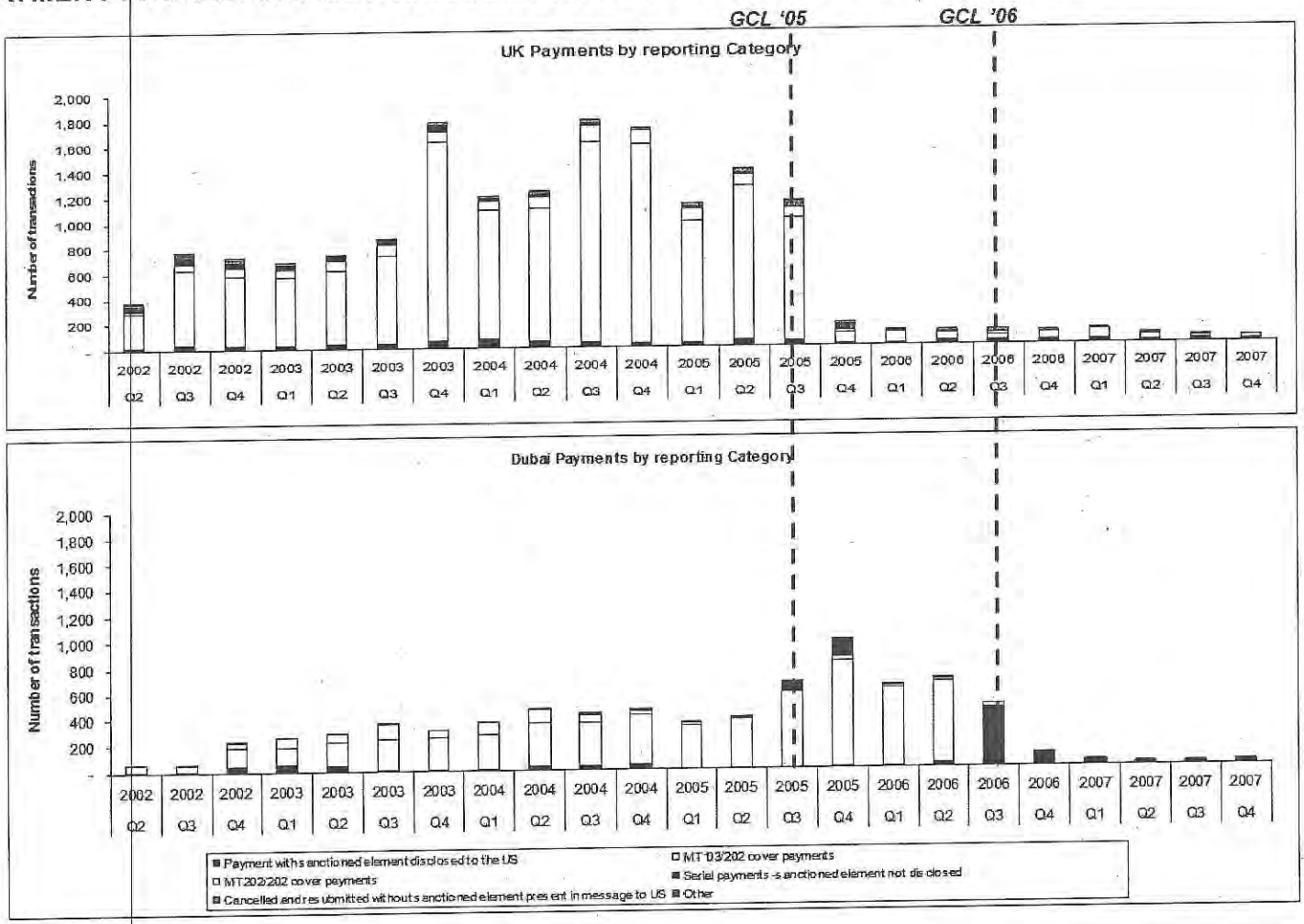


Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB09340668
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8966118

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB09340693
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 8966143

# Iranian Payment Processing

## PAYMENT PROCESSING METHOD ANALYSIS RESULTS – UK & DUBAI PAYMENTS



# GCL 050047 - Compliance with sanctions (28/Jul/2005)

Language: Francais | Portuguese | Espanol | 日本語

## Introduction

Group Standards Manual (GSM) 5.6 requires that all Group Offices comply with all anti-terrorism and crime legislation and with all economic and trade sanctions to the extent applicable pursuant to local laws and regulations.

In addition, however, Group Compliance (GHQ CMP) is required by the above section of the GSM to issue a circular advising all relevant Group Offices when any legislation or sanctions have extra-territorial effect.

## OFAC sanctions

The Office of Foreign Assets Control (OFAC) is a department of the US Department of the Treasury, and is responsible for the administration and enforcement of economic and trade sanctions based on US foreign policy. These sanctions target foreign countries, suspected terrorists, drugs traffickers and those engaged in the proliferation of weapons of mass destruction.

The OFAC sanctions consist of both country-level sanctions (including sanctions against Cuba, Iran, Zimbabwe, North Korea, Myanmar and Sudan) as well as sanctions against individuals (Specially Designated Nationals (SDNs)). There are variations in each of the statutes establishing the country-level sanctions such that there is no uniform approach (e.g. the Iran sanctions contain an exemption which is not applicable to other country-level sanctions).

## Revised policy

**With immediate effect, all Group Offices (including those Offices incorporated or operating outside the US) must refuse to participate in any transactions 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.

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 here

In addition, further advice, instructions and guidance, with regard to the principal provisions of the OFAC sanctions, will be issued by GHQ CMP to local Compliance functions to coincide with this GCL to enable those local Compliance functions to provide advice with regard to the practical application of this GCL.

Group Offices should, however, ensure that they continue to update relevant procedures in response to details of any future amendments or additions to applicable sanctions, including OFAC sanctions, issued by GHQ CMP in accordance with GSM 5.6. The guidance in this GCL should also be read in conjunction with GCL040074 US OFAC Sanctions, which discusses, among other things, how OFAC sanctions can apply to US citizens or permanent resident aliens, even when outside the US.

**It is acknowledged that compliance with sanctions with extra-territorial reach, including OFAC sanctions, may be unlawful under local laws. Where compliance with this GCL would result in a breach of local law or regulation or existing binding contractual arrangements, the position should be considered in liaison with local Compliance and Legal functions and GHQ CMP. Any dispensation from the terms of this GCL requires GHQ CMP concurrence.**

## Iranian sanctions

The OFAC sanctions applicable to Iran are unique in including the specific exemption for payments that qualify as a 'U-turn payment'. U-turn payments can be summarised as being 'cover payments involving Iran that are by order of a third country bank for payment to another third country bank - provided that they do not directly credit or debit an Iranian Account'. Iranian Accounts are defined as 'accounts of persons located in Iran or the Government of Iran contained on the books of a United States depository institution'. In this context, a third country bank must be non-US and non-Iranian and an Iranian Account generally includes an account for a non-Iranian subsidiary in which an Iranian company has a 30 per cent or greater interest. A more complete definition is contained in the guidance to be issued by GHQ CMP.

For the purposes of this GCL, 'Iranian Payments' mean payments made to or from an account maintained by any Iranian person (which includes any Iranian national, any individual resident in, or entity doing business in, Iran, or any entity incorporated or formed in Iran and subsidiaries of any Iranian entity), or an Iranian government body (including governmental-owned entities) whether directly or indirectly.

Permanent Subcommittee on Investigations
EXHIBIT #70a

In view, however, of the complexity of the relevant provisions governing the Iranian sanctions and the 'U-turn exemption', all Iranian Payments denominated in USD must, with effect from 1SEP05, or any earlier date notified by HBME DUB, be routed through HBME DUB - HSBC Middle East Management Office, Dubai Internet City, P O Box 66, Dubai, UAE, Tel. No. + [971] (4) 390 4722, which will establish a dedicated team to pre-screen proposed Iranian Payments for Compliance with the Iranian sanctions and process compliant payments via dedicated correspondent accounts. This will require Group Offices that wish to continue to make Iranian Payments to open USD accounts with HBME DUB. All requests to open accounts should be sent for the attention of Alan Kerr or Ahsan Raza, CIBM HBME. HBME DUB will issue more details to Group Offices as to how payments should be processed. With immediate effect, and prior to 1SEP05, all Iranian payments must be referred to Rod Moxley, Tel. No. + [44] (0) 207 991 3664 (email Rod MOXLEY/HBEU/HSBC), and may only be processed once confirmation has been given that the payment is compliant under the 'U-turn (or other) exemption'.

Other sanctions with extra-territorial effect

GHQ CMP maintains a full and current list of sanctions that affect Group Offices. This list is accessible through the Group Compliance Intranet via this link or via local Compliance functions.

Although certain sanctions only apply locally, UN sanctions should be viewed as having Group-wide application. Sanctions issued by the European Union bind EU persons (individuals who are nationals of member states and companies incorporated or domiciled in member states) globally as well as those persons located or operating in member states. Group Offices should use WOLF or any alternative approved systems to load any additional names covered by local or other extra-territorial sanctions applicable to those offices.

Implementation

It is recognised that the use of automated payment screening systems is necessary for the effective identification of payments potentially subject to relevant sanctions, including OFAC sanctions. GCL 040021 Payment Screening required all Group Offices whose payments are not processed through one of the Group's 3 regional TP sites to install the Group's solution WOLF by 31MAR05. The names loaded centrally by Group Messaging Systems will be supplemented by 8AUG05 to include a full list of OFAC country and SDN names, thus ensuring that all cross-border USD payments Group-wide will be pre-screened for OFAC compliance. Group Offices should satisfy themselves that they are fully compliant with the requirements of GCL 040021 and notify GHQ CMP immediately of any deviation.

Where there are local USD clearing systems (e.g. Hong Kong and UAE), relevant offices must ensure that WOLF is capable of screening all local payments consistent with the requirements of this GCL in order to ensure that non-compliant payments are rejected. Those Group Offices with local USD clearing systems must confirm to GHQ CMP by 1NOV05 that they are screening all local USD payments.

In addition, Group Offices should take at least the following steps where relevant:

- Ensure that they have adequate procedures to identify proposed transactions and activities other than payments which may be prohibited by OFAC sanctions before the proposed transactions are entered into. This would include in-country book transfers over USD accounts. This may require the issuance of staff circulars, amendments to desk instruction books and local procedures manuals
- Once the SDN and country names are loaded into WOLF it is likely that the number of payments identified as potential matches to the OFAC sanctions will increase. Group Offices need to ensure that they are sufficiently resourced to consider any potential matches for clearance or rejection as appropriate
- Where proposed transactions or payments are identified that would breach the OFAC sanctions, non-US Group Offices should decline the transaction and refuse to make any payments returning the funds to the remitter. US Offices are normally required to block or freeze payments
- 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 whether any advance notification should be given to customers to clarify the bank's right and intention to reject or accept relevant instructions or requests
- Where Group Offices are in doubt as to whether a transaction or payment is affected by any sanction, but particularly OFAC sanctions, they should consult their local Compliance function which 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 that might be subject to the OFAC sanctions applicable to Iran.

Yours faithfully

S K Green
Group Chief Executive

## GCL 050047 - Compliance with sanctions (28/Jul/2005)

Language: Francais | Portuguese | Espanol | 繁體中文

### Introduction

Group Standards Manual (GSM) 5.6 requires that all Group Offices comply with all anti-terrorism and crime legislation and with all economic and trade sanctions to the extent applicable pursuant to local laws and regulations.

In addition, however, Group Compliance (GHQ CMP) is required by the above section of the GSM to issue a circular advising all relevant Group Offices when any legislation or sanctions have extra-territorial effect.

### OFAC sanctions

The Office of Foreign Assets Control (OFAC) is a department of the US Department of the Treasury, and is responsible for the administration and enforcement of economic and trade sanctions based on US foreign policy. These sanctions target foreign countries, suspected terrorists, drugs traffickers and those engaged in the proliferation of weapons of mass destruction.

The OFAC sanctions consist of both country-level sanctions (including sanctions against Cuba, Iran, Zimbabwe, North Korea, Myanmar and Sudan) as well as sanctions against individuals (Specially Designated Nationals (SDNs)). There are variations in each of the statutes establishing the country-level sanctions such that there is no uniform approach (e.g. the Iran sanctions contain an exemption which is not applicable to other country-level sanctions).

### Revised policy

**With immediate effect, all Group Offices (including those Offices incorporated or operating outside the US) must refuse to participate in any transactions 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.

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 here

In addition, further advice, instructions and guidance, with regard to the principal provisions of the OFAC sanctions, will be issued by GHQ CMP to local Compliance functions to coincide with this GCL to enable those local Compliance functions to provide advice with regard to the practical application of this GCL.

Group Offices should, however, ensure that they continue to update relevant procedures in response to details of any future amendments or additions to applicable sanctions, including OFAC sanctions, issued by GHQ CMP in accordance with GSM 5.6. The guidance in this GCL should also be read in conjunction with GCL040074 US OFAC Sanctions, which discusses, among other things, how OFAC sanctions can apply to US citizens or permanent resident aliens, even when outside the US.

**It is acknowledged that compliance with sanctions with extra-territorial reach, including OFAC sanctions, may be unlawful under local laws. Where compliance with this GCL would result in a breach of local law or regulation or existing binding contractual arrangements, the position should be considered in liaison with local Compliance and Legal functions and GHQ CMP. Any dispensation from the terms of this GCL requires GHQ CMP concurrence.**

### Iranian sanctions

The OFAC sanctions applicable to Iran are unique in including the specific exemption for payments that qualify as a 'U-turn payment'. U-turn payments can be summarised as being 'cover payments involving Iran that are by order of a third country bank for payment to another third country bank - provided that they do not directly credit or debit an Iranian Account'. Iranian Accounts are defined as 'accounts of persons located in Iran or the Government of Iran contained on the books of a United States depository institution'. In this context, a third country bank must be non-US and non-Iranian and an Iranian Account generally includes an account for a non-Iranian subsidiary in which an Iranian company has a 30 per cent or greater interest. A more complete definition is contained in the guidance to be issued by GHQ CMP.

For the purposes of this GCL, 'Iranian Payments' mean payments made to or from an account maintained by any Iranian person (which includes any Iranian national, any individual resident in, or entity doing business in, Iran, or any entity incorporated or formed in Iran and subsidiaries of any Iranian entity), or an Iranian government body (including governmental-owned entities) whether directly or indirectly.

In view, however, of the complexity of the relevant provisions governing the Iranian sanctions and the 'U-turn exemption', all Iranian Payments denominated in USD must, with effect from 1SEP05, or any earlier date notified by HBME DUB, be routed through HBME DUB - HSBC Middle East Management Office, Dubai Internet City, P O Box 66, Dubai, UAE, Tel. No. + [971] (4) 390 4722, which will establish a dedicated team to pre-screen proposed Iranian Payments for Compliance with the Iranian sanctions and process compliant payments via dedicated correspondent accounts. This will require Group Offices that wish to continue to make Iranian Payments to open USD accounts with HBME DUB. All requests to open accounts should be sent for the attention of Alan Kerr or Ahsan Raza, CIBM HBME. HBME DUB will issue more details to Group Offices as to how payments should be processed. With immediate effect, and prior to 1SEP05, all Iranian payments must be referred to Rod Moxley, Tel. No. + [44] (0) 207 991 3664 (email Rod MOXLEY/HBEU/HSBC), and may only be processed once confirmation has been given that the payment is compliant under the 'U-turn (or other) exemption'.

### Other sanctions with extra-territorial effect

GHQ CMP maintains a full and current list of sanctions that affect Group Offices. This list is accessible through the Group Compliance Intranet via this link or via local Compliance functions.

Although certain sanctions only apply locally, UN sanctions should be viewed as having Group-wide application. Sanctions issued by the European Union bind EU persons (individuals who are nationals of member states and companies incorporated or domiciled in member



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03793202
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3407560

states) globally as well as those persons located or operating in member states. Group Offices should use WOLF or any alternative approved systems to load any additional names covered by local or other extra-territorial sanctions applicable to those offices.

**Implementation**

It is recognised that the use of automated payment screening systems is necessary for the effective identification of payments potentially subject to relevant sanctions, including OFAC sanctions. GCL 040021 Payment Screening required all Group Offices whose payments are not processed through one of the Group's 3 regional TP sites to install the Group's solution WOLF by 31MAR05. The names loaded centrally by Group Messaging Systems will be supplemented by BAUG05 to include a full list of OFAC country and SDN names, thus ensuring that all cross-border USD payments Group-wide will be pre-screened for OFAC compliance. Group Offices should satisfy themselves that they are fully compliant with the requirements of GCL 040021 and notify GHQ CMP immediately of any deviation.

Where there are local USD clearing systems (e.g. Hong Kong and UAE), relevant offices must ensure that WOLF is capable of screening all local payments consistent with the requirements of this GCL in order to ensure that non-compliant payments are rejected. Those Group Offices with local USD clearing systems must confirm to GHQ CMP by 1NOV05 that they are screening all local USD payments.

In addition, Group Offices should take at least the following steps where relevant:

- Ensure that they have adequate procedures to identify proposed transactions and activities other than payments which may be prohibited by OFAC sanctions before the proposed transactions are entered into. This would include in-country book transfers over USD accounts. This may require the issuance of staff circulars, amendments to desk instruction books and local procedures manuals
- Once the SDN and country names are loaded into WOLF it is likely that the number of payments identified as potential matches to the OFAC sanctions will increase. Group Offices need to ensure that they are sufficiently resourced to consider any potential matches for clearance or rejection as appropriate
- Where proposed transactions or payments are identified that would breach the OFAC sanctions, non-US Group Offices should decline the transaction and refuse to make any payments returning the funds to the remitter. US Offices are normally required to block or freeze payments
- 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 whether any advance notification should be given to customers to clarify the bank's right and intention to reject or accept relevant instructions or requests
- Where Group Offices are in doubt as to whether a transaction or payment is affected by any sanction, but particularly OFAC sanctions, they should consult their local Compliance function which 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 that might be subject to the OFAC sanctions applicable to Iran.

Yours faithfully

S K Green
Group Chief Executive



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03793203
Confidential - FOIA Treatment Requested by HSBC Bank USA, N.A. HSBC OCC 3407561

# GCL 060011 - US Dollar Payments (06/Apr/2006)

Language: Francais | Portuguese | Espanol | 繁體中文

## Introduction

GCL 050047 'Compliance with Sanctions' reiterated Group Policy with regard to Compliance with local and international sanctions by Group Offices, including sanctions issued by the US Office of Foreign Assets Control (OFAC). Group Policy arising from the above GCL prohibits any Group Office from initiating any payment denominated in US Dollars (USD) that would constitute a breach of any of the OFAC sanctions.

US regulatory authorities continue to focus closely upon Compliance with OFAC sanctions by US banks, particularly where they act as correspondent banks for non-US banks, and by foreign banks with US operations.

## Payment Methodology

USD payments made on behalf of underlying customers can be made either as cover payments (MT103 + linked MT202) or as serial payments (two MT103s). An illustration of both payment types, using the same underlying transaction, is shown in Appendix 1. Where cover payments are used, the payment message passing via the US correspondent (MT202) makes no mention of the underlying remitter or beneficiary. This is contained in the linked MT103 message which passes outside USA.

## Policy

1. With effect from 30APR06 all USD payments initiated by a Group Office and remitted via HBUS, or any other US correspondent, must be made as serial payments.

2. The requirement to make payments as serial payments does not vary the provisions of GCL 050047 in that only USD payments permitted by OFAC may be initiated or processed by a Group Office.

3. The above requirements do not restrict the use of cover payments (MT202) for genuine bank-to-bank payments, for example in relation to Foreign Exchange settlements.

4. Until further notification, U-turn payments, under the Iran country OFAC sanctions, should also continue to be made as cover payments (MT103 + linked MT202) as serial payments cannot qualify as U-turn payments. In accordance with GCL 050047, all U-turn payments must continue to be made via HBME DUB. Where U-turn payments are made, Field 72 of the Swift payment message must be completed so as to make reference to any linked MT103.

5. By 31DEC06 HBUS will require third-party banks to which HBUS provide USD correspondent banking services to make all payments denominated in USD and remitted via HBUS as serial payments.

6. Any dispensations from the requirements of this GCL require approval by GHQ CMP with agreement from HBUS CMP where relevant.

## Guidance

Detailed guidance is to be issued via GHQ CMP, and any enquiries with regard to the implementation of this GCL or relating to GCL 050047 should be referred to local Compliance Officers, who can, as required, seek further clarification from GHQ CMP.

---

Yours faithfully

Stephen K Green
Group Chief Executive



Permanent Subcommittee on Investigations
EXHIBIT #70b

## GCL 060011 - US Dollar Payments (06/Apr/2006)

Language: Francais | Portuguese | Espanol | 繁體中文

[

**Introduction**

GCL 050047 'Compliance with Sanctions' reiterated Group Policy with regard to Compliance with local and international sanctions by Group Offices, including sanctions issued by the US Office of Foreign Assets Control (OFAC). Group Policy arising from the above GCL prohibits any Group Office from initiating any payment denominated in US Dollars (USD) that would constitute a breach of any of the OFAC sanctions.

US regulatory authorities continue to focus closely upon Compliance with OFAC sanctions by US banks, particularly where they act as correspondent banks for non-US banks, and by foreign banks with US operations.

**Payment Methodology**

USD payments made on behalf of underlying customers can be made either as cover payments (MT103 + linked MT202) or as serial payments (two MT103s). An illustration of both payment types, using the same underlying transaction, is shown in Appendix 1. Where cover payments are used, the payment message passing via the US correspondent (MT202) makes no mention of the underlying remitter or beneficiary. This is contained in the linked MT103 message which passes outside USA.

**Policy**

1. With effect from 30APR06 all USD payments initiated by a Group Office and remitted via HBUS, or any other US correspondent, must be made as serial payments.

2. The requirement to make payments as serial payments does not vary the provisions of GCL 050047 in that only USD payments permitted by OFAC may be initiated or processed by a Group Office.

3. The above requirements do not restrict the use of cover payments (MT202) for genuine bank-to-bank payments, for example in relation to Foreign Exchange settlements.

4. Until further notification, U-turn payments, under the Iran country OFAC sanctions, should also continue to be made as cover payments (MT103 + linked MT202) as serial payments cannot qualify as U-turn payments. In accordance with GCL 050047, all U-turn payments must continue to be made via HBME DUB. Where U-turn payments are made, Field 72 of the Swift payment message must be completed so as to make reference to any linked MT103.

5. By 31DEC06 HBUS will require third-party banks to which HBUS provide USD correspondent banking services to make all payments denominated in USD and remitted via HBUS as serial payments.

6. Any dispensations from the requirements of this GCL require approval by GHQ CMP with agreement from HBUS CMP where relevant.

**Guidance**

Detailed guidance is to be issued via GHQ CMP, and any enquiries with regard to the implementation of this GCL or relating to GCL 050047 should be referred to local Compliance Officers, who can, as required, seek further clarification from GHQ CMP.

Yours faithfully

Stephen K Green
Group Chief Executive



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03793229
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3407587

# GCL 060041 - US OFAC Sanctions against Iran - U-Turn Exemption (25/Oct/2006)

Language: Francais | Portuguese | Espanol | 繁體中文

Background

The Office of Foreign Assets Control (OFAC) of the US Department of the Treasury is responsible for the administration and enforcement of economic and trade sanctions based on US foreign policy. These sanctions target specified countries, suspected terrorists, drugs traffickers and those engaged in the proliferation of weapons of mass destruction.

The OFAC sanctions include country-level sanctions against a number of countries including Iran. The regulations contain an exemption to the sanctions unique to Iran, the so-called "U-turn exemption" for payments that qualify as a 'U-turn payment'. U turn payments can be summarised as being 'cover payments involving Iran that are by order of a third country bank for payment to another third country bank - provided that they do not directly credit or debit an Iranian Account' (as defined in the regulations). This U-turn exemption is described fully in GCL 050047 (Compliance with Sanctions).

Revised policy

With immediate effect, all Group Offices (including offices incorporated or operating outside the US) may no longer use the U-turn exemption of the OFAC sanctions against Iran. All other requirements of GCL 050047 remain in force.

Valid U-turn payments can continue to be made in relation to binding contractual commitments (i.e. that cannot be amended or terminated) that pre-date this GCL, provided that these payments are processed through HBME as per GCL 050047. Where a U-turn payment is made it must be through the serial method pursuant to GCL 060011 (US Dollar Payments).

Also refer to related GCLs: GCL 040074 (US OFAC Sanctions – Applicability to US Citizens, wherever located, and other US Persons) and GCL 060011, where appropriate.

Yours faithfully

D H Hodgkinson
Group Chief Operating Officer

HSBC OCC 3407606

Permanent Subcommittee on Investigations
EXHIBIT #70c

## GCL 060041 - US OFAC Sanctions against Iran - U-Turn Exemption (25/Oct/2006)

Language: Francais | Portuguese | Espanol | 繁體中文

**Background**

The Office of Foreign Assets Control (OFAC) of the US Department of the Treasury is responsible for the administration and enforcement of economic and trade sanctions based on US foreign policy. These sanctions target specified countries, suspected terrorists, drugs traffickers and those engaged in the proliferation of weapons of mass destruction.

The OFAC sanctions include country-level sanctions against a number of countries including Iran. The regulations contain an exemption to the sanctions unique to Iran, the so-called "U-turn exemption" for payments that qualify as a 'U-turn payment'. U turn payments can be summarised as being 'cover payments involving Iran that are by order of a third country bank for payment to another third country bank - provided that they do not directly credit or debit an Iranian Account' (as defined in the regulations). This U-turn exemption is described fully in GCL 050047 (Compliance with Sanctions).

**Revised policy**

With Immediate effect, all Group Offices (including offices incorporated or operating outside the US) may no longer use the U-turn exemption of the OFAC sanctions against Iran. All other requirements of GCL 050047 remain in force.

Valid U-turn payments can continue to be made in relation to binding contractual commitments (i.e. that cannot be amended or terminated) that pre-date this GCL, provided that these payments are processed through HBME as per GCL 050047. Where a U-turn payment is made it must be through the serial method pursuant to GCL 060011 (US Dollar Payments).

Also refer to related GCLs: GCL 040074 (US OFAC Sanctions – Applicability to US Citizens, wherever located, and other US Persons) and GCL 060011, where appropriate.

Yours faithfully

D H Hodgkinson
Group Chief Operating Officer



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03793248
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3407606

# GCL 070049 - Sanctions Against Iran (24/Sep/2007)

Language: Francais | Portuguese | Espanol | 繁體中文

## Background

GCLs 050047 and 060041 referred to compliance with economic and trade sanctions to the extent applicable pursuant to local laws and regulations and the application of certain Group minimum required standards in relation to transactions and payments denominated in US dollars. These GCLs remain in full force and effect.

## Policy

Reflecting the current international and political situation and the potential risk of the inadvertent involvement of Group companies in transactions, payments or activities linked to the proliferation of weapons of mass destruction (WMD) and nuclear proliferation a decision has been taken to suspend all services and business with Iranian banks, irrespective of currency to the extent and as detailed below.

## Relationships with Iranian Banks

All account relationships with Iranian Banks must be closed as soon as possible after giving any period of notice required by local law or regulation and which is sufficient to allow an orderly run down of activity (for example uncleared items), and the run-off of any outstanding exposures. In any event such accounts must be closed by 30NOV07.

Similarly, any remaining facilities extended to Iranian Banks and SWIFT BKE arrangements should be cancelled or withdrawn as soon as possible and in any event by 30NOV07.

Where local law or the need to manage exit in an orderly manner will require accounts/SWIFT KEYS to be maintained beyond 30NOV07 specific dispensation must be obtained from GHQ CMP.

Pending closure of accounts and cancellation of SWIFT BKEs any payments debited to accounts held for Iranian Banks, regardless of currency, should be made as MT103 serial payments.

## Existing Facilities and Transactions

All existing facilities and transactions where there are legally binding commitments should continue to be honoured. Such arrangements may include committed facilities (for example Project and Export Finance facilities), existing guarantees (see below) and Documentary Credits issued, advised or confirmed. Any payments linked to such pre-existing commitments may be made, but as serial payments.



Permanent Subcommittee on Icvestigations
EXHIBIT #70d

Where there are pre-existing guarantees issued on a pay or extend basis supporting business with Iran these may exceptionally continue to be extended provided that:

Group Offices review each such guarantee and are satisfied that the underlying transaction is not linked to WMD or nuclear proliferation.

Each such guarantee must be reviewed on each extension and customers encouraged to negotiate alternative arrangements.

## New Business involving Iran

No new business should be entered into in respect of any transactions involving Iran, Iranian resident entities or Iranian goods subject to the detailed policy guidance issued by GTS simultaneously with this GCL.

## Further Guidance

Further guidance in respect of FIG relationships can be obtained from FIG Dubai and/or FIG London (Client Management Group). For guidance on payments into or out of Iranian banks and for all other matters, contact your local Compliance function.

Yours faithfully

D H Hodgkinson

Group Chief Operating Officer

## GCL 070049 - Sanctions Against Iran (24/Sep/2007)

Language: Francais | Portuguese | Espanol | 繁體中文

### Background

GCLs 050047 and 060041 referred to compliance with economic and trade sanctions to the extent applicable pursuant to local laws and regulations and the application of certain Group minimum required standards in relation to transactions and payments denominated in US dollars. These GCLs remain in full force and effect.

### Policy

Reflecting the current international and political situation and the potential risk of the inadvertent involvement of Group companies in transactions, payments or activities linked to the proliferation of weapons of mass destruction (WMD) and nuclear proliferation a decision has been taken to suspend all services and business with Iranian banks, irrespective of currency to the extent and as detailed below.

### Relationships with Iranian Banks

All account relationships with Iranian Banks must be closed as soon as possible after giving any period of notice required by local law or regulation and which is sufficient to allow an orderly run down of activity (for example uncleared items), and the run-off of any outstanding exposures. In any event such accounts must be closed by 30NOV07.

Similarly, any remaining facilities extended to Iranian Banks and SWIFT BKE arrangements should be cancelled or withdrawn as soon as possible and in any event by 30NOV07.

Where local law or the need to manage exit in an orderly manner will require accounts/SWIFT KEYS to be maintained beyond 30NOV07 specific dispensation must be obtained from GHQ CMP.

Pending closure of accounts and cancellation of SWIFT BKEs any payments debited to accounts held for Iranian Banks, regardless of currency, should be made as MT103 serial payments.

### Existing Facilities and Transactions

All existing facilities and transactions where there are legally binding commitments should continue to be honoured. Such arrangements may include committed facilities (for example Project and Export Finance facilities), existing guarantees (see below) and Documentary Credits issued, advised or confirmed. Any payments linked to such pre-existing commitments may be made, but as serial payments.

Where there are pre-existing guarantees issued on a pay or extend basis supporting business with Iran these may exceptionally continue to be extended provided that:

- Group Offices review each such guarantee and are satisfied that the underlying transaction is not linked to WMD or nuclear proliferation.
- Each such guarantee must be reviewed on each extension and customers encouraged to negotiate alternative arrangements.

### New Business involving Iran

No new business should be entered into in respect of any transactions involving Iran, Iranian resident entities or Iranian goods subject to the detailed policy guidance issued by GTS simultaneously with this GCL.

### Further Guidance

Further guidance in respect of FIG relationships can be obtained from FIG Dubai and/or FIG London (Client Management Group). For guidance on payments into or out of Iranian banks and for all other matters, contact your local Compliance function.

Yours faithfully

D H Hodgkinson

Group Chief Operating Officer



Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 0058887

Confidential & non-public OCC information

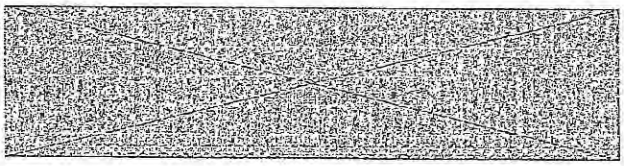
OCC-PSI-00141530
OCC-PSI-00141531

**From:** Rod MOXLEY
**Sent:** Fri Sep 23 16:57:38 2005
**To:** John ALLISON; John F ROOT
**Cc:** Jeremy R WALKER; Jim F EBDON
**Subject:** OFAC sanctions
**Importance:** Normal
**Attachments:** image_0.gif

John,

You will be aware that I am keen to ensure that implementation of the GCL 050047 is carried out both professionally and efficiently. To this end, I have requested my colleague Jeremy Walker to supply MI for affected USD payments over a 10 day period (5 a round the time of im plementation of the GCL and 5 more recently), so that I can review and address any issues arising.

These figures, which you may find interesting, are detailed below:



| | 12/09/05 | 13/9/05 | 14/09/05 | 15/09/05 | 16/09/05 |
|---|---|---|---|---|---|
| Sudan | 406 | 478 | 371 | 353 | 382 |
| Iran | 181 | 155 | 185 | 128 | 172 |
| Cuba | 144 | 236 | 220 | 169 | 144 |
| Myanmar | 0 | 0 | 0 | 0 | 31 |
| **TOTAL** | **731** | **869** | **776** | **650** | **729** |

To clarify, these figures constitute the number of payment transactions which have been identified by Wolf in UK as being possible hits. The figure shown will include both MT202 and MT103 messages (so there is an element of double counting in the figures supplied, as a typical single customer transaction will have both an MT103 and an MT202) and is for all currencies-not purely USD -on a particular day.

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. The precise amount is difficult to quantify, unless manual counts are made and as you will appreciate, this is difficult in a volume driven payments environment. Until 28 July, the above payments would have been filtered by Wolf and providing they did not infringe UN/ EU sanctions or terrorist parameters, they were paid on the basis that HBEU were not affected directly by OFAC sanctions.

Since the issuance of the GCL, it has been made clear that US interests are of paramount importance and we should do nothing, when processing payment transactions, which would leave HBUS in a vulnerable position. T he issues surrounding Iran have overshadowed other OFAC payments recently , however, I can advise that we have not so far physically returned any USD payments involving Sudan, Cuba or Burma . I feel we now need to look far more closely at these payments to ensure compliance with the GCL .



Permanent Subcommittee on Investigations
EXHIBIT #71a

The choice at present, from my viewpoint, with regard to application of the GCL in respect of these payments is this:

1. We continue to process the USD transactions but ensure that the method of routing of the payments is such that they are not frozen in US. This will involve intelligent usage of the routing system but may perpetuate similar scenarios to those encountered with Iran (customer instructions saying Do not mention Sudan or routing which does not make it apparent that these are Sudanese payments). This would create the exact scenarios illustrated in Compliance's guidance examples re Sudan i.e the payment is prohibited under the sanction but is made because it pays a USD account outside the US .

2. We apply strictly the wording of the GCL...."...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.." and return the payments unprocessed.

My instinct is to return all such USD payments but, before doing so, I would like confirmation that there should not be a cooling off period when we continue to make such payments, pending the Relationship Managers ' advi c e to their customer base. Additionally, I want to be sure that I am correct in thinking that we should be "adopting" OFAC sanctions in these situations and not merely "interpreting" the OFAC sanctions so that our US colleagues' position is not compromised. It is perhaps also worth bearing in mind that OFAC sanctions are not limited to USD and if we made a Euro payment to Citibank in favour of Sudan, we should likewise be cancelling such payments.

I have spoken to a number of RMs recently and, rightly or wrongly, there is little or no knowledge of the practical implications of the GCL. The BPM is yet to be updated and so it has not crossed the line of vision of many RMs. This does mean that, if we refuse to process OFAC related USD payments forthwith, the first time the customer will be aware will be when his payment rejects at our Wolf queue. This could cause considerable customer servicing issues, particularly if it involves large corporates or valued private customers.

To reiterate my stance above, I am keen to ensure that this is progressed professionally, and with minimum risk, but I am acutely aware that whichever route I take may have other repercussions, albeit unwittingly. I feel that David Bagley should be made aware of this situation but before advising him directly I thought it sensible to involve yourselves, so that practical remedial action can be drawn up.

I would be grateful for your input, perhaps a short meeting to prevent protracted email correspondence could be arranged, but I will await your views.

Regards

Rod

HSBC

INFORMATION REQUESTED IN CONNECTION WITH: (NORTH KOREA, CUBA, AND MYANMAR)

**I. Description of the past and current business activities contributing to revenues from the country, together with a description of the businesses and contacts contributing to these revenues. This should include, but not be limited to, details of the entities and projects to which you have provided financing.**

HBMX - Mexico

We were notified that there are relationships with Cuban and North Korean customers. MLD requested the cancellation of their accounts, and followed up all the process until such accounts denominated in USD were cancelled. As of today, we have found 108 North Korean customers with balances of USD3.11Mn and 1,368 Cuban customers with balances in the amount of USD10.21Mn. Please note that the principal is denominated in MXP.

Please find below an updated list of relationships with Cuban and North Korean citizens:

**Total number of customers by jurisdiction, (figures in USD)**

| JURISDICTION | Customer Type /currency | No. Customers | No. Accounts | USD Balances |
|---|---|---|---|---|
| North Korea | | 108 | 174 | 3,119,100.26 |
| | MXP | 92 | 137 | 697,604.84 |
| | Both MXP and USD | 7 | 28 | 2,374,988.17 |
| | USD | 9 | 9 | 46,507.25 |
| Cuba | | 1368 | 2468 | 10,215,770.14 |
| | MXP | 1284 | 2249 | 8,900,194.29 |
| | Both MXP and USD | 61 | 194 | 966,656.77 |
| | USD | 23 | 25 | 348,919.07 |
| Total | | 1,476 | 2,642 | 13,334,870.40 |

Balances as of 18MAY07

Note: the above figures have been sent to business units so that they will verify the nationality of the above relationships, and so as to confirm their migratory status since we have detected that some of them have been naturalised as Mexican citizens.

Permanent Subcommittee on Investigations
EXHIBIT #71b

[redacted] = Redacted by the Permanent Subcommittee on Investigations

HSBC

**HBPA – Panama**

HSBC Bank Panama S.A. does not have relationships with customers of the aforementioned nationalities.

Banistmo Panama has the following relationships with Cuban nationals who reside in Panama:
Deposit Accounts with balances of USD 185K
Credit Cards with balances of USD 39K
Mortgages in the amount of USD 245K

The accounts of Cuban nationals are expected to be cancelled on 30JUN07.

Credit Cards of Banistmo Panama that are authorised to process transactions in Cuba are expected to be cancelled on 30JUL07.

**HBPE - Peru**

HBPE does not have any relationships either with the above jurisdictions, banks nor governments.

**HBCO - Colombia**

There is one relationship with [redacted]. Its main transactions are related to [redacted] but it does not have loans with the bank. (They neither make transfers to Cuba nor receive remittances. Their deposits are denominated in local currency). There is an account denominated in local currency with a balance of [redacted]

**HBHN - Honduras**

There is one business relationship with [redacted]. They maintain a savings account denominated in USD that was opened on 24-Dec-02 with a balance as of 21MAY in the amount of USD93K. The transactions executed by them are cash deposits, cash withdrawals that are exchanged into local currency for [redacted]

In addition, there is one commercial relationship with 44 Cuban nationals with the following balances:

Accounts denominated in USD: USD 211K
Accounts denominated in local Currency (Lempiras): USD 23K

**HBCR – Costa Rica**

There is one commercial relationship with 32 Cuban customers who have different savings and debit accounts denominated in USD with balances of USD11.6K and credit cards with balances in the amount of USD 5.5K.

HSBC

**HBSV – El Salvador**

There is one relationship with a Cuban national (A savings account denominated in local currency -Colón salvadoreño- with a balance of 1 SD23.12.)

**HBNI – Nicaragua**

Nicaragua does not execute · has not executed transactions with Cuban, North Korean or Myanmar nationals · entities.

**Bahamas**

Bahamas reports that it does not have any relationships with Cuban nationals.

**II. Any new developments or future anticipated business activities related to, or contacts with, the countries listed.**

For the entire region, all necessary arrangements have been made to cancel all business relationships with the above jurisdictions, either in relation to accounts denominated in USD or commercial relationships with such jurisdictions. There are not new business relationships to be opened with the above jurisdictions.

**III. A description of direct or indirect contacts with the governments of the named countries and with individuals or entities affiliated with or controlled by those governments, and the uses made by those parties of funds received in the related transactions.**

For the entire region, formal relationships maintained with such jurisdictions are with the embassies, as shown in section I hereof.

**IV. Quantification for each of 2003, 2004, 2005 and 2006 of:**

**(a) revenues from the country;**
**(b) profitability of the country (please advise any significant estimates used in allocating costs); and**
**(c) total assets in the country.**

No available information.

**V. Details as to whether the activities identified are subject to customer confidentiality.**

For the entire region, confidentiality restrictions are applicable and information may not be provided unless it is requested by the regulator.

**From:** David W J BAGLEY
**Sent:** Mon Oct 17 17:13:57 2005
**To:** John F ROOT
**Subject:** Re: GCL 050047 - Compliance with Sanctions
**Importance:** Normal
**Attachments:** image_0.gif; Doc Link.htm

John ,

As per my earlier note.

Regards
----- Forwarded by David W J BAGLEY/HGHQ/HSBC on 17 Oct 2005 16:54 -----

**Memo**
17 Oct 2005 16:40

**From: Matthew J W KING/GGM INA GHQ/HGHQ/HSBC** **Tel:** 7992 1176; 44 2079 921176

Graham THOMSON et al

**To:** Graham THOMSON/HBMX/HSBC@HSBC
**cc:** David Leighton/HBMX/HSBC@HSBC
Ramon GARCIA/HBMX/HSBC@HSBC
Sandy Flockhart/HBMX/HSBC@HSBC
Sergio PINA/HBMX/HSBC@HSBC
David W J BAGLEY/HGHQ/HSBC@HSBC
**bcc:**

**Subject:** Re: GCL 050047 - Compliance with Sanctions

Graham,

Thank you for the update.

Sandy collared me on this last week. I told him then, and I have since confirmed, that the new policy applies specifically only to USD payments. However, I have now been advised there is also an issue for non-USD payments where these are transmitted through the HBUS TP gateway, as is the case in South America. Fernando Busnello is dealing with this on behalf of HBBR/HBAR and you may like to talk to him directly if HBMX' payments are similarly routed.

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

Permanent Subcommittee on Ibvestigations
EXHIBIT #71c

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.

With regard to non-USD payments as described above, GHQ CMP are urging HBUS to screen out these transactions to avoid any risk, and HBMX would have to put measures in place to per-empt customer dismay.

I am happy to discuss further.

Regards

Matthew

---

Graham THOMSON/HBMX/HSBC

**Graham THOMSON/HBMX/HSBC HBMX**
14/10/2005 17:55 Mail Size: 24601

To Matthew J W KING/GGM INA GHQ/HGHQ/HSBC@HSBC cc Sandy Flockhart/HBMX/HSBC@HSBC, Ramon GARCIA/HBMX/HSBC@HSBC, David Leighton/HBMX/HSBC@HSBC, Sergio PINA/HBMX/HSBC@HSBC Subject Re: GCL 050047 - Compliance with Sanctions Entity HSBC Holdings plc - HGHQ

Matthew

I have received the following commentary from HBMX CMP, which I relay in response to your query

**OFAC List Verification Implementation**

**Background:**

The implementation of the "OFAC" list as directed by GCL050047 has not been completely accomplished. This is due to the fact that the "WOLF" system for the online detection of "OFAC" related matches will not be implemented until April 06; and because neither USD demand deposit accounts nor the Credit Card systems yet provide online validation against the "OFAC" list for new account openings. Please note that once these systems are updated, all other products and services will also be controlled as they all require a cheque account to be operated.

Pending these systems changes, manual controls have been implemented in Private Banking, Treasury, Trade Services, and Trust; however, please note that no automated means exists to ensure that these controls are properly being carried out.

Our greatest exposure, and hence principal focus, is to the volume of business historically carried out by HBMX customers with Cuba in US dollars.

Regards

Graham Thomson
Head of Group Audit Mexico
Tel (52) 55 5721 6236

Matthew J W KING/GGM INA GHQ/HGHQ/HSBC

**Matthew J W KING/GGM INA GHQ/HGHQ/HSBC** Sent by: Liz A TESTER
04/10/2005 06:23

To Jon W ADDIS/HD GAA APH/HBAP/HSBC@HSBC, Mike R ALLSOP/HD GFA GHQ/HGHQ/HSBC@HSBC, Peter J BOLAND/HD GAM/HBME/HSBC@HSBC, Alain CADIOU/HDQ/HBFR/HSBC@HSBC, Grace Y M LAM/HD ITA GHO/HBAP/HSBC@HSBC, Vincent J Mancuso/HBUS/HSBC@HSBC, Ian MCMILLAN/HBEU/HSBC@HSBC, John RAMSDEN-KNOWLES/HBBR/HSBC@HSBC, Graham THOMSON/HBMX/HSBC@HSBC cc Subject Re: GCL 050047 - Compliance with Sanctions

Please see the attached. Can you please speak to your local CMP functions to ascertain the areas of highest risk. Please ensure that appropriate reference is included within your audit programmes and give due consideration to the associated risks when planning your audit work for 2006.

A copy of the HTV guidelines referred to follows by separate email.

Regards,

Matthew King

David W J BAGLEY/HGHQ/HSBC

**David W J BAGLEY/HGHQ/HSBC HGHQ** Sent by: Marion O ROACH 03/10/2005 15:43 Phone No . ;7991 8645;44 2079 918645 Mail Size: 13949

To Matthew J W KING/GGM INA GHQ/HGHQ/HSBC@HSBC cc Subject GCL 050047 - Compliance with Sanctions Entity HSBC Holdings plc - HGHQ

Matthew

I refer to the above GCL, where the practical impact largely centres upon the OFAC sanctions, both at country and individual (SDN) level.

Group CEO is particularly concerned to ensure as far as is possible that the GCL is properly and fully implemented across the Group, recognising the significant US regulatory and reputational risks which might arise were even non-US Group members seen to infringe or aid and abet infringement of the OFAC sanctions. The recent case involving [redacted] perhaps provides a stark example of the potential consequences which arise in circumstances where the US authorities suspect involvement in "breach".

I attach a copy of my note to Stephen dated 19 September which sought to both update him with regard to certain significant steps required as part of implementation but also indicated that we would need to seek further assurance with regard to compliance with the GCL either by specific and targeted reviews (which will need to take place in the first quarter of 2006) and will be the subject of the Compliance planning process, but also presumably through relevant scrutiny as part of audits.

Areas particularly affected by the GCL would include Trade Finance (where HTB have issued specific guidance), Payments areas, Correspondent Banking and possibly participation in local USD settlement systems. I am happy to discuss relevant aspects of the GCL, and the practical issues which we have already seen arising out of implementation, with any of your team if you think this would help, and whilst I recognise that as a matter of routine your audit programmes consider GCLs, it is clear that Group CEO sees compliance with this GCL as being of particular significance.

Regards

David Bagley
(sent not seen by DWJB)

[redacted]

**Memo**
19 Sep 2005 15:29

**From: David W J BAGLEY/HGHQ/HSBC** **Tel:** 7991 8645
44 2079 918645

**Sent by:** Marion O ROACH

Stephen K GREEN et al

**To:** Stephen K GREEN/HSBH/HSBCMERIDIAN@HSBC
**cc:** Richard E T BENNETT/HSBH/HSBC@HSBC
**bcc:**

Subject: GCL050047 "COMPLIANCE WITH SANCTIONS"

Stephen

Given the significance of the above GCL, and conscious of the fact that I will miss the next pre-GMB meeting whilst in Hong Kong, I thought I should update you with progress made in relation to implementation of the GCL since its issue. The key points are:-

The required specialist 'U-turn' team has been established in HBME DUB who have opened a correspondent account with J P Morgan Chase through which the pre-screened complaint U-turn Iranian Payments can be made.

A number of Group Offices have opened USD accounts with HBME (through which they will route all Iranian payments) I am not convinced that all Group Offices with Iranian payments are yet routing those payments through HBME, which the GCL required they should do by 1SEP05. I have already issued a reminder to Regional Compliance Officers and asked that they review with their Business Heads if they do have relevant business which requires routing through HBME. It is of course entirely possible that some offices may have no need of these accounts if they have no relevant activity. I have asked for confirmations of the local position by close on 23 September.

GHQ CMP have provided, and continue to provide, significant levels of ad hoc advice in relation to OFAC sanctions, including in respect of activities within CIBM. The latter consisted of FX and Bond dealing with Iranian banks. Where necessary we have validated our advice with external lawyers.

HTV, in close consultation with GHQ CMP have issued detailed guidance with regard to operational procedures for trade transactions involving Iran. Most of the payment flows linked to trade transactions we have considered to date are U-turn compliant. HTV's procedures are intended to ensure that no further trade commitments are entered into where the ultimate payments would be other than compliant. For operational reasons HTV have adopted an approach which is stricter than the requirements of the GCL.

I suspect that ASP is most heavily affected by the GCL, particularly in relation to trade by their customers with Myanmar. Whilst I am sure that there will have been some adverse reaction on activity involving Iran, most of the trade transactions have been able to continue as the payments are U-turn compliant. I have not received any feedback on the reaction within Iran.

I have indicated to the Compliance function globally that they will be required to carry out a comprehensive programme of reviews, against a standard template to be provided by GHQ CMP, to consider whether the GCL has been implemented. I will also discuss with Matthew King how we can use routine audits to provide additional comfort.

A recent meeting of the Wolfsberg Group confirmed both the substance and timeliness of the approach we have adopted. It appears that at least 3 European banks have OFAC related issues, although ABN are by far the worst affected. David Hodgkinson advised me that he has heard that the fine to be imposed on ABN may be as large as USD350m, although this is unconfirmed. Additionally Warren Leaming, RCO Dubai, has been called to a meeting with major banks at the US Consulate where they will be addressed by a representative from OFAC. I suspect this follows on from the known visit to ABN's Dubai Office by representatives from the Federal Reserve.

I will continue to monitor implementation of the GCL and at the Global Conference arranged in October

will re-emphasise to the function the significance and the reasons for our policy, and the need to monitor Compliance. I wonder if it would also be appropriate for you to talk briefly about the significance of this GCL at the AOP offsite.

No questions or issues were raised in connection with cover payments during the peer review carried out jointly by FRB and OCC of our correspondent banking activities with HBUS.

I will be discussing how best to address the USD clearing system in Hong Kong, where HBAP act as the administrating bank, during my visit next week. Any changes to this system which we think are advisable in the context of the OFAC sanction will need to be discussed with HKMA. Given that there are obvious potential sensitivities in being seen to apply US regulation extra-territorially I recognise the need to proceed with caution, whilst protecting us against US regulatory risk.

We have closed a number of USD correspondent relationships with Cuban and Myanmar banks.

We have, as anticipated within the GCL, allowed a number of pre-existing commitments to be honoured, but emphasised that no fresh arrangements should be entered into which would breach the terms of the GCL.

David Bagley

EXCERPT

HSBC

Deloitte LLP

Permanent Subcommittee on Investigations
EXHIBIT #71d

# Transaction Review Progress and Results Reporting

18th & 19th October 2011

Private & Confidential
Confidential Treatment Requested

## Correspondent and other accounts - Summary of accounts subject to review by location and regime

The table below summarises the number of all USD and non-USD accounts (containing USD transactions) with sanctioned banks or banks in sanctioned countries identified, split by the location of the account and the related sanctions regime.

| Sanctions Regime* | UK | | Hong Kong* | Total | |
|---|---|---|---|---|---|
| | USD | Non-USD | USD | USD | Non-USD |
| Burma | 0 | 0 | 2 | 2 | 0 |
| Cuba | 7 | 6 | 0 | 7 | 6 |
| Iran | 11 | 11 | 1 | 12 | 11 |
| Iraq | 5 | 0 | 0 | 5 | 0 |
| Libya | 1 | 0 | 0 | 1 | 0 |
| North Korea | 2 | 0 | 0 | 2 | 0 |
| Sudan | 22 | 13 | 1 | 23 | 13 |
| Syria | 1 | 1 | 0 | 1 | 1 |
| Taliban | 2 | 0 | 0 | 2 | 0 |
| Total | 51 | 31 | 4 | 55 | 31 |

* The Hong Kong reviews have not commenced and the overall number of accounts may change.

See Appendix 1 for listing of correspondent and other accounts for the UK (USD and Non-USD accounts) and for Hong Kong (USD accounts only)





Confidential Treatment Requested

HSBC-PSI-PROD-0096649

From: TERESA PESCE/HBUS/HSBC
Sent: 1/28/2005 11:01:12 AM
To: MICHAEL B GALLAGHER/HBUS/HSBC@HSBC;CHRISTOPHER LOK/HBUS/HSBC@HSBC;PETER G MERRITT/HBUS/HSBC@HSBC
CC: TONY MURPHY/HBUS/HSBC@HSBC;JOSEPH M PETRI/HBUS/HSBC@HSBC;CAROLYN M WIND/HBUS/HSBC@HSBC;
CAMILLUS P HUGHES/HBUS/HSBC@HSBC;ALAN T KETLEY/HBUS/HSBC@HSBC;WILLIAM M WONG/HBUS/HSBC@HSBC;
SUSAN A WRIGHT/HGHQ/HSBC@HSBC
Subject: Al Rahji Trading/Al Rahji Banking

All -

As some of you may know, the above named clients have been under evaluation by US and Group Compliance based, among other things, on relationships maintained with entities/countries on the OFAC list. Additionally, US law enforcement has placed these entities under scrutiny. After much consideration, Group Compliance has recommended that the US businesses sever ties with these clients based on the current regulatory environment and the interest of US law 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

Permanent Subcommittee on Investigations
EXHIBIT #72

From: ALAN T KETLEY/HBUS/HSBC
Sent: 3/16/2005 4:45:02 PM
To: PAUL PLESSER/HBUS/HSBC@HSBC
CC:
Subject: Fw: Al Rahji Guidance Clarified

Paul

Looks like you're fine to continue dealing with Al Rajhi.

You'd better be making lots of money!

Alan
---------- Forwarded by Alan T Ketley/HBUS/HSBC on 03/16/2005 04:43 PM ----------
Teresa Pesce on 10 Mar 2005 12:26
Note
10 Mar 2005 12:26

From: Teresa Pesce Tel: 212-525-6099
Title: Executive Vice President Location: 452 5th Ave, Floor 07
WorkGroup: COMP/ANTI-MONEY LAUNDERING Mail Size: 1931

To: Chris P DAVIES/HBUS/HSBC@HSBC
Christopher Lok/HBUS/HSBC@HSBC
Michael B Gallagher/HBUS/HSBC@HSBC
Alan T Ketley/HBUS/HSBC@HSBC

Subject: Al Rahji Guidance Clarified

Group has clarified the Al Rahji guidance issued last month. They have evaluated Al Rahji Banking and Al Rahji Trading and now believe that the two are separated enough that relationships may be maintained with the latter but not with the former. To be clear, recommendation is to sever with Banking only at this time.

Permanent Subcommittee on Investigations
EXHIBIT #73

From: CHRISTOPHER LOK/HBUS/HSBC
Sent: 5/23/2005 10:28:51 AM
To: TERESA PESCE/HBUS/HSBC@HSBC
CC: STEPHEN J ALLEN/HBMD/HSBCMERIDIAN@HSBCMERIDIAN
Subject: Fw: Al Rajhi

Terri

After the OCC close out and that chapter hopefully finshed, could we re-visit Al Rajhi again. London compliance has taken a more lenient view, as per below.

Chris
---------- Forwarded by Christopher Lok/HBUS/HSBC on 05/23/2005 11:29 AM ----------
Stephen J ALLEN on 23 May 2005 10:46
Memo
23 May 2005 10:46

From: Stephen J ALLEN Tel: 7992 4555
44 2079 92 4555
Title: Location:
WorkGroup: Mail Size: 759510

To: Christopher Lok/HBUS/HSBC@HSBCAMERICAS

Subject: Al Rajhi

Chris,

Here's the rest;

Steve

----- Forwarded by Stephen J ALLEN/HBMD/HSBCMERIDIAN on 23 May 2005 15:45 -----
Stephen J ALLEN/HBMD/HSBCMERIDIAN on 23 May 2005 15:20

Memo
23 May 2005 15:20

From: Stephen J ALLEN/HBMD/HSBCMERIDIAN Tel: 7992 4555
44 2079 92 4555
Mail Size: 5101

To: Christopher Lok/HBUS/HSBC@HSBCAMERICAS
cc:
bcc:

Subject:

Chris,

We'll have to see if this will make any difference! I haven't seen the new kyc yet but, we are getting a copy.

Steve



Permanent Subcommittee on Investigations
EXHIBIT #74

David W J BAGLEY
HGHQ
23 May 2005 16:03
;7991 8645;44 2079 918645
Sent by: Marion O ROACH

To: David H HODGKINSON/DCH MEM/HBME/HSBC@HSBC
cc: Iqbal KHAN/CEO ISF HFSM/HBME/HSBC@HSBC
Warren G LEAMING/RLA LGA MEM/HBME/HSBC@HSBC
Susan A WRIGHT/HGHQ/HSBC@HSBC
Subject: AL RAJHI BANK
Our Ref:
Your Ref:
Entity: HSBC Holdings plc - HGHQ

David

Having now received the updated KYC from Shariq Siddiqui and reviewed the previous information received from Group Securities I am pleased to confirm that we have revised our recommendation in relation to the above.

Accordingly we have lifted our recommendation against the commence or expansion of relationships with the above with immediate effect. We will communicate this decision to HBEU where I believe there are a number of pending applications.

Whilst we will advise HBUS CMP of the revised view within GHQ CMP nevertheless I believe it will remain appropriate for HBUS CMP in conjunction with HBUS senior management to reach their own determination with regard to the expansion of business with Al Rajhi within the US. Although the revised view from GHQ CMP ought to be a material matter causing them to reconsider their position nonetheless, and particularly in the current US environment, I do not believe it is appropriate for us to seek to influence their determination one way or the other. This was something that I discussed as a possible outcome with Iqbal when we discussed Al Rajhi.

Regards

David Bagley

Attachment: Al Rajhi HBME kyc 05.05.PDF
Attachment: Al Rajhi Article 05.05.pdf

SOME EMAILS FROM ICRO ELECTRONIC FILES PERTAINING TO AL RAJHI

Note
10 Aug 2005 12:12
From: Teresa Pesce Tel: 212-525-6099
Title: Executive Vice President Location: 452 5th Ave, Floor 07
WorkGroup: COMP/ANTI-MONEY LAUNDERING Mail Size: 777381

To: Sally G LOMAS/HBMD/HSBCMERIDIAN@HSBC

cc: Lynda J Cassell/HBUS/HSBC@HSBC; Anne Liddy/HBUS/HSBC@HSBC; Alan T Ketley/HBUS/HSBC@HSBC; Gloria Strazza/HBUS/HSBC@HSBC; Stephen J ALLEN/HBMD/HSBCMERIDIAN@HSBC; Susan SALAS/IBEU/HSBC@HSBC

Subject: Re: Fw: Al Rajhi

Sally -

This is not so simple. David does not object insofar as HBEU is concerned, but has left it to us to assess the US risk. We've gotten push back from the OCC on Al Rahji Trading, which is less controversial than the bank. We can revisit this, but I am not inclined to push ahead precipitously, espcially in light of the regulatory scrutiny.

Regards-
Terry

Sally G LOMAS on 10 Aug 2005 09:59
Memo 10 Aug 2005 09:59
From: Sally G LOMAS Tel: 799 11511
44 2079 911511
Title: Location:
WorkGroup: Mail Size: 773184

To: Lynda J Cassell/HBUS/HSBC@HSBC

cc: Teresa Pesce/HBUS/HSBC@HSBC
Anne Liddy/HBUS/HSBC@HSBC
Alan T Ketley/HBUS/HSBC@HSBC
Gloria Strazza/HBUS/HSBC@HSBC
Stephen J ALLEN/HBMD/HSBCMERIDIAN@HSBC
Susan SALAS/IBEU/HSBC@HSBC
Subject: Fw: Al Rajhi

Lynda,
please find attached an email sent by David Bagley, indicating that there is no longer a recommendation against expanding relationships with Al Rajhi Bank.



Permanent Subcommittee on Investigations
EXHIBIT #75

I have asked Fig to check, when they do their additional work, whether the same part of the Al Rajhi fanily is invloved in both Banks. We now need to wait until we have the more detailed EIDD information which you have requested,

Regards
Sally
- Forwarded by Sally G LOMAS/HBMD/HSBCMERIDIAN on 10 Aug 2005 14:52 -
Stephen J ALLEN/HBMD/HSBCMERIDIAN on 10 Aug 2005 10:17
From: Stephen J ALLEN/HBMD/HSBCMERIDIAN Tel: 7992 4555
44 2079 92 4555
Mail Size: 767532

To: Sally G LOMAS/HBMD/HSBCMERIDIAN@HSBC
cc:
bcc:

Subject: Fw: Al Rajhi

- Forwarded by Stephen J ALLEN/HBMD/HSBCMERIDIAN on 10 Aug 2005 10:17 -
Christopher Lok/HBUS/HSBC on 23 May 2005 16:28
From: Christopher Lok/HBUS/HSBC Tel: 212-525-2062
Mail Size: 761889

To: Teresa Pesce/HBUS/HSBC@HSBC
cc: Stephen J ALLEN/HBMD/HSBCMERIDIAN@HSBCMERIDIAN
bcc:

Subject: Fw: Al Rajhi

Terri

After the OCC close out and that chapter hopefully finshed, could we re-visit Al Rajhi again. London compliance has taken a more lenient view, as per below.

Chris
---
David W J BAGLEY
HGHQ
23 May 2005 16:03
7991 8645;44 2079 918645
Sent by: Marion O ROACH

To: David H HODGKINSON/DCH MEM/HBME/HSBC@HSBC
cc: Iqbal KHAN/CEO ISF HFSM/HBME/HSBC@HSBC
Warren G LEAMING/RLA LGA MEM/HBME/HSBC@HSBC

Susan A WRIGHT/HGHQ/HSBC@HSBC
Subject: AL RAJHI BANK
Our Ref:
Your Ref:
Entity: HSBC Holdings plc - HGHQ

David

Having now received the updated KYC from Shariq Siddiqui and reviewed the previous information received from Group Securities I am pleased to confirm that we have revised our recommendation in relation to the above.

Accordingly we have lifted our recommendation against the commence or expansion of relationships with the above with immediate effect. We will communicate this decision to HBEU where I believe there are a number of pending applications.

Whilst we will advise HBUS CMP of the revised view within GHQ CMP nevertheless I believe it will remain appropriate for HBUS CMP in conjunction with HBUS senior management to reach their own determination with regard to the expansion of business with Al Rajhi within the US. Although the revised view from GHQ CMP ought to be a material matter causing them to reconsider their position nonetheless, and particularly in the current US environment, I do not believe it is appropriate for us to seek to influence their determination one way or the other. This was something that I discussed as a possible outcome with Iqbal when we discussed Al Rajhi.

Regards

David Bagley

Confidential - FOIA Treatment Reque
Confidential - FOIA Treatment Reque

Permanent Subcommittee on Investigations
EXHIBIT #76

| | A | B | C | D | E | F |
|---|---|---|---|---|---|---|
| 1 | **HBUS GLOBAL BANKNOTES - Purchases & Sales of USD** | | | | | |
| 2 | | | | | | |
| 3 | **Summary by Country: 2008 vs 2009** | | | All figures are in USD thousands. | | |
| 4 | (excluding HSBC Group affiliates, FRB & US Depts) | | | | | |
| 5 | COUNTRY | Risk | Trades by HSBC | 6-Month Total: ending Mar-08 | 6-Month Total: ending Mar-09 | CHANGE: 2008-2009 |
| 6 | AZERBAIJAN | High | Purchases | $5,250 | $5,000 | -5% |
| 7 | BANGLADESH | High | Purchases | $8,240 | $30 | -100% |
| 8 | BELARUS | High | Purchases | $113,854 | $79,053 | -31% |
| 9 | CAMBODIA | High | Purchases | $278,072 | $554,047 | 99% |
| 10 | COLOMBIA | High | Purchases | $10,577 | $24,635 | 133% |
| 11 | CONGO DEM REP OF | High | Purchases | $12,000 | $57,005 | 375% |
| 12 | ETHIOPIA | High | Purchases | $64,921 | $74,333 | 14% |
| 13 | GEORGIA | High | Purchases | $26,090 | $9,518 | -64% |
| 14 | HAITI | High | Purchases | $72,022 | $52,029 | -28% |
| 15 | INDONESIA | High | Purchases | $311,658 | $347,569 | 12% |
| 16 | KAZAKHSTAN | High | Purchases | $37,857 | $13,073 | -65% |
| 17 | KENYA | High | Purchases | $67,986 | $142,645 | 110% |
| 18 | KYRGYZSTAN | High | Purchases | $19,600 | $88,600 | 352% |
| 19 | LAOS | High | Purchases | $0 | $5,000 | #DIV/0! |
| 20 | LATVIA | High | Purchases | $77,395 | $32,322 | -58% |
| 21 | MACAU | High | Purchases | $74,201 | $50,297 | -32% |
| 22 | MEXICO | High | Purchases | $1,635,530 | $1,937,385 | 18% |
| 23 | MONGOLIA | High | Purchases | $4,364 | $24,598 | 464% |
| 24 | NEPAL | High | Purchases | $8,435 | $20,128 | 139% |
| 25 | NICARAGUA | High | Purchases | $147,260 | $150,255 | 2% |
| 26 | PAKISTAN | High | Purchases | $46,785 | $15,452 | -67% |
| 27 | PHILIPPINES | High | Purchases | $1,282,521 | $1,424,895 | 11% |



s, Inc. HSB05750412
HSBC OCC 5364770

| | A | D |
|---|---|---|
| 1 | HBUS GLOBAL BANKNOTES - Purchases & Sales of USD | |
| 2 | | |
| 3 | Details by Customer within Country: 2008 vs 2009 | |
| 4 | (excluding HSBC Group affiliates, FRB & US Depts) | |
| 5 | COUNTRY | SCC / CNB / New CLIENT |
| 6 | ANGOLA | SCC |
| 7 | ANGOLA | |
| 8 | ANGOLA | SCC |
| 9 | ANGOLA | |
| 10 | ANGOLA | SCC |
| 11 | ANGOLA | |
| 12 | ANGOLA | New client: Jun-08 |
| 13 | ANGOLA | |
| 14 | ANGOLA | New client: Nov-08 |
| 15 | AZERBAIJAN | New client: Nov-08 |
| 16 | AZERBAIJAN | New client: Jan-08 |
| 17 | AZERBAIJAN | |
| 18 | AZERBAIJAN | |
| 19 | AZERBAIJAN | CNB |
| 20 | AZERBAIJAN | New client: Nov-08 |
| 21 | AZERBAIJAN | |
| 22 | BANGLADESH | |
| 23 | BANGLADESH | |
| 24 | BANGLADESH | |
| 25 | BELARUS | SCC |
| 26 | BELARUS | SCC/CNB |
| 27 | BELARUS | |
| 28 | BELARUS | SCC/CNB |
| 29 | BELARUS | |

Redacted by the
Permanent Subcommittee on Investigations



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB05750426

Redacted by the
Permanent Subcommittee on Investigations

| | | | | |
|---|---|---|---|---|
| 111 | MEXICO | High | BANCO MERCANTIL DEL NORTE | |
| 112 | MEXICO | High | BANCO MERCANTIL DEL NORTE | |
| 113 | MEXICO | High | BANCO NACIONAL DE MEXICO | |
| 114 | MEXICO | High | BANCO NACIONAL DE MEXICO | |
| 115 | MEXICO | High | BBVA BANCOMER SA | |
| 116 | MEXICO | High | BBVA BANCOMER SA | |
| 117 | MEXICO | High | CONSULTORIA INTERNACIONL BANCO | SCC |
| 118 | MEXICO | High | CONSULTORIA INTERNACIONL BANCO | SCC |
| 119 | MEXICO | High | INTERCAM CASA DE BOLSA | SCC |
| 120 | MEXICO | High | INTERCAM CASA DE BOLSA | SCC |
| 121 | MEXICO | High | IXE BANCO SA | |
| 122 | MEXICO | High | IXE BANCO SA | |

Redacted by the
Permanent Subcommittee on Investigations



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB05750435
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 5364793

Redacted by the
Permanent Subcommittee on Investigations

| | | | | | | |
|---|---|---|---|---|---|---|
| 111 | Purchases | $85,671 | $161,945 | 89% | NEW YORK | Increase & high $ volume |
| 112 | Sales | $14,600 | $50 | -100% | NEW YORK | |
| 113 | Purchases | $850,841 | $1,377,917 | 62% | NEW YORK | Increase & high $ volume |
| 114 | Sales | $8,997 | $64 | -99% | NEW YORK | |
| 115 | Purchases | $413,393 | $0 | -100% | NEW YORK | |
| 116 | Sales | $11,213 | $0 | -100% | NEW YORK | |
| 117 | Purchases | $247,743 | $302,933 | 22% | NEW YORK | |
| 118 | Sales | $8,800 | $4,500 | -49% | NEW YORK | |
| 119 | Purchases | $17,040 | $50,876 | 199% | NEW YORK | Increase |
| 120 | Sales | $24,000 | $6,601 | -73% | NEW YORK | |
| 121 | Purchases | $20,842 | $43,714 | 110% | NEW YORK | Increase |
| 122 | Sales | $4,000 | $0 | -100% | NEW YORK | |

Redacted by the
Permanent Subcommittee on Investigations



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB05750436
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 5364794

11/17/2006 08:53 AM

To
Beth Fisher/HBUS/HSBC@HSBCAMERICAS, Alan T Ketley/HBUS/HSBC@HSBC
cc

Subject
Al Rajhi Banking

Beth/Alan,

Salman Hussain, the PCM Regional Sales Manager at HBME in Bahrain, who has recently visited the subject, has called to say that Al Rajhi has now run out of patience waiting for us to re-start our banknote trading relationship and unless we can complete the kyc formalities and advise them accordingly by the end of November, they will terminate all product relationships with the HSBC Group - which I believe to be substantial.

Their main point of contention is that they feel that they were exonerated by all US legal processes from TF suspicion some time ago and yet we have still not been able to re-start trading with them. Gordon finished our latest attempt at the profile on Tuesday and you will find the kyc profile to be currently in the '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

Permanent Subcommittee on Investigations
EXHIBIT #77

From: CHRISTOPHER LOK/HBUS/HSBC
Sent: 11/17/2006 10:05:55 AM
To: STEPHEN J ALLEN/HBMD/HSBCMERIDIAN@HSBCMERIDIAN
CC: DAVID M WILENS/HBUS/HSBC@HSBC
Subject: Re: Fw: Al Rajhi Banking

Steve

At the end of the day, its Compliance who's the key. I'll speak to Ketley & ask him to re-evaluate this name.

Chris

Stephen J ALLEN/HBMD/HSBCMERIDIAN
Tel: 799 24555; +44 (0) 20 7992 4555
11/17/2006 09:34 AM

To
Christopher Lok/HBUS/HSBC@HSBC
cc
David M Wilens/HBUS/HSBC@HSBC
Subject
Fw: Al Rajhi Banking

Chris,

Who do you suggest can/will sign this profile?

You will see that it is pressing - perhaps David could IS and you could IB approve if Susan and I sign it again?.

Steve

----- Forwarded by Stephen J ALLEN/HBMD/HSBCMERIDIAN on 17/11/2006 14:30 -----

Beth Fisher/HBUS/HSBC
HBUS
17/11/2006 14:23
Mail Size: 7422

To
Stephen J ALLEN/HBMD/HSBCMERIDIAN@HSBC
cc
Alan T Ketley/HBUS/HSBC@HSBC, Christopher J Heusler/HBUS/HSBC@HSBC
Subject
Re: Al Rajhi Banking
Entity
HSBC Bank USA. London Branch (Treasury and Capital Markets - TCM)

Steve,



Permanent Subcommittee on Investigations
EXHIBIT #78

I am not trying to be difficult, but I do not personally feel comfortable IB approving this name. I do not know this bank. Additionally, several years ago, when HBUS had relationships with 2 different Al Rajhi names, management would ask me questions about the customer every time the name appeared in the US newspapers. I do not know this bank personally and am therefore not qualified to render an opinion; I cannot answer questions if/when the Alrajhi name appears in US news media.

Therefore, please ask another officer to IB approve. I am IB-Denied the KYC, so that my name can be removed as RM.

Thank you.

Beth

Stephen J ALLEN/HBMD/HSBCMERIDIAN
Tel: 799 24555; +44 (0) 20 7992 4555
11/17/2006 08:53 AM

To
Beth Fisher/HBUS/HSBC@HSBCAMERICAS, Alan T Ketley/HBUS/HSBC@HSBC
cc

Subject
Al Rajhi Banking

Beth/Alan,

Salman Hussain, the PCM Regional Sales Manager at HBME in Bahrain, who has recently visited the subject, has called to say that Al Rajhi has now run out of patience waiting for us to re-start our banknote trading relationship and unless we can complete the kyc formalities and advise them accordingly by the end of November, they will terminate all product relationships with the HSBC Group - which I believe to be substantial.

Their main point of contention is that they feel that they were exonerated by all US legal processes from TF suspicion some time ago and yet we have still not been able to re-start trading with them. Gordon finished our latest attempt at the profile on Tuesday and you will find the kyc profile to be currently in the '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: CHRISTOPHER LOK/HBUS/HSBC
Sent: 11/17/2006 10:31:07 AM
To: STEPHEN J ALLEN/HBMD/HSBCMERIDIAN@HSBCMERIDIAN
CC:
Subject: Re: Alrajhi

I would tell Salman that he should relay the 'concern' Alrajhi has expressed to the higher ups. To cancel the Amanah business is much bigger than not dealing with banknotes. Hopefully somebody in London will listen and given NYK Compliance a gentle push.

Chris

Stephen J ALLEN/HBMD/HSBCMERIDIAN
Tel: 799 24555; +44 (0) 20 7992 4555
11/17/2006 10:20 AM

To
Christopher Lok/HBUS/HSBC@HSBC
cc

Subject
Re: Alrajhi

Chris,

This is the note that I received subsequent to Salman calling (I sent it on to Alan)

As ever, we are taking an inordinate amount of time to make our minds up.

I discussed this client with Terry, Linda and Alan when I visited in February, we eventually received and have now answered a raft of supplementary questions from Linda and now that she has left, no doubt there will be more questions from Alan!

Steve

Salman HUSSAIN/HBME/HSBC
HBME
17/11/2006 13:56
Phone No. 0097317569599
Mail Size: 16093

---

To
David B ILLING/HBMD/HSBCMERIDIAN, Gordon BROWN/IBEU/HSBC, Stephen J ALLEN/HBMD/HSBCMERIDIAN@HSBC
cc
Ciara O'CONNELL/IBEU/HSBC, Shariq Z SIDDIQI/HBME/HSBC, John L SCOTT/HBEU/HSBC,
Hammad Zaidi/HBUS/HSBC, Stephen D Loffredo/HBUS/HSBC@HSBC
Subject
FW: Al Rajhi Bank KYC & AML Policy
Entity
HSBC Bank Middle East Limited



Permanent Subcommittee on Investigations
EXHIBIT #79

Dear David, Gordon and Stephen,

Further to my phone call with David last week after meeting Al Rajhi Bank in Riyadh. I was given a deadline by Mr. Cassim Docrat, Head of FI until end of Nov. to respond to them weather we will be able to resume the banknote business or not. Mr. Docrat indicated that HSBC Amanah business will be at risk and they will cancel any dealings with HSBC.

Mr. Docrat understand Compliance Dept. requirements and suggested we request further information from Moody (Attn. Mr. Anwar Hasson) or S&P. He also indicated that JP MOrgan Chase, their main US$ clearer had done the same and accordingly an O/D limit of $290mm established by JPMC for Al Rajhi.

I can't stress on the fact that we do want to do business with this institution from PCM side. We do stand a good chance to win a US$ clearing account thru offering Islamic Overnight Investment Product and the US$ check clearing thru Check 21.

Kindly let me know if you do require any further assistance to obtain compliance approval.

Best regards,

Salman Hussain
Regional Sales Manager
Global Transaction Banking

Christopher Lok/HBUS/HSBC
HBUS
17/11/2006 15:11
Mail Size: 2435

To
Stephen J ALLEN/HBMD/HSBCMERIDIAN@HSBCMERIDIAN
cc

Subject
Alrajhi
Entity
HSBC Bank USA. London Branch (Treasury and Capital Markets - TCM)

---

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

Occ-Psi-00150892

From: ALAN T KETLEY/HBUS/HSBC
Sent: 12/1/2006 10:13:20 AM
To: STEPHEN J ALLEN/HBMD/HSBCMERIDIAN@HSBC;SALMAN HUSSAIN/HBME/HSBC@HSBC
CC: TERESA PESCE/HBUS/HSBC@HSBC;CHRISTOPHER LOK/HBUS/HSBC@HSBC
Subject: Al Rajhi Bank

Steve, Salman

The purpose of this note is to confirm to you the willingness of HBUS to recommence a relationship with Al Rajhi Bank.

I have reviewed Al Rajhi Bank's AML information as well as all the investigative research that has been performed by ICRO, I have also conducted some of my own research and am satisfied that we can do business with this entity as long as our due diligence is thoroughly documented and close transaction monitoring takes place by Compliance along with a high degree of transaction awareness being maintained by the business. Over a period of years there has been much negative publicity associated with the principals of this entity - while none of these allegations has been proven or substantiated, the notion of 'no smoke without fire' is one we must bear in mind and any business unit dealing with this entity must acknowledge the associated risks. I have not yet reviewed their Lotus Notes KYC Profile in any great detail but will try to do so before close of business today - to paraphrase an expression from English Banking, if it is in my hands and in order I will approve it.

I am confident that our Banknotes transaction monitoring is sufficiently robust to keep a close eye on this client's activities and I would ask that your traders apply special vigilance when dealing with them.

I'm addressing Salman with this note because I know that he too is looking to further develop the Al Rajhi Bank relationship but here I have to place some conditions. While we have a robust method of monitoring wire payment activity, we do not have a corresponding automated method of monitoring check or cash letter transactions. Accordingly, while I would be happy to see wire activity flowing over a future Al Rajhi Bank account, I cannot support paper activity with the degree of close monitoring that would be appropriate.

Chris Lok has agreed to act as relationship owner for this name in place of Beth Fisher - he will thus review and approve the profile if he is satisfied with it. Should a PCM relationship develop, it must be with the explicit approval of HBUS' senior PCM management.

Alan T. Ketley
Senior Vice President, Anti Money Laundering
Tel: 212 525 6147 / Fax: 212 382 7580



Permanent Subcommittee on Investigations
EXHIBIT #80

From: DANIEL JACK/HBUS/HSBC
Sent: 7/26/2007 1:55:33 PM
To: STEPHEN J ALLEN/HBMD/HSBCMERIDIAN@HSBC;GORDON BROWN/IBEU/HSBC@HSBC
CC:
Subject: Al Rajhi Bank in Saudi Arabia

Steve / Gordon -

This article on Al Rajhi Bank & TF was in the Wall Street Journal today.

We realize that we re-activated the relatiionship with them last month.

We in AML-NY will draft a reply to Joe Boss & OCC soon.

Please review this below & let me know if you have any comments.

Thanks and regards,

Daniel Jack
VP - AML Compliance | 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 07/26/2007 02:48 PM -----

----- Forwarded by Alan T Ketley/HBUS/HSBC on 07/26/2007 08:30 AM -----

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

To
alan.t.ketley@us.hsbc.com
cc
"Boss, Joseph" <Joseph.Boss@occ.treas.gov>
Subject
Saudi's

Alan, for your information and review. Please let me know if there is anything. This appeared on the front page of today's Wall Street Journal.
Thanks, Joe
TERROR FINANCE
U.S. Tracks Saudi Bank Favored by Extremists

Permanent Subcommittee on Investigations
EXHIBIT #81

Officials Debated What To Do About Al Rajhi, Intelligence Files Show
By GLENN R. SIMPSON
July 26, 2007; Page A1

JIDDA, Saudi Arabia -- In the 1940s, two Bedouin farm boys from the desert began changing money for the trickle of traders and religious pilgrims in this then-remote and barren kingdom. It was a business built on faith and trust, Sulaiman Al Rajhi once told an interviewer, and for many years he would hand gold bars to strangers boarding flights in Jidda and ask them to give the gold to his brother on their arrival in Riyadh.

EXTREMISTS' ACCOUNTS

The News: U.S. intelligence reports say Islamic extremists often use Saudi Arabia's Al Rajhi Bank to move money. The bank has denounced terrorism and denies any role in financing extremists.

The Issue: A confrontation with Al Rajhi would be politically difficult for Saudi monarchy, and U.S. isn't satisfied with its efforts to curb the financial infrastructure essential to terrorism.

Result: U.S. has periodically debated taking action on its own against the bank, but chosen instead to lobby the Saudis quietly about its concerns.

Today, Mr. Al Rajhi is a reclusive octogenarian whose fortune is estimated at $12 billion. And Al Rajhi Bank grew into the kingdom's largest Islamic bank, with 500 branches in Saudi Arabia and more spread across the Muslim world.

Following the Sept. 11, 2001, attacks, the bank also set off an intense debate within the U.S. government over whether to take strong action against its alleged role in extremist finance. Confidential reports by the Central Intelligence Agency and other U.S. agencies, reviewed by The Wall Street Journal, detail for the first time how much the U.S. learned about the use of Al Rajhi Bank by alleged extremists, and how U.S. officials agonized over what to do about it.

After 9/11, the Saudi monarchy pledged its full support in the fight against global terrorism. And following violent attacks inside the kingdom in the next two years, the Saudis did launch major strikes against militants operating on their soil. But the Saudi government has been far been less willing to tackle the financial infrastructure essential to terrorism. U.S. intelligence reports state that Islamic banks, while mostly doing ordinary commerce, also are institutions that extremism relies upon in its global spread.

As a result, the Bush administration repeatedly debated proposals for taking strong action itself against Al Rajhi Bank, in particular, according to former U.S. officials and previously undisclosed government documents. Ultimately, the U.S. always chose instead to lobby Saudi officialdom quietly about its concerns.

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

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

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

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

Al Rajhi Bank and the Al Rajhi family deny any role in financing extremists. They have denounced terrorist acts as un-Islamic. The bank declined to address

specific allegations made in American intelligence and law-enforcement records, citing client confidentiality.

RELATED DOCUMENTS

Al-Rajhi bank became a target for U.S. terrorism sanctions less than two months after Sept. 11, 2001.

No action was taken, but in mid-2003, the Central Intelligence Agency concluded that the Al-Rajhi family and their bank were financing terrorists, probably knowingly. This is the summary page1 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 statement2.

The CIA's report and other U.S. intelligence on Al-Rajhi remained secret, and in 2005 a federal judge threw out a lawsuit against the bank by victims of Al Qaeda, saying there was no evidence Al-Rajhi provided anything but routine banking services to terrorists. Read the order.3

The Al-Rajhi family and the ruling Al-Saud family of Saudi Arabia have been at odds for decades, in part because of the accidental death of an infant Al-Rajhi family member in a botched police rescue attempt during a kidnapping. Saudi dissidents in London issued a communiqué recounting the incident4 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 cable5 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 solicitation6 is from the IIRO's March 2007 newsletter. The group strongly denounces terrorism on its Web site7.

U.S. intelligence has alleged connections between al Qaeda and the IIRO since 1996, and the Treasury Department now alleges8 the IIRO has been deeply penetrated by al Qaeda. The group denies supporting terrorism in this statement 9 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 letter10 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 slides11.

In 2002, the bank sued The Wall Street Journal Europe after an article said Saudi authorities were monitoring some Al Rajhi Bank accounts at U.S. request, in a bid to prevent them from being used, wittingly or unwittingly, for funneling money to terrorist groups. The bank dropped the suit in 2005 and the Journal published a statement saying its article hadn't reported any allegation that the bank supported or financed terrorism.

Also in 2005, a U.S. judge dismissed Al Rajhi Bank from a lawsuit filed by relatives of Sept. 11 victims. The ruling said banks couldn't be held liable for providing routine services to people who turned out to be terrorists. In a statement in response to questions about suspected terrorists among its clients, the bank noted that "Al Rajhi Bank has a very large branch network, and a very large retail customer base."

U.S. law-enforcement and intelligence agencies acknowledge it is possible that extremists use the bank's far-flung branches and money-transfer services without bank officials' knowledge. The U.S. has never obtained proof that the bank or its owners knowingly facilitate terrorism, according to documents and former officials, despite what they describe as extensive circumstantial evidence that some executives are aware the bank is used by extremists. The

2003 CIA report concluded: "Senior Al Rajhi family members have long supported Islamic extremists and probably know that terrorists use their bank."

Most major banks around the world are bound by a patchwork of treaties and agreements that, in effect, require them to know their customers and report any suspicious activities to regulators. The rules are designed to fight terrorism, money laundering and narcotics trafficking. It's generally acknowledged that Saudi banks are bound by these rules, although experts differ on when compliance became mandatory.

The top counterterrorism official at the U.S. Treasury Department, while declining to comment on Al Rajhi Bank specifically, says Saudi officials haven't met a promise to create a commission to oversee Saudi charities, many of which bank with Al Rajhi. "They are also not holding people responsible for sending money abroad for jihad," says the Treasury official, Stuart Levey. "It just doesn't happen."

The Saudi government maintains it has been working diligently with the U.S. and others to counter terrorism. It cites its arrests of several alleged terrorist fund-raisers in recent years. The Saudis didn't respond to specific questions about their efforts to counter terrorist finance or oversee banks.

A White House statement said that "the Saudis continue to be a strong partner in the War on Terror....We have made significant progress on numerous fronts -- including the freezing of assets and the shutdown of known conduits of [terrorist] funding." A CIA spokesman said "publishing details of how our government seeks to track extremist financing" could undermine those efforts.

For the ruling Saud family, any confrontation with the Al Rajhis could be politically treacherous. To stay in power, the 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 Sauds -- annual reports had flowery tributes to the royal family -- the bank began refusing to make loans to the Sauds 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 $200,000 in 1993 to a charity that financed weapons for Islamic militants in Bosnia, in addition to providing humanitarian aid.

The 2003 CIA report tells of efforts by two Al Rajhi brothers to keep some giving secret. It says that Sulaiman and Saleh transferred $4 million to parties in Germany and Pakistan in December 1998 using "a unique computer code to send funds at regular intervals to unspecified recipients, suggesting they were trying to conceal the transactions and that the money may have been intended for illegitimate ends."

The report says extremists "ordered operatives in Afghanistan, Indonesia, Pakistan, Saudi Arabia, Turkey, and Yemen" to use Al Rajhi Bank. Mamduh Mahmud Salim, convicted mastermind of the 1998 embassy bombings in Kenya and Tanzania, was carrying records of an Al Rajhi account (number 001424/4) when arrested in Germany in 1998, German police found.

In 2000, the CIA report says, Al Rajhi Bank couriers "delivered money to the Indonesian insurgent group Kompak to fund weapons purchases and bomb-making activities."

A U.S. intelligence memo dated Nov. 16, 2001, says a money courier for Osama bin Laden's second-in-command, Ayman al-Zawahri, traveled on a visa that the bank had obtained for him. The memo adds, however: "Reporting does not indicate whether bank management was witting" of the courier's terrorist connections.

Al Rajhi Bank maintained at least 24 accounts and handled unusual transactions for Al-Haramain foundation -- a charity that Treasury officials say has acted as a front for al Qaeda in 13 countries -- until the Saudi government ordered the charity shut down in late 2004, according to intelligence and law-enforcement reports. The United Nations has designated top officials of Al-Haramain foundation as terrorists, and most of its offices now are closed.

According to a federal indictment in Oregon, a top Al-Haramain official in 2000 carried $130,000 in $1,000 traveler's checks from Portland to Riyadh and deposited them with Al Rajhi -- funds the indictment says were for the ultimate benefit of al Qaeda fighters in Chechnya. The indicted official, Soliman Al-Buthe, now works for the city of Riyadh. In an interview, he confirmed carrying the checks and depositing them with Al Rajhi Bank but said that they weren't for al Qaeda and that he did nothing wrong.

---

A Jidda-based charity called the International Islamic Relief Organization, or IIRO, arranges for donors to send their donations directly to the Al Rajhi Bank. The IIRO's chairman, Adnan Khalil Basha, says the charity is "absolutely apolitical" and has elaborate spending controls to prevent illicit diversions. The charity says it works with Al Rajhi Bank simply because its fees are low and its service is best.

However, the U.N. has labeled two of the IIRO's branches and some of its officials as al Qaeda supporters. In 2004, the IIRO solicited donations through Al Rajhi Bank for the Iraqi city of Fallujah, then largely under the control of insurgents and the base of the late Abu Musab al Zarqawi, who led al Qaeda in Mesopotamia. The IIRO's workers oversaw construction of a trauma clinic in an insurgent-controlled area of Fallujah. The U.S. saw the clinic as a haven for insurgent fighters, and Marines destroyed it in November 2004. That was "a big tragedy for us," says the IIRO's chairman, Mr. Basha.

He denies the charity had any involvement with the Iraqi insurgency. Charity officials complain that the U.S. has produced no evidence of their alleged ties to terrorism.

Two years earlier, federal agents raided the Virginia offices of a network of charities funded by Sulaiman Al Rajhi that worked closely with the IIRO and that -- according to Justice Department court filings -- provided funds to Palestinian terrorists. No charges have been filed.

A year after the 9/11 attacks, U.S. authorities began to lament the lack of Saudi action in taking down terrorists' financial infrastructure. A November 2002 CIA report said the Saudi government "has made little independent effort to uncover terrorist financiers, investigate individual donors, and tighten the regulation of Islamic charities," largely because of "domestic political considerations."

The report advised against a noisy confrontation: "A key factor for continued successful counterterrorism initiatives with the Saudis, whose society is by tradition private, closed, and conservative, will be to ensure that their cooperation with the United States is handled discreetly and kept as much as possible out of the public eye."

The U.S. began to rethink that approach after an al Qaeda attack in Riyadh in May 2003 that killed 26 people, including nine Americans. Deputies from the National Security Council, CIA, Treasury and State departments debated a proposal for legal and political action against Al Rajhi Bank, including the possibility of covert operations such as interfering with the bank's internal operations, according to Bush administration documents and former U.S. officials.

One idea kicked around was "listing or threatening to list" Al Rajhi Bank as a supporter of terrorism. Such a listing can be done if recommended by a committee representing the Treasury, State and Defense departments and the CIA and NSC, and signed by the president. The designation bars U.S. companies from doing business with the named entity. A U.S. designation also normally is forwarded to the U.N., and if that body puts the name on its own terrorist-supporter list, all member states are obliged to freeze the entity's assets.

Other ideas U.S. officials discussed included enlisting friendly countries to step up scrutiny and regulatory action against the Al Rajhis. The CIA report said that "a successful effort against the Al Rajhis would encourage efforts against other donors, or at a minimum, would discourage private funding of Al Qaeda."

Ultimately, the Bush administration again chose merely to continue privately exerting pressure on the Saudis to stiffen their oversight.

**********
This message originated from the Internet. Its originator may or may not be who they claim to be and the information contained in the message and any attachments may or may not be accurate.
**********

From: CHRISTOPHER LOK/HBUS/HSBC
Sent: 11/8/2007 9:23:11 AM
To: BENJAMIN J SARAM/NBD SIP/HBUS/HSBC@HSBC
CC: BENJAMIN J SARAM/NBD SIP/HBUS/HSBC@HSBC;KWOK YING FUNG/NBD SIP/HBUS/HSBC@HSBC;ROGER T K SO/HD NBD RNH/HBUS/HSBC@HSBC; WING KIN - SG CHAN/CEO SIP/HBUS/HSBC@HSBC
Subject: Re: ISLAMI BANK BANGLADESH LIMITED

Ben

One, the money is there and we should go for this account.

Two, I will jump in and wear the GRM hat.

Three, I wonder where will can you get that much Saudi. Just relying on what you and HKG can pickup in the region is not enough. Even including London's. So how?

Four, I wouldn't rely on Hersel to help you get the business. And he certainly can't help on clarifying the link to Alrajhi. I would instead suggest we ourselves visit the client and sell our service directly.

I believe we should be able to get the KCY sign off.

Chris

Benjamin J SARAM/NBD SIP/HBUS/HSBC
11/08/2007 03:13 AM

To
Christopher Lok/HBUS/HSBC@Republic
cc
Kwok Ying FUNG/NBD SIP/HBUS/HSBC@HSBC, Roger T K SO/HD NBD RNH/HBUS/HSBC@HSBC,
Wing Kin - Sg CHAN/CEO SIP/HBUS/HSBC@HSBC, Benjamin J SARAM/NBD SIP/HBUS/HSBC@HSBC
Subject
Re: ISLAMI BANK BANGLADESH LIMITED

Chris,

Some background on the issue;

According to our colleagues in Dhaka, approximately 60,000 Bangladeshis make their way to Saudi Arabia annually to perform the Haj. It is estimated that each pilgrim will require approximately USD1,000-3,000 in currency for expenses. On the low side, we're therefore looking at about USD 60 mio of currency needs on an annual basis.

Permanent Subcommittee on Investigations
EXHIBIT #82

There is a shortage of SAR in the market. Most of it is now supplied by money changers and banks who recycle SAR notes that come in from the transient worker population working in the Middle East. Pilgrims who can't secure enough SAR will carry USD notes with them to Saudi Arabia, where they will change them into riyals.

There is therefore an underserved demand here, one that Islami Bank is looking to capitalize on. Assuming that about half of all pilgrims would prefer to change SAR in Bangladesh instead of in Saudi Arabia, that's an annual requirement of about SAR112 mio. Assuming again that we take a conservative margin of 2.5 per mille, our estimated net profit would be approximately USD 75,000/ year.

Bangladesh is a relatively small market, but there is potential. Our total volume in '06 was USD37.1 mio, garnering us NTI of approximately USD47,000. Comparatively, our volume YTD Oct '07 is USD 46 mio, garnering us NTI of approximately USD72,000. We expect the full year's NTI to be around 75,000, representing growth of about 53% year-on-year. We are a monopoly here, and margins are decent.

I understand that Hersel Mehani is quite close to Islami, and PCM already has dealings with the prospect. Would this help in supporting our bid to open the account, should we decide to proceed?

Regards,
Ben

Christopher Lok/HBUS/HSBC
08 Nov 2007 01:29 Mail Size: 8086

To
Kwok Ying FUNG/NBD SIP/HBUS/HSBC@HSBC
cc
Benjamin J SARAM/NBD SIP/HBUS/HSBC@HSBC, Wing Kin - Sg CHAN/CEO SIP/HBUS/HSBC@HSBC, Roger T K SO/HD NBD RNH/HBUS/HSBC@HSBC
Subject
Re: ISLAMI BANK BANGLADESH LIMITED

Our Ref

Your Ref

---

Mr Fung

First, I'm happy to be the RM if this is an account worth chasing. How much money you can expect to make from this name? If this can be answered positively then I will ask PCM to check out the connection between the alrajhi

connection. I've looked at the Alrajhi Bank profile and found out an identical Abdul Aziz Alrajhi (chairman of the papermill co. in the islamic profile) also appearing in the alrajhi profile. If this is the same person then we have to asssume there's cross-connection betwen the Alrajhi Bank and Islamic Bank. We need clarification.

The name Alrajh has been a name heatedly debated for many years. We terminated our trading relationship following 911 and only a year ago after London Compliance came back telling NYK the group is happy to let us resurrect the relationship that we went back. You should check out the Alrajhi Bank profile - done by Gordon Brown and comprehensive.

Not saying just because of this connection we won't do busniess. Its just that if the revenue is there then we're prepared for a good fight. But before that lets get the facts straightened out.

So come back to me with the expected NTI. Also tell me the entire Bangladesh market's worth please.
Chris

Kwok Ying FUNG/NBD SIP/HBUS/HSBC wrote on 11/06/2007 11:12:44 PM:

> Chris
>
> The following mails are self-explanatory. Would you consider to be
> the RM approver of subject PCM-BN shared client?
>
> Regards.
>
> KY
> ---- Forwarded by Kwok Ying FUNG/NBD SIP/HBUS/HSBC on 11/07/2007
> 12:00 PM -----
>
> Beth Fisher/HBUS/HSBC
> 07 Nov 2007 03:07 Mail Size: 15898
>
> To
>
> Angela Cassell-Bush/HBUS/HSBC@HSBC
>
> cc
>
> Benjamin J SARAM/NBD SIP/HBUS/HSBC@HSBC, Gillian E
> Bachstein/HBUS/HSBC@HSBC02, Kwok Ying FUNG/NBD SIP/HBUS/HSBC@HSBC
>
> Subject
>
> Re: Fw: KYC BankNotes Profile is IB Denied for: ISLAMI BANK BANGLADESH LIMITED
>
> Our Ref
>
> Your Ref
>
> Additionally, I had mentioned to Gillian the past relationships with
> Al Rajhi. In particular, a couple/few years ago, HBUS exited the
> relationship with Al Rajhi Banking & Investment due to Compliance
> concerns. (I do not recall all the details). I do see that the
> relationship was re-activated. Gillian was going to cross-check the
> Al Rajhi ownership of Islami Bank with our old KYCs for Al Rajhi

> Banking & Investment and Al Rajhi Trading Establishment.
>
> This is not just an RM issue. This is a KYC due diligence issue.
>
> Beth
>
>
>

>
> Angela Cassell-Bush/HBUS/HSBC
> 11/06/2007 01:41 PM
>
> To
>
> Kwok Ying FUNG/NBD SIP/HBUS/HSBC@HSBC
>
> cc
>
> Gillian E Bachstein/HBUS/HSBC@HSBC02, Benjamin J SARAM/NBD
> SIP/HBUS/HSBC@HSBC, Beth Fisher/HBUS/HSBC@HSBC
>
> Subject
>
> Re: Fw: KYC BankNotes Profile is IB Denied for: ISLAMI BANK BANGLADESH LIMITED
>
> Kwok:
>
> Unfortunately, the KYC profile for ISLAMI BANK BANGLADESH LIMITED
> has been IB denied by Beth Fisher because the client is not known to
> CIB. As it stands, we have not been able to identify the RM
> Approving person for this relationship. I would suggest that you
> reach out to Chris Lok to see if he is willing to be the the RM
> Approver. Once this is confirmed, let me know and I will resubmit
> this through the approval chain.
>
> Regards,

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

>
> Phone. 302-327-2017
> Fax. 302-327-2128
> Email. angela.cassell-bush@us.hsbc.com
>
> _____
>
> Kwok Ying FUNG/NBD SIP/HBUS/HSBC
> 10/24/2007 10:41 PM
>
> To
>
> Jarrett L Payne/HBUS/HSBC@HSBC, Angela Cassell-Bush/HBUS/HSBC@HSBC
>
> cc

>
> Benjamin J SARAM/NBD SIP/HBUS/HSBC@HSBC
>
> Subject
>
> Fw: KYC BankNotes Profile is IB Denied for: ISLAMI BANK BANGLADESH LIMITED
>
> Dear Jarrett / Angela
>
> Our banknote profile was "IB Denied" by Beth as she is not the RM.
> Could you please update the client profile with the correct RM? I
> understand the client profile right now is also "IB Denied", kindly
> advise us once you put the profile back to approval process. Thank you.
>
> Best regards.
>
> KY
>
> ----- Forwarded by Kwok Ying FUNG/NBD SIP/HBUS/HSBC on 10/25/2007
> 10:14 AM -----
>
> Beth Fisher/HBUS/HSBC
> 24 Oct 2007 22:29 Mail Size: 1908
>
> To
>
> Kwok Ying FUNG/NBD SIP/HBUS/HSBC@HSBC
>
> cc
>
> Subject
>
> KYC BankNotes Profile is IB Denied for: ISLAMI BANK BANGLADESH LIMITED
>
> Our Ref
>
> Your Ref
>
> A BankNote Profile in BANGLADESH for HSBC Office Singapore, has been
> IB Denied (Reference #20501761).
>
> Click on the attachment to link to the BankNote Profile.

From: ANGELA CASSELL-BUSH/HBUS/HSBC
Sent: 11/9/2007 10:57:40 AM
To: CHRISTOPHER LOK/HBUS/HSBC@HSBC
CC: BENJAMIN J SARAM/NBD SIP/HBUS/HSBC@HSBC;WING KIN - SG CHAN/CEO SIP/HBUS/HSBC@HSBC;
GILLIAN E BACHSTEIN/HBUS/HSBC@HSBC02;PSRR@HSBC
Subject: Re: ISLAMI BANK BANGLADESH LIMITED-Bangladesh

Chris,

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

Based on the information that we have on file, the Al- Rajhi family has been associated with Islami Bank Bangladesh Limited, since its inception. They have at least 37% direct ownership within ISLAMI BANK BANGLADESH LIMITED through their ownership within the following companies; Arabsas Travel & Tourist Agency, 9.999%, Janab Yousif Abdullah Abdul Aziz Al-Rajhi, 9.936%; Al-Rajhi Company for Industry & Trade, 9.94%; Abdullah Abdul Aziz Al-Rajhi, 7.58%

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

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

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

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

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

KY

Further to my email exchange with Ben, I like to confirm that I'll be happy to be the GRM of this banknotes prospect/PCM client. However I would like to ask



Permanent Subcommittee on Investigations
EXHIBIT #83

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 thats name we long ago taken out of our profile. That name is not related to the Alrajhi Bank.

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

Chris

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

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

Chris

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

Regards.

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

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

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

---

Our Ref

Your Ref

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

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

Beth

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

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

Kwok:

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

Regards,

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

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

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

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

Dear Jarrett / Angela

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

Best regards.

KY

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

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

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

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

Our Ref

Your Ref

A BankNote Profile in BANGLADESH for HSBC Office Singapore, has been IB Denied (Reference #20501761).

Click on the attachment to link to the BankNote Profile.

From: DANIEL JACK/HBUS/HSBC
Sent: 8/18/2009 12:44:40 PM
To: CHRISTOPHER LOK/HBUS/HSBC@HSBC02@HSBC;HOW WEI ONG/LGA SGH/HBAP/HSBC@HSBC03
CC: DENIS E O'BRIEN/HBUS/HSBC@HSBC02;GEORGE JAMES/NBD SIP/HBUS/HSBC@HSBC03;GILLIAN E BACHSTEIN/HBUS/HSBC@HSBC02;
VALERIE E COLE-HUDSON/HBUS/HSBC@HSBC02
Subject: EDD Report of Findings: [redacted] Bank Ltd in Bangladesh (BN-SP & PCM)

Chris,

I agree that we expect breaches in a large bank. But this is government-owned in a high risk country with a PEP and reputational risk due to corruption, etc. Their KYC profile documents various allegations of fraud, internal control weaknesses, and the FBI investigation into terrorist financing (Section I - General Comments) and the EDD ROF has more recent negative information. Also, as noted below, the Chairman of [redacted] Bank Ltd, [redacted] is a PEP because he was Deputy Secretary in the Ministry of [redacted]

PSRR is reviewing this client and should reply soon with their analysis & recommendation from PCM.

How Wei - As LCO in Singapore, please review the KYC profile, EDD report, and e-mails below. Then let us know if you recommend SCC classification (for PEP and/or reputational risk) for this PCM and Banknote-Singapore client.

[redacted] Bank Limited - in BANGLADESH

KYC Profile -->

EDD ROF:

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

Christopher Lok/HBUS/HSBC@HSBC02
08/18/2009 01:08 PM

To
Daniel Jack/HBUS/HSBC@HSBCAMERICAS
cc
Denis E O'brien/HBUS/HSBC@HSBC02, George JAMES/NBD SIP/HBUS/HSBC@HSBC03, Gillian E Bachstein/HBUS/HSBC@HSBC02, Valerie E Cole-Hudson/HBUS/HSBC@HSBC02
Subject
Re: EDD Report of Findings: [redacted] Bank Ltd in Bangladesh (BN-SP & PCM)



[redacted] = Redacted by the Perm... Subcommittee on In...ons

Permanent Subcommittee on Investigations
EXHIBIT #84a

Confidential - FOIA Treatment Re... dings, Inc. HSB08071921
Confidential - FOIA Treatment Re... HSBC OCC 7688017

Dan

I support Hersel's stance that this is such a large bank hence malfeasance is expected. However I do not agree that just on these numerous breaches the bank should be classified.

[redacted] Bank has a recent case of a bank officer in the private banking business admitted to having stolen HKD100 million from the bank. Should we then classify [redacted] Bank, a 62% sub of HSBC, an SCC?

Chris

Daniel Jack/HBUS/HSBC
08/18/2009 11:45 AM

To
Gillian E Bachstein/HBUS/HSBC@HSBC02, Christopher Lok/HBUS/HSBC@HSBC02
cc
Valerie E Cole-Hudson/HBUS/HSBC@HSBC02, George JAMES/NBD SIP/HBUS/HSBC@HSBC03, Denis E O'brien/HBUS/HSBC@HSBC02
Subject
EDD Report of Findings: [redacted] Bank Ltd in Bangladesh (BN-SP & PCM)

Gillian / Chris,

Do you agree with SCC classification for this BN & PCM shared client?

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

----- Forwarded by Daniel Jack/HBUS/HSBC on 08/18/2009 11:41 AM -----

Hersel Mehani/HBUS/HSBC
08/17/2009 11:50 AM

To
Daniel Jack/HBUS/HSBC@HSBC02
cc
Anthony Julian/HBUS/HSBC@HSBC02, Christopher Lok/HBUS/HSBC@HSBC02, Denis E O'brien/HBUS/HSBC@HSBC02, George JAMES/NBD SIP/HBUS/HSBC@HSBC03, Gillian E



[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB08071922
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7688018

Bachstein/HBUS/HSBC@HSBC02, Jacob X Houseknecht/HBUS/HSBC@HSBC02, Roger T K SO/HD NBD RNH/HBUS/HSBC@HSBC03, Valerie E Cole-Hudson/HBUS/HSBC@HSBC02, Wing Kin - Sg CHAN/CEO SIP/HBUS/HSBC@HSBC03

Subject
Re: EDD Report of Findings: [redacted] Bank Ltd in Bangladesh (BN-SP & PCM)

Daniel
Many thanks for your updated information,
I will support SCC classification for 6 month to allow the local GRM and RM to do a full review of subject bank Sr. mgts and secure that internal controls are in place.
As you know the bank being the [redacted] Govt Owned will always faces such issues at a lower level of bank management's.
I am aware that the Sr Management and Senior officer are screened and officially chosen by the board of the central bank and from past experience they have chosen honest and professional Bankers. However they will always have exposure to some officers who will abuse their power and take advantage of the bureaucratic system of the bank.

Overall I am comfortable with the relationship we presently have on the PCM and will support retaining this account

Thanks and regards,

Hersel Mehani
Senior Vice President | HSBC Bank USA N.A.
Global Payments and Cash Management
452 Fifth Avenue, Floor 21, New York NY 10018. USA

Phone. +1-212-525-6239
Fax. +1-212-525-5699
Mobile. [redacted]
Email. hersel.mehani@us.hsbc.com
Internet. HSBC Global Payments and Cash Management
HSBC Global Site

Daniel Jack/HBUS/HSBC
17/08/2009 11:29 AM

To
Valerie E Cole-Hudson/HBUS/HSBC@HSBC02, Wing Kin - Sg CHAN/CEO SIP/HBUS/HSBC@HSBC03
CC
Gillian E Bachstein/HBUS/HSBC@HSBC02, Roger T K SO/HD NBD RNH/HBUS/HSBC@HSBC03, Christopher Lok/HBUS/HSBC@HSBC02, Anthony Julian/HBUS/HSBC@HSBC02, Hersel Mehani/HBUS/HSBC@HSBC02, Denis E O'brien/HBUS/HSBC@HSBC02, Jacob X Houseknecht/HBUS/HSBC@HSBC02, George JAMES/NBD SIP/HBUS/HSBC@HSBC03
Subject
EDD Report of Findings: [redacted] Bank Ltd in Bangladesh (BN-SP & PCM)



[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB08071923
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7688019

Valerie / WK,

We will need a response from the client in Bangladesh and the business (BN/PCM, RM, etc.) regarding the negative information identified in this EDD ROF. This is a PCM and Banknote-Singapore shared client, so you may want to collaborate with each other and the RM & Sales Manager on this - and determine/confirm whether you want to maintain them as a client in each of your respective businesses. Resolution of the issues and risk mitigants would need to be well-documented.

And we need to consider SCC classification due to reputational risk.

[redacted] Bank Limited KYC --->

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

----- Forwarded by Daniel Jack/HBUS/HSBC on 08/17/2009 11:15 AM -----

FIG HBUS@HSBC03
Sent by: Padma M Meesala@HSBC03
08/17/2009 05:56 AM

To
Daniel Jack/HBUS/HSBC@HSBC02
cc
Jacob X Houseknecht/HBUS/HSBC@HSBC02, Jackie S K QUAH/NBD SIP/HBUS/HSBC@HSBC03, FIG HBUS@HSBC02
Subject
Report of Findings: [redacted] Bank Ltd in Bangladesh; FIU

Please find attached Report of Findings on [redacted] 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 [redacted]Bank- Final-doc.zip" deleted by Hersel Mehani/HBUS/HSBC]

Please feel free to contact Jessica Dubensky (212-5255746) if you have any queries.



[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB08071924
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7688020

Daniel Jack
13 Mar 2009 22:09

To: FIG HBUS@HSBC02

cc: Jacob X Houseknecht/HBUS/HSBC@HSBC02
Jackie S K QUAH/NBD SIP/HBUS/HSBC@HSBC03
Subject: EDD for [redacted] Bank [redacted] in Bangladesh [redacted]

FIG,

Please provide us with an updated EDD ROF for this PCM and Banknote-[redacted] client in Bangladesh. The prior ROF is dated 19-Jun-06.

I have risk scored this request to be 31 now, due to the recent corruption conviction [redacted] in May 2008 of [redacted], the bank's [redacted]. [along with embezzlement by 3 bank officials in 2006].

Refer to attached form and ALE below.

[attachment "EDD ROF for [redacted] Bank Ltd Bangladesh (13-Mar-09).xls.zip" deleted by Hersel Mehani/HBUS/HSBC]

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

----- Forwarded by Daniel Jack/HBUS/HSBC on 03/13/2009 12:25 PM -----

Jacob X Houseknecht/HBUS/HSBC
03/13/2009 11:26 AM

To
Daniel Jack/HBUS/HSBC@HSBC02
cc

Subject
Fw: [redacted] (Bangladesh) - [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Daniel,

Good morning. We are in the process of the annual review for [redacted] located in Bangladesh. I have attached the ROF request form (score 25) for your review.
[attachment "[redacted] Bank Limited.xls" deleted by Hersel Mehani/HBUS/HSBC]

I have also included the results from an RAU search conducted on 3/12/2009.



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB08071925
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7688021

HSBC-BNI_E 0050761.txt

The bank is listed as a PEP because it is owned by the government. There was information found on our internal database that seems to have already been addressed previously in the KYC (In General Comments) . The last listing is for the chairman, [redacted] who is listed as a PEP, however he no longer holds any of the positions listed. It seems to me that no further action needs to be taken on these items, however I wanted to get your opinion on the matter.

Lastly, a media search of [redacted] Bank and corruption returned a story about a [redacted]

Since this information is not directly related to AML, is it something I should still pursue from the GRM to get a response for? If so, what types of questions would be relevant to this situation. Your help and guidance is much appreciated.

Thank you,

---

Jake Houseknecht
PSRR
HSBC Bank USA, N.A.
90 Christiana Road
New Castle, DE 19720
(302) 327-2520
Jacob X Houseknecht/HBUS/HSBC
----- Forwarded by Jacob X Houseknecht/HBUS/HSBC on 03/13/2009 11:04 AM -----

RAU HBUS
Sent by: Benjamin X Ciurdar
03/12/2009 04:54 PM

To
Jacob X Houseknecht/HBUS/HSBC@HSBC02
cc
RAU HBUS@HSBC02, ICRO ALEs@HSBC02
Subject
Re: [redacted] (Bangladesh) - [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations



Redacted by the Permanent Subcommittee on Investigations

From: CHRISTOPHER LOK/HBUS/HSBC
Sent: 9/2/2005 10:28:47 AM
To: SHARYN MALONE/HBUS/HSBC@HSBCAMERICAS
CC:
Subject: Fw: Report of Findings - [redacted] - FIG

Sharyn

I'm very fed up with these people.
----- Forwarded by Christopher Lok/HBUS/HSBC on 09/02/2005 11:31 AM -----

Christopher Lok/HBUS/HSBC
09/02/2005 11:20 AM

To
Wing Kin - Hk CHAN/NBD RNH/HBUS/HSBC, Daniel Jack/HBUS/HSBC
cc
Betty F S NG/NBD RNH/HBUS/HSBC@HSBC, Bruce LI/RNH/HBUS/HSBC@HSBC, Gary C H YEUNG/SVP NBD RNH/HBUS/HSBC@HSBC, Roger T K SO/HD NBD RNH/HBUS/HSBC@HSBC, Tom K LAU/VP NBD RNH/HBUS/HSBC@HSBC, John S GUBERT/HGHQ/HSBC@HSBC, Lynda J Cassell/HBUS/HSBC@HSBC
Subject
Re: Fw: Report of Findings - [redacted] Bank - FIG

I disagree whole-heartedly with FIG's recommendation. FIG displays ignorance to the banking hierachy of the [redacted] banks. As said many times, all state owned banks in [redacted] are appointed by the Govt and this is not the ground to think that the person is a PEP.

Yes, corruption can be rampant in this bank, but it is not unique to [redacted] Bank. Without exception all [redacted] State owned banks have been and will continued to be plagued by misuse of state's money, corruption and delinquent loans. Thats why alone t his year the State has injected over [redacted] billion into the [redacted] banks. This is all public knowledge.

Bank [redacted] in which HSBC has a 19% stake is the [redacted] State Owned Bank and I'm sure HSBC must have found impropriety. Shall we then classify this name as an SCC?

My point is HBUS being a US entity cannot simply use the excuse that because of US regulators' attention and then say that 'I want to classify this name as an SCC because of the adverse reputation this institution has'.

If somebody in HSBC wants to take that view it will be at the group level. Proper consultation must be held at the Group Compliance Level with the senior executives of the Bank to examine this question : Are the State owned Banks in [redacted] or not.

John: Could you please discuss this with Iain and get his opinion. I want to elevate this to a much higher level now as I want a quick resolution rather than continue engaging myself in these unnecessary discussions.

Chris

[redacted] = Redacted by the Permanent Subcommittee on Investigations



Permanent Subcommittee on Investigations
EXHIBIT #84b

Confidential - FOIA Treatment R[illegible] ldings, Inc. HSB00161691
[illegible] HSBC OCC 7690024

Wing Kin - Hk CHAN/NBD RNH/HBUS/HSBC
09/01/2005 09:21 PM

To
Christopher Lok/HBUS/HSBC@HSBC, Roger T K SO/HD NBD RNH/HBUS/HSBC@HSBC, Gary C
H YEUNG/SVP NBD RNH/HBUS/HSBC@HSBC, Tom K LAU/VP NBD RNH/HBUS/HSBC@HSBC, Bruce LI/RNH/HBUS/HSBC@HSBC
cc
Betty F S NG/NBD RNH/HBUS/HSBC@HSBC
Subject
Fw: Report of Findings - [redacted] Bank - FIG

For your information.

Best regards
WK

----- Forwarded by Wing Kin - Hk CHAN/NBD RNH/HBUS/HSBC on 09/02/2005 09:15 AM -----

Daniel Jack/HBUS/HSBC
HBUS
09/02/2005 05:02 AM
Mail Size: 37403

To
Wing Kin - Hk CHAN/NBD RNH/HBUS/HSBC@HSBC
cc

Subject
Fw: Report of Findings - [redacted] Bank - FIG
Our Ref

Your Ref

FYI - FIG recommends this BN-HK client be an SCC, so PCM will follow-up...

---------- Forwarded by Daniel Jack/HBUS/HSBC on 09/01/2005 05:02 PM ----------
FIG HBUS on 01 Sep 2005 16:30
Note
01 Sep 2005 16:30

From: FIG HBUS Tel:
Title: Location:
WorkGroup: Mail Size: 28892
Sent by: Michael Ellis

[redacted] = Redacted by the Permanent Subcommittee on Investigations



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB00161692
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 7690025

To: Shannon M Jones/HBUS/HSBC@HSBC

cc: Ginny Tsuei/HBUS/HSBC@HSBC
Rhonda Lee-Thomas/HBUS/HSBC@HSBC
Andree Galindo/HBUS/HSBC@HSBC
Paul DiBenedetto/HBUS/HSBC@HSBC
Nanayo Ryan/HBUS/HSBC@HSBC
Pierre Nasser/HBUS/HSBC@HSBC
George Tsugranes/HBUS/HSBC@HSBC
Alan T Ketley/HBUS/HSBC@HSBC
Daniel Jack/HBUS/HSBC@HSBC
FIG HBUS@HSBC
Kristen O'connell/HBUS/HSBC@HSBC
Subject: Report of Findings - [redacted] Bank - FIG

REMARKS/RECOMMENDATIONS

Shannon,

As you will read in the below Report of Findings for [redacted] Bank, the bank's senior management and employees have been involved in numerous significant instances of corruption, fraud, and embezzlement over the past few years. Highlights of such instances (detailed in the reports below) involving [redacted] Bank's management include the following:

**Redacted by the Permanent Subcommittee on Investigations**

Also, [redacted] Bank should be considered for Special Category of Client (SCC) status due to its current President being categorized as a Politically Exposed Person (PEP) on World-Check (details below).

For the above reasons, and the additional instances of financial crime involving the Bank's employees, as detailed below, we recommend that [redacted] Bank's account relationships with HSBC be closely monitored. The number of instances of corruption, fraud and embezzlement at this institution appears high when compared to other institutions that we have reviewed, and may be indicative of lax controls at the Bank. This is especially of concern given the fact that many of these cases have involved [redacted] Bank's management and top executives.

Much of the information pertaining to the instances of corruption, fraud and embezzlement at [redacted] Bank was obtained subsequent to our previous Report of Findings in October 2003. Therefore, we recommend that you consider these findings and discuss them with your Local Compliance Officer (LCO).

Sincerely,



[redacted] = Redacted by the Permanent Subcommittee on Investigations

[redacted] = Redacted by the Permanent Subcommittee on Investigations

# Know Your Customer Profile

HSBC Bank USA, N.A.

*Version 7.0*

Reference: [redacted] Client Profile Approval Status: CO Denied

Country Risk Status: High Risk
High Risk Client Type: Special Category of Client

Needs Re-Approval

Client Name: AL RAJHI BANKING & INVESTMENT CORP
Country: SAUDI ARABIA

* Changes to these fields on "Approved" Profiles require Re-approval.

## I. General Information

| | |
|---|---|
| Client Name: | AL RAJHI BANKING & INVESTMENT CORP |
| Is this a Client of Global Payments and Cash Management (PCM in Delaware)? | ○ Yes ● No |
| Is this a Client of Corporate and Institutional Banking (CIB)? | ● Yes ○ No |
| If yes, CIB Industry: | Banking |
| * Client Activity Status: | Deactivated |
| Deactivation Date: | 10/14/2010 |
| Deactivation Reason: | ○ KYC / Compliance Reason<br>● Business Reason<br>○ Other |
| Comments: | Due to imminent closure of Banknote business and lack of recent dealings. |
| * Client Category: | ○ Domestic Financial Institution<br>● Foreign Financial Institution<br>○ Investment Advisor or Fund<br>○ Corporate Client<br>○ Sole Proprietor or Partnership |
| Type of Client: | ● Bank ○ Non-Bank |
| Legal entity: | ● Parent ○ Branch ○ Subsidiary |
| Is the Client a Central Bank? | ○ Yes ● No |
| * Is Client a "Special Category of Client"? (Refer to Group Policy GCL 000074 on SCCs) | ● Yes ○ No |
| If yes, SCC Type: | 1 - PEP owned or managed (Politically Exposed Person has "direct" influence) |
| What information source was used to categorize this Client as an SCC (e.g., Compliance)? | AML Compliance New York recommendation based on ICRO reports. |
| To whom is this Client connected and how, (relationship)? [Indicate name of Politically Exposed Person ("PEP") or other SCC, ownership or management role with Client , and outside interest/position/title.] | Director, Abdullah Abdul Al Rajhi, is a member in the Northern Borders Provincial Council in Saudi Arabia. |
| Has the Client's name and location been checked against: | |

Permanent Subcommittee on Investigations
**EXHIBIT #85**

[redacted] = Redacted by the Permanent Subcommittee on Investigations



| | |
|---|---|
| Government lists of known or suspected terrorists or criminals (e.g., OFAC and World-Check)? [This is to be completed for prospects only - existing clients are scanned monthly and when the OFAC list changes.] | ● Yes ○ No |
| Address (Business / Permanent): (A PO Box alone is not sufficient for address.) | P.O. Box 28,<br>Al Akariya Building,<br>Oleya Street, 11411 |
| City: | Riyadh |
| * Country: | SAUDI ARABIA |
| Telephone: | +966 1 4601000<br>+966 1 2116000 |
| Email address of Client contact: | docratc@alrajhibank.com.sa (Cassim Docrat: AGM, Head of Financial Institutions) |
| Client's URL (Web Site): | www.alrajhibank.com.sa |
| Fax: | +966 1 4600922<br>+966 1 4601518 |
| Swift Code: | RJHI SA RI |
| Taxpayer ID (EIN or SSN): | 0 |
| New Client or Existing Client: | ○ New (prospect)<br>● Existing (active)<br>○ Agency Arrangements only |
| Account Number: | [redacted] |
| Date Account Activated: | 06/10/2007 |
| * Purpose of Account: | Banknotes trading |
| Is the Client or its Parent traded on an Exchange ? | ● Yes ○ No |
| If yes, Name of Exchange: | Saudi Arabian Stock Exch (Tadawul) |

| | |
|---|---|
| CIP Verification of ID - Has the original customer identification/documentation been verified as per USA PATRIOT Act regulations for new customers (or new accounts/locations for existing customers)? (Documentary and/or Non-Documentary evidence) | ● Yes ○ No |
| Documentary Evidence for CIP: (this may include banking license, registered articles of incorporation, partnership agreement, etc. - with more detail in Section VII) For the Banking License, indicate "Yes" if you have a copy of the license or a printout /screenshot from their Central Bank 's website appropriately listing the client /bank. | |
| If yes, was documentary evidence verified ? | ● Yes ○ No |
| If yes, type of document(s): | Banking License |
| Non-Documentary Evidence CIP: (this may include financial statements, references, customer contact/visitation, Patriot Act Certification, company website, database searches, etc. - with more detail in other sections) | |
| Was non-documentary evidence verified ? | ● Yes ○ No |
| If yes, indicate verification methods used: | Customer Contact/Visitation, Financial Statements, Media Search (on company/principals), Third Party Source (eg Banker's Almanac), Website (client's corporate internet site), USA Patriot Act Certification Letter |

| | |
|---|---|
| General comments: | Al-Rajhi Banking and Investment Corp. is one of the largest banking companies in Saudi Arabia. Banknotes delivery address: 161 King Abdul Aziz St, Jeddah, Saudi Arabia. They are not an agent for Money Transfer Service as at 14th January 2009. All CO Approval conditions (1 April 2008) are addressed in this profile and the customer file.<br><br>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 |



Confidential Treatment Requested

| | |
|---|---|
| | 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.<br><br>Now have a subsidiary of the Bank in Malaysia. Have obtained a licence to open in Kuwait, although no evidence found that this has happened yet. |

## II. Ownership/Management/Business Information

| * Name of Principals or Beneficial Owners : (List all shareholders with 10% or more ownership. If Corporate Client not publicly traded, Special Category Client or High Risk Country, then list all shareholders with 5% or more ownership) | * % of ownership : |
|---|---|
| Lehman Al Rajhi | 24.90 |
| Saleh Abdul Aziz Al Rajhi | 13.90 |
| Abdullah Abdul Aziz Al Rajhi | 5.90 |
| General Organization for Social Insurance | 9.90 |
| Publicly held (<5% shareholder) | 45.40 |
| **Name of Corporate Officers :** | **Title :** (e.g. Chairman, Vice/Deputy Chairman, President, Chief Executive Officer, Chief Financial Officer, and those Members of the Board or others with direct influence over the operations of the entire organization) |
| Sulaiman Abdul Aziz Al Rajhi | Chairman & Managing Director |
| Abdullah Sulaiman Al Rajhi | CEO |
| Saeed Mohammed Al Ghamdi | Deputy CEO |
| Iain Blacklaw | COO |
| Mohammed Lookman Samsudeen | General Manager, Group CFO |
| **Total Number of Employees :** | 5,777 |
| **Where is the Client incorporated :** | SAUDI ARABIA |
| **Year Established :** | 1988 |
| **What is Client's Rank in country (asset based) :** | 2 |
| **How many branches/offices does Client have :** | 6 central offices, 694 branches |
| **Where are the branches/offices located :** | Saudi Arabia (subsid has 18 in Malaysia) |
| **Products/services sold :** | Banking |
| **For Foreign Financial Institutions only : Indicate nature of Client's business (select all that apply) :** | Private Banking, Commercial/Retail Banking, Other<br>**Please describe :** Islamic Banking (Sharia) |
| **Client's Types of Customers :** | General public |
| **Locations of Client's Customers :** | Saudi Arabia |
| **Number of Client's Customers :** | n/a |
| **Do any of the Client's customers represent a significant % of its business?** | ○ Yes ● No |
| **For each beneficial owner indicate : Source of Wealth :**<br>**Approximate Net Worth :**<br>**Occupation or Business :**<br>**Position or Title :**<br>**Business Name :**<br>**Business Address :** | The Al-Rajhi Family<br>Banking<br>USD 22.5 Billion<br>Banking<br>Various Senior Positions held<br>Al Rajhi Banking & Investment<br>Alakariya Building, Oleya St. 11411, Riyad |
| **Indicate reporting agency or supervisory /regulatory body(ies) in the country(ies) of operation :** | SAMA - Saudi Arabian Monetary Agency |
| *** List license type :** | *** Year of Issuance :** *** Country of Issuance :** |
| ISLAMIC BANKING LICENSE | 1988 SAUDI ARABIA |
| | |
| **Is Client's Shareholders' Equity 25 Million USD or more ?** | ● Yes ○ No |



Confidential Treatment Requested

| | |
|---|---|
| Has the Client been under the same ownership for last 10 years (or 5 years if in a High Risk Country)? | ● Yes ○ No |
| Is the Client or its Parent State-Owned? (Answer "Yes" if the government has the largest ownership percentage) | ○ Yes ● No |
| Please list principal affiliates which have relationships with HSBC: | n/a |
| If the Client or affiliates have other Accounts with HSBC entities, provide the country in which each account is located: | Relationships with HSBC in the UK, France, Hong Kong and India. |

## III. Referral Information

| | |
|---|---|
| How was the Client introduced to the bank ? | Long-standing relationship with Republic since 1970s. |
| By whom: | n/a |
| Is a GIF form or a CIBM KYC Profile from a referring office in the Client file ? (if the client was referred from another HSBC entity /office) | ● Yes ○ No |
| Global Relationship Manager (GRM) or Country Relationship Manager (CRM) recommendation received and in Client file ? | ● Yes ○ No |
| If yes, name of GRM or CRM: | Shamzani Bin Md Hussain |
| If yes, date: | 01/26/2010 |
| Name of Sales/Marketing/Trading person assigned to Client: | Banknotes team |
| Name of Relationship Manager (RM) for KYC Approval: | Christopher Lok |

## IV. Visitation

### General Visitation:

| | |
|---|---|
| Was a Client Site Visit performed ? | ● Yes ○ No |

### Visitation Details:

| | Most Recent Site Visitation : | Prior Site Visitation : |
|---|---|---|
| Date of visitation: | 01/20/2010 | 11/14/2009 |
| By Whom: | Haithem Katerji, Director FIG | David Illing |
| Purpose - Banking Products/Services discussed: | M&A Strategey | Banknotes |
| Is call report in Client file ? | ● Yes ○ No | ● Yes ○ No |
| Comments - provide other details regarding visitation (e.g., Client contact name and title, documentation reviewed): | Nikolas Fotilas, Head of Strategy | Ahmed Baghazal, Senior Dealer |

## V. Purpose/Nature of Activity

| Transactions * | Expected Frequency | Transactions * | Expected Frequency |
|---|---|---|---|
| ACH (Clearing House) | | Money Market | |
| ARP (Account Reconciliation) | | Securities Lending | |
| Asset Management | | Swaps | |
| Check Collection (Cash Letter) | | Sweep Overnight Investment | |
| Checks/Demand Drafts | | Time Deposits | |
| Clearing (Funds Transfer) | | Trading - Banknotes * | See Banknotes Activity Section |
| Commercial Line | | Trading - Bonds | |
| Commitments | | Trading - Derivatives | |
| Control Disbursement | | Trading - Emerging Markets | |
| Current Account | | Trading - Equities | |
| Derivatives | | Trading - Fixed Income | |
| | | | |



Confidential Treatment Requested

| | | | |
|---|---|---|---|
| Factoring | | Trading - Foreign Exchange | |
| Forward Rate Agreements | | Trading - Futures | |
| Globalization | | Trading - Securities (Treasury) | |
| Guarantees (CD offset, Deposits) | | Trading/Lending - Precious/Base Metals | |
| Intra Day Exposure Limit | | Zero Balance Account | |
| Letters of Credit / Bankers Acceptances | | | |
| Loans | | | |
| Lockbox | | Other: | |

* Refer to Client's file for anticipated volume of activity.

| | |
|---|---|
| Managing for Value - Client's Profitability for HSBC (Annualized revenue - actual or anticipated , in USD equivalent): This is required for all PCM clients : | |

| | |
|---|---|
| Indicate HSBC office where Banknote transaction activity will be conducted? | Hong Kong, London |

## VI. Financial Summary

| All financial data reported below should be in USD equivalent for comparison purposes globally (e.g., no non-USD currencies and denominated in actual USD dollars ). | |
|---|---|
| Financial Statement date : | 12/31/2009 |
| Currency (Local): | SAUDI RIYAL |
| Exchange rate (per USD): | 3.750210 |
| Denomination : | Actual |
| Assets : | 45,525,378,312 |
| Shareholders Equity : | 7,663,806,560 |
| Net Income : | 1,804,493,082 |

## VII. Documentation Checklist

| | |
|---|---|
| List of Authorized Signatories and/or Corporate Resolution in Client file? | ● Yes ○ No |
| Current Annual Report (Form 10-K) or Financial Statement in Client file? | ● Yes ○ No |
| Indicate Banking References and Relationship (List 3) (Name, Country, Date and Relationship) : | CIBM KYC, France, 31 July 2006<br>CIBM KYC, UAE, 19 November 2007 |
| Is banking reference documentation in Client file (for Clients located in High Risk Countries )? | ● Yes ○ No |

### Bank Client and Not a Central Bank

| | |
|---|---|
| Copy of Banking License in Client file ? | ● Yes ○ No |

### Foreign Bank Client and Not a Central Bank

| | |
|---|---|
| Is a USA Patriot Act Certification on file ? | ● Yes ○ No |
| If yes, date received by HSBC : | 09/14/2009 |
| If yes, date most recent Certification or Re -Certification was executed/signed by customer ? (required by US Treasury every 3 years) | 05/12/2009 |



Confidential Treatment Requested

## VIII. Summary of Reasons

**We have reviewed the information provided above in the context of the bank 's "Know Your Customer" policy and "due diligence" requirements and criteria. Based on the following summary of reasons , we feel comfortable recommending this client for banking business .**

**Purpose - Explain the purpose of this account / Client relationship and summarize the anticipated activity :**

Banknotes Trading - Please refer to the KYC Banknote Profile for a description for the reason for dealing in banknote transactions.

==========

11 August 2010 - ALE search conducted on the bank, its management and owners. No matches were found on OFAC. World-Check listed one of the Board of Directors as a PEP and this has been noted below

EDD ROF dated 10 March 2010 contained some negative news articles concerning the bank's alleged refusal to cooperate with a US Government Supoena in relation to its "investigation into terrorist financing". The bank has launched counter-proceedings in the US Courts in response to the US Governments stance. This case is currently pending an outcome and the US Government has yet to take any steps to make this a designated entity. London Banknotes has discussed these news articles with the GRM, who is comfortable with continuing this relationship. Until further developments London Banknotes is comfortable to continue the existing relationship, whilst monitoring the situation as is warranted for this SCC Type 4 client.

---

EDD ROF request made 13th January 2009. Compliance says not required from NY. Own due diligence performed and no issues found. No references were found to the history involving court cases.

EDD ROF 4th December 2007:
Despite the overall reputation of the Al-Rajhi family in Saudi Arabia, there have been numerous allegations of impropriety in the business dealings of Al-Rajhi and their group of companies, specifically in Europe and the United States. The controversy primarily centers around the patriarch, Sulaiman Bin Abdulaziz Al-Rajhi and somewhat directly and indirectly to Al-Rajhi Bank, of which he is both Chairman and Managing Director. These allegations allude to tax evasion, money laundering and terrorist financing. Though severe in nature, none of these allegations have yet resulted in any convictions or sanctioned by either U.S. or foreign governments. This bank is already rated an SCC-1 due to the ownership and control by Abdullah Abdul Al Rajhi. The KYC Customer profile indicates the various allegations against the bank but it is noted that no formal charges have been levied by US officials. We will leave this bank as a SCC-1.

**Ownership - Comment on the owner's / principal's background, history and reputation :**

Three Al Rajhi brothers own 44.5% of the shares in the Bank, although the total Al Rajhi family shareholding is significantly higher. Four Al Rajhi brothers are listed in Forbes Magazine as being part of the 400 wealthiest individuals in the world, with a combined net worth of $22.5 Billion. No mention is made in Forbes about any connections to terrorist financing or terrorism for that matter. Apart from the General Organization for Social Insurance no portion of the remaining 45.4% is held by an individual or entity with more than 5% share. The founding Al-Rajhi family continues to hold a key stake and provides several of the top managers. It is the largest Islamic bank in the Arab world. Al Rajhi Banking and Investment Corporation is a major name in Saudi Arabia's banking and business world. It has grown from a strong base, focusing on serving the needs of the nation and its citizens, contributing to the Kingdom's construction and development, and always operating within the framework of Shariah principles. Al Rajhi Banking and Investment Corporation is one of the largest joint stock companies in the Kingdom, with a paid up capital of SR 2,250,000,000. Head Office is located in Riyadh and there are six Regional Offices. The Corporation has the largest branch network distributed throughout the Kingdom and the largest ATM network.

**Management - Comment on the Client's professionalism, expertise, experience, and education of senior officers / executives:**

The following Board of Directors and managers were checked against OFAC and World-Check as at 14 January 2009. No adverse information was found in the databases or on OFAC. London Banknotes believes that the management is competent as assessed by our meeting with management since 1998.

Board of Directors:

---

Sulaiman Abdul Aziz Al Rajhi - Chairman & Managing Director
Abdullah Sulaiman Al Rajhi - CEO
Sulaiman Saleh Al Rajhi
Abdullah Abdul Aziz Al Rajhi
Salah Ali Aba Al Khail (PEP)
Abdul Aziz Khalid Al Ghefaily
Mohammed Osman Al Bishr
Mohammed Abdul Aziz Al Rajhi
Mohamed Abdullah Al Rajhi
Ali Ahmed Al Shudy
Saeed Omer Qasim Alesayi

Management Team:

---

Abdullah Sulaiman Al Rajhi - Chief Executive Officer of the Al Rajhi Bank. He is a member of a well-known business family in the



Confidential Treatment Requested

Middle East and the Gulf Area. He is a graduate in Business Administration. He was the Deputy General Manager for Investments & Foreign Relations. During 1994 he was promoted to First Deputy General Manager and he became Director & General Manager of the Bank in 1996. In 2005 he was further promoted to the CEO of the bank. He is also a member of the Board of Directors of a group of other Saudi Business entities. He was nominated two times as the winner of The Islamic Banker of the Year Award 2007.

Saeed Mohammed Al Ghamdi - Deputy CEO for Al Rajhi Bank. With over 16 years of banking experience, Saeed has held several key positions with Al Rajhi Bank including Chief Information Officer, General Manager of IT & Operations before becoming Head of Retail Banking in 2003. Saeed assumed his current role of DCEO in 2007 and in his previous role as GM of Retail Banking, Saeed was responsible for leading projects across the retail business, including major projects in the areas of IT and CRM development.

Iain Blacklaw - COO. Mr Blacklaw joined Al Rajhi Bank as Chief Operating Officer in July 2008, in this role he has responsibility for the IT, Operations and Administrative Services. Iain has over 20 years of experience in Banking and IT Service Management, having held senior positions with EDS, Westpac Bank and Bank of Queensland in Australia, with a successful track record of implementing major change initiatives. At EDS Iain was responsible for all operations across Asia for EDS clients, in the Bank of Queensland he held the position Group Executive IT and Operations and at Westpac he built and ran the majority of the Bank's operations centres. Iain hold an Honours Degree in Economics from Aberdeen University, a qualified accountant (CIMA), obtained whilst working in London in the Oil Industry and attended Stanford University for post graduate studies.

Dori Anand GM, Retail Banking Group. Anand was appointed General Manger of Retail Banking in July 2007. His is responsible for shaping the short and long term strategy for the Retail Banking Group. Anand, has been with Al Rajhi Bank since August 2003. Prior to his current assignment Anand held senior management roles in the Consumer Asset business and Operations department within Al Rajhi Bank. Anand has 18 years of Retail Banking experience with exposure to banking practices in countries across the CEMA region. He has rich experience in setting up green field projects in banking which include new bank set ups, off shore outsourcing practices and banking affiliate set ups. Prior to joining Al Rajhi, he served as a Vice President in Citigroup, where he worked for 13 years. Anand holds an MBA degree with specialization in Marketing and Systems. He is also a member of Visa's Advisory Board for CEMA. Anand is married with 2 daughters.

Martin Lopez - General Manager of the Corporate Banking Group. Martin has over 23 years experience in the Corporate and Investment Banking field. Martin spent 18 years working with Citigroup where he held various management positons including, Head of Financial Institutions and Public Sector, Senior Credit Officer and Head of Corporate for Malaysia and Southern and Eastern Africa. Most recently whilst at Barclays, Martin headed up Merchant Banking for the Africa and the Middle East.

Constantinos (Dinos) Constantinides - General Manager for Strategy and has over 13 years of international experience gained in the financial services industry. His current responsibilities include the development of the Bank's business strategy, together with their transformation and execution into robust business plans. Previously, Dinos has supported the Bank in setting up and growing the Retail Banking Group both as an external consultant as well as a member of the executive team. Prior to joining Al Rajhi Bank Dinos' main professional experience was with Accenture where he led several strategic initiatives for European banks and financial institutions. Dinos holds an MBA degree, with a specialization in International Strategy from the University of Birmingham and is a graduate of the Economic University of Athens. Dinos is married with 3 children.

Saud Abdul Aziz Al Hoshan - General Manager for Human Resources. Joined Al Rajhi Bank in February 2008 as General Manager of Human Resources. Saud started his career as a Civil Engineer for about 6 years in the government, and later transitioned to Human Resources. He has over 25 years experience in many fields and industries. Prior to joining Al Rajhi, he served as a Vice President of Human Resources in Alsalam Aircraft Company. Saud has an MBA and B.S in Civil Engineering from Gonzaga University in Spokane, Washington State, USA. Saud is married with 1 son and 1 daughter.

Damien White - General Manager Treasury Group. Joined Al Rajhi Bank in January 2009 as General Manager of the Treasury Group. In his 20+ years of working experience Damian has held senior Treasury positions with the National Australia Bank Group and Lehman Brothers in addition to serving as an Officer with the Australian Army. Damian's focus in his current role is on building an international Treasury function with a full suite of Islamic Treasury products. Damian holds an MBA from the Melbourne Business School.

Saleh Abdullah Al Lihaidan - General Manager for the Sharia Group. He brings a wealth of experience to the Bank. Associate Professor in the Department of Comparative Jurisprudence at the Graduate Institute of Justice, he holds a PHD in comparative Jurisprudence from the High Institute of Justice. He worked in the Faculty of Sharia in Qassim in 1407 AH., and then in the Faculty of Sharia in Riyadh in 1412 AH., folowed by a post as an assistant Professor in the Department of Comparative Jurisprudence at the High Institute of Justice in 1416 AH. Dr Saleh also worked in administration of the Higher Institute for Justice for two years, and asa member of the Institute for six years. He is also a member of the Scientific Council at the University.

**Visitation - Summarize information obtained from Client visitations and discussions (Call Reports, etc):**

20 January 2010 - Haithem Katerji, Director FIG met with Nikolas Fotilas, Head od Strategy at Al Rajhi Bank

Met with Nikolas Fotilas on Wednesday 20th January, 2010. The purpose of the visit was to get an update on their M&A strategy for 2010 and run by them an opportunity in Turkey. The main focus for 2010 is organic growth where the bank is due to open branches in Kuwait (1 branch) and Jordan (8 branches). They will be very opportunistic on the M&A front and they are interested in GCC and Egypt. Turkey is not of interest as the Chairman is not convinced of the Islamic Banking proposition in the country.
We agreed to stay in touch and have monthly calls or visits.

---

14 november 2009 - David B Illing met with Ahmed Baghazal, Senior Dealer



Confidential Treatment Requested HSBC-PSI-PROD-0102316

Met with Ahmed at GTB roadshow in Riyadh.
He is very happy with the increased business we have done this year,especially now that we repatriate our surplus SAR notes to them.The recent order they had for €100 mio was fulfilled with Commerzbank who had no issues with the credit risk on the deal. Discussions took place in a later meeting about Al Rajhi opening a USD account with us in New York which would assist the Banknotes business.

---

2 March 2009 - Shamzani Bin Md Hussain met with Mohammad Fazal Haque, M Farshad Cader
Discussion Points:
- Announced USD 1.7 bn profit for 2008 - 4th Quarter 2008 profit was down 10% - YoY to 2007
- Expect 2009 to be more challenging
- Agreed that a lot more business can be done between the two institutions
- Requested for CAD clearing with HBCA asap
- To increase volumes of existing Banknotes business
- Perusing Docs for Structured Investment Products
- To increase Brokerage transactions i.e. Metal Trading, once they get clarity on fee reduction
- Trade transactions - ready to channel business if rebates arrangement is agreed
- Requested HSBC for Bilateral Murabaha - 1-2 years tenor
-To build synergies with Al Rajhi Malaysia - immediate Treasury and Trade transactions + multi-currency platform
- Possibility for funding exercise by 4th quarter 2009 - either via Sukuk programme or Syndication - target USD 2.0bn EMTN - HSBC to be advised
Action :
- Shamzani to continue overall engagements to increase Flow business and secure potential EMTN mandate
- John / Salman to follow up on CAD accounts
- David Billings to follow up on Banknotes
- Sulaiman to revert on brokerage fee reduction and follow up on Treasury Docs
- Shamzani and Davies to follow up with Che Zam / Fadillah of Al Rajhi Malaysia's Treasury.

---

Shariq Siddiqi - 23rd June 2008:
Met with Mohammed Fazal Haque, Manager Financial Institutions.Mohammed mentioned they have received Canadian Dollar proposals from three other banks, and was asking if there is any update on our side. Apparently, he was not kept in the loop by his team on this issue. I told him that Al Rajhi had problems using our Agreement, and HSBC Canada had reservations against the Agency Agreement sent by them. I explained that if we have to use their Agreement, we need to go through a tedious clearance / approval process. It was agreed to close the issue one way or other by next week.
They would be interested in working with Amanah on deals at Senior level. Historically, the focus had been on Saudi market but they have now started looking at transactions outside the Kingdom as well. He said initial areas of interest would be infrastructure and FI exposures and they can come in transactions with USD100m and above. I told him we will certainly keep this in mind. With regards to their own funding, the USD1.0m 5-year facility discussed earlier is not likely to happen this year due to market conditions. They will revisit the issue next year. He was pleased with the relationship on banknotes side, and advised that Saleh Al Jumai would be the best person to meet in that regard. I also expressed desire to broaden the contact with their product teams, and he will arrange meetings with asset management, strcutured finance etc during the next visits.

.....

Shariq Siddiqi - 23rd July 2007:
Met with Mohammed Fazal Haque, Manager Financial Institutions. Al Rajhi Bank is majority owned by the members of Al Rajhi Family. Recently, Fahad Al Rajhi (GM for Treasury and FI) and Cassim Docrat (AGM for Treasury and FI) left the bank. We had requested for a meeting with Acting GM of Treasury and FI (Anand Anchan) and his team, but only the Acting Head of FI (Mohd Fazal Haque) along with his assistant turned up for the meeting. The bank has strict KYC Policies and monitors any unusual transactions through accounts as well as reporting to the SAMA (Saudi Arabian Monetary Agency). Upon opening an account, customers must provide sufficient information about themselves to satisfy the bank. Money laundering is not considered to be a major problem in Saudi Arabia due in part to the extremely severe penalties for drug related crimes.

They advised that it has been Al Rajhi's policy to primarily deal with the largest local bank in each country. As regard to their correspondent banking relationship in Sudan, they confirmed that the main correspondent is Bank of Khartoum, which also maintains a GBP account with HSBC London. Raju confirmed that relationship with other Sudanese banks is either inactive or insignificant. He also advised that the bank is reviewing its overall relationship portfolio with a view to close the dormant inactive accounts. The bank confirmed that it fully understands the risks associated with providing financial services or making funds available to listed terrorists/sanctioned names notified by the competent authorities. He confirmed that necessary due diligence based on FATF/SAMA guidelines is performed at the relationship inception stage. They have an automated process to detect if the client appears on the list of SDN/sanctioned names advised by the regulatory authority. It also has a transaction monitoring system to detect unusual activity in the account and provides daily reports, which are reviewed by compliance. If there is suspicion about an account, it is immediately reported to SAMA and the account is put under surveillance. If it is established that the account is indeed being used for money laundering purposes, the relationship is immediately exited.

---

Simon Putt, Hissam Kamal - 19th March 2007:
Met with Anand Anchan, AGM, Treasurer; Samer Farhoud, Deputy Treasurer and Abdulaziz Al Amro, Senior Manager - Head of Products. Meeting to pitch a rated international Sukuk issue by Al Rahji Bank. They were very open that they would very much like to issue along the lines of ADIB and Sharjah Islamic Bank, and that although they are highly liquid, they would do it tomorrow for strategic purposes.

---

Salman Hussain, Pallavi Kempaiah - 19th July 2006:
Met with Mohammed Fazal Haque, Manager Financial Institutions and Mohammed Ashraf. Cassim Docrat (head of Financial Institutions) was attending the ADB Conference in Hyderabad, hence MH filled in for him. MH appraised us that the Org was being



Confidential Treatment Requested HSBC-PSI-PROD-0102317

revamped with focus moving to new areas like corporate banking apart from consolidation in the retail sector.

---

Alastair Muir, Nigel Weir, Emran Alireza (in London) - 23rd January 2006:
Bank Notes - they currently buy 75-100m per month of mainly dollar notes and use Commerzbank for this service they also occasionally buy other European currencies and are interested in opening up a dialogue. The new treasurer Anond is the contact +966 1 211 6000. Met with Cassim Docrat, AGM Head of Financial Institutions. He was formerly with BIB in Bahrain and for the last two years has been working out of Canada for the Islamic Development bank. He was offered and accepted a job with Al Rajhi in May 2005. He reports into Fahad Abdullah Al Rajhi, who is head of Treasury & Financial Institutions and was also due to attend this meeting but was delayed in Switzerland. He estimates that as a bank they are responsible for transaction values in the region of USD 12 billion per annum and believes this represents a substantial piece of business for the FI market and he is keen to share this around. He gives the impression of being keen to develop business with HSBC globally. They currently have 380 branches and around 5.5K staff. He has an area manager responsible for each region Europe, Asia and the Americas. Shariq should make contact with Cassim to introduce himself, he has not met many people from HSBC in the last 9 months in his role. Treasury - Colin Willis is no longer Head of Treasury and is on a special project and been replaced by Anand Anchan. Colin favoured certain institutions and HSBC was not one of them and the former head of FI Mr Raju and Colin did not communicate.

| | |
|---|---|
| Does the Client have KYC and Anti-Money Laundering (AML) policies and procedures documented ? | ● Yes ○ No |
| If yes, has a copy been filed in the Client file ? (Required if Client is in a High Risk Country ) : | ● Yes ○ No |
| Does the Client's KYC and AML Policies and Procedures require identification documentation and verification when opening an account ? | ● Yes ○ No |
| Does the Client have a screening process regarding the procedures for the establishment of new accounts (including obtaining information on the source of funds.) ? | ● Yes ○ No |
| Does the Client offer accounts or services to anonymous customers ? | ○ Yes ● No |
| Does the Client have an ongoing system in place to monitor and report suspicious activity ? | ● Yes ○ No |
| What are the procedures when unusual transactions are detected as a result of the Client 's ongoing monitoring process ? | Unusual customer activity is monitored through their AML automated monitoring system (PRISM-ACI) by establishing rules which generate daily alerts in line with FATF recommendations. Suspicious activity is reported to management and then to the AML unit (AML Reporting Officer currently Mr Ali Al Sufiyan). It is reported to the local authorities (Anti Financial Crimes Unit - Saudi FIU), as well as sending a copy to SAMA (Saudi Arabian Monetary Agency). |
| How are the Client's KYC and AML Policies and Procedures communicated and enforced in the Client 's network of domestic and foreign offices ? | Communicated through circulars, training seminars. AML unit enforces Policies and Procedures. |
| Does the Client have a formal / independent Anti-Money Laundering Compliance function ? | ● Yes ○ No |
| If yes, does the Client provide Anti-Money Laundering Training to its employees ? | ● Yes ○ No |
| If yes, how often is this AML training provided and to whom : | All new bank staff receive AML/TF training. All Managers, Controllers, Operations and Counter Staff receive AML Training annually. |
| Comment on the Client's KYC and AML practices (past, present and/or future): | The Compliance Officer has supplied by email a copy of their AML Policy (in English) which was issued July 2006. The bank also provided us with the 56 page document giving detailed rules on AML from SAMA and confirmation that they comply with these. In summary, the information provided by the customer covers all areas of AML requirements.<br><br>No banking services are provided to new customers without proper identification. The bank requests information on our customer's source of cash so that a reasonable understanding of the profile of the customer is obtained. Customer records and documents are maintained for at least 10 years from the date of origination of the record or document or, in the case of Account Opening documents and Customer identification records, 10 years from the date the Customer closes his account.<br><br>An Anti-Money Laundering Unit (AML Unit) is established within |



Confidential Treatment Requested HSBC-PSI-PROD-0102318

| | |
|---|---|
| | their Internal Audit. Staff is required to alert their manager if they suspect money laundering. The AML Unit will the scrutinise the account of the Customer under suspicion of money laundering and, if warranted, alert SAMA and the authorities.<br><br>A copy of their extensive rules governing SAMA's Anti Money Laundering and Terrorist Financing is held on client file in London. Saudi Arabian Monetary Agency (SAMA), the Central Bank of the Kingdom of Saudi Arabia, was established in 1952. They issue national currency, the Saudi Riyal;<br>act as a banker to the government; supervise commercial banks; manage Kingdom's foreign exchange reserves; conduct monetary policy for promoting price and exchange rate stability; and promote the growth and ensures the soundness of the financial system. |
| **Does the Country the Client is located in have KYC and AML laws and regulations ?** | ● Yes ○ No |
| **If yes, comment on the country 's KYC and AML practices (past, present and/or future) regarding prevention of money laundering and terrorist financing :** | Extract from 2009 International Narcotics Control Strategy Report (INCSR)<br><br>The Kingdom of Saudi Arabia is a growing financial center in the Gulf Region of the Middle East. However, there is no indication that narcotics-related money laundering currently is vulnerability in the country. Saudi Arabia is neither a major center within the region for financial crimes nor an offshore financial center. Saudi officials acknowledge difficulty in following the money trail due to the preference for cash transactions in the country. Money laundering and terrorist financing are known to originate from Saudi criminal enterprises, private individuals, and Saudi-based charities. There is an absence of official criminal statistics, but reportedly, there was no significant increase in financial crimes during 2008. It is believed the proceeds of crime from stolen cars and counterfeit goods are substantial. All eleven commercial banks in Saudi Arabia operate as standard "Western-style" financial institutions and are under the supervision of the central bank, the Saudi Arabian Monetary Agency (SAMA). In 2003, Saudi Arabia approved a new Anti-Money Laundering Law that contains criminal penalties for money laundering and terrorist financing. The law bans conducting commercial or financial transactions with persons or entities using pseudonyms or acting anonymously; requires financial institutions to maintain records of transactions for a minimum of ten years; adopts precautionary measures to uncover and prevent money laundering operations; requires banks and financial institutions to report suspicious transactions; authorizes government prosecutors to investigate money laundering and terrorist financing; and, allows for the exchange of information and judicial actions against money laundering operations with countries with which Saudi Arabia has official agreements.<br><br>In May 2003, SAMA issued updated anti-money laundering and counterterrorist finance guidelines for the Saudi banking system in accordance with the Financial Action Task Force's (FATF) 40 Recommendations on Money Laundering and the Nine Special Recommendations on Terrorist Financing.<br><br>In June 2007 the GOSA enacted stricter regulations on the cross-border movement of money, precious metals, and jewels. |
| | The new 2007 regulations also stipulate that whoever is convicted of money laundering will be imprisoned for up to ten years and fined up to five million Saudi riyals (approximately $1,333,300). The regulations also state, "Whoever funds terrorists or terror organizations is considered to be committing a crime of money laundering."<br><br>Saudi Arabia participates in the activities of the FATF through its membership in the Gulf Cooperation Council (GCC), and as a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), Saudi Arabia will be undergoing a second |



Confidential Treatment Requested HSBC-PSI-PROD-0102319

| | |
|---|---|
| | FATF mutual evaluation in February 2009. Saudi Arabia is a party the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, and the UN Convention for the Suppression of the Financing of Terrorism. Saudi Arabia has signed but not ratified the UN Convention against Corruption.<br><br>The Government of Saudi Arabia is taking steps towards enforcing its anti-money laundering/counterterrorist finance laws, regulations, and guidelines. However, Saudi Arabia continues to be a significant jurisdictional source for terrorist financing worldwide. The GOSA continues to take aggressive action to target direct threats to the Kingdom, but could do more to target Saudi-based support for extremism outside of Saudi's borders. Saudi authorities should hold terrorist financiers publicly accountable through prosecutions and full implementation of UNSC obligations. The GOSA also needs to take concrete steps to establish a charities oversight mechanism that also overseas "multilateral organizations" and enhances its oversight and control of Saudi entities with overseas operations. Charitable donations in the form of gold, precious stones and other gifts should be scrutinized. There is still an over-reliance on suspicious transaction reporting to generate money laundering investigations. Law enforcement agencies should take the initiative and proactively generate leads and investigations, and be able to follow the financial trails wherever they lead. The public dissemination of statistics regarding predicate offenses and money laundering prosecutions would facilitate the evaluation and design of enhancements to the judicial aspects of its AML system. Saudi Arabia should become a party to the UN Convention against Corruption.<br><br>http://www.state.gov/p/inl/rls/nrcrpt/2009/vol2/116545.htm |
| **Sources used for Country KYC , supervisory regime and AML information are set out in the HBUS AML Country Risk List . Please refer to the KYC User Guide .** | |

| | |
|---|---|
| **Has the Client been audited ?** | ● Yes ○ No |
| **If yes, date:** | 01/30/2010 |
| **If yes, by whom (Audit Firm):** | Ernst & Young + PriceWaterhouseCoopers Al Juraid |
| **Does the Client have a credit rating ?** | ● Yes ○ No |
| **If yes, who issued it (S&P, Moody's or other):** | Fitch |
| **If yes, date issued:** | 03/08/2010 |
| **If yes, credit rating:** | A+ (long-term)<br>F1 (short-term) |

| | |
|---|---|
| **Employing reasonably available information, has due diligence been conducted on the Client 's AML record?** | ● Yes ○ No |
| **Has negative information been identified ?** | ● Yes ○ No |
| **Specify how the reputational risk is being controlled :** | A multitude of allegations have surrounded the Al-Rajhi family implicating them in a gamut of highly adverse activities ranging from money laundering to terrorist financing. The current facts, however, do not easily support these allegations. Presently, no U.S. or foreign government law enforcement or regulatory body has stated, unconditionally, that any member of Al-Rajhi or any company controlled by Al-Rajhi is under sanction. The U.S. continues to pursue relationships with Saudi Arabia and the Al-Rajhi family irregardless of the allegations being levied against charitable institutions with some presumably direct and indirect links to Al-Rajhi. The major 9/11 lawsuit, which included Al-Rahji, has been dropped against the family and family-related institutions. |



Confidential Treatment Requested HSBC-PSI-PROD-0102320

| | |
|---|---|
| [redacted] | However, there is some reputational risk and the possibility that further investigations by U.S. authorities may ultimately uncover substantiating proof of the Al-Rajhi connection to terrorism is certainly a concern. Our account relationship with Al-Rajhi will be primarily selling USD banknotes out of London. The risk of future sanctions and the reputational risk based on the aforementioned allegations should be measured against the current risks involved in our relationship when ultimately deciding our course of action. Therefore, London Banknotes feels that the bank poses minimal reputational risk to us. The senior management of the bank is fully aware of the previous issues that caused our relationship to terminate and understand the we have to abide by United States banking law and regulation. They have agreed to advise us in changes in market and customer type of USD banknote business, whenever it occurs. Given that the bank operates its banknotes operations internally only, coupled with the fact that this relationship is categorized an SCC, and the other management assurances we feel that we can reactivate this relationship. |

| | |
|---|---|
| Has Enhanced Due Diligence been conducted for this High Risk Client/Country, which includes Compliance (ICRO) checking, OFAC & public databases for the names of the customer, principals/beneficial owners, and executive officers ? | ● Yes ○ No |
| If yes, has Compliance confirmed that there is no direct adverse information to preclude business with this client ? | ● Yes ○ No |
| If yes, date : | 08/09/2010 |
| Date of most recent KYC review : | 08/11/2010 |
| Department of the Account Manager / Administrator (AM) who prepared this profile : | Banknotes Trading |

## Signature Section

| | |
|---|---|
| Account Manager / Administrator (AM) Approval: | Denise HOLDER 16/08/2010 15:11 |
| Client Services / Manager (CS) Approval: | Stephen J ALLEN 17/08/2010 13:10 |
| Functional Head of Business / Executive (IS) Approval: | David M Wilens 08/17/2010 10:22 AM |
| Relationship Manager (RM) Approval: | Not Required |
| Institutional Banking / Team Leader (IB) Approval: | Christopher Lok 08/18/2010 03:32 PM |
| Regional Money Laundering Control Officer (CO) Approval: | |

## APPROVE/DENY HISTORY:

Created: 05/29/2001 10:20:13 AM Converted from Epic

05-23-2001 14:28 PM Created by: <EPIC to KYC Conversion Process>

<Address>:

P.O. BOX 28
RIYADH 11411
SAUDI ARABIA

<Status> :A - Approved
<Client Name> :AL RAJHI BANKING AND INVESTMENT CORPORATION
<Acct_offr_code> :343141
<Acct_offr> :
<Approval_acct_officer> :*** Mouzannar, Joe *** 4/9/98 16:04:00:276
<Unit_offr_code> :343137
<Unit_mgr> :
<Approval_unit_mgr> :*** Baba, Fawaz *** 4/9/98 17:27:09:773
<Exec_dept> :



Confidential Treatment Requested HSBC-PSI-PROD-0102321

<Approval_exec_dept> :
<Legal_dept> :
<Approval_legal_dept> :
<Legal dep comments> :

---

In Process: (Old Status Approved), 08/15/2002 02:25 PM: Sharyn Malone

Purpose of account changed from: [] to: [USD Clearing]
License Country(1) changed from: [] to: [SAUDI ARABIA]

---

AM Approved: (Old Status In Process), 21/01/2004 12:08: Anna T BROBERG
No Comments

---

CS Approved: (Old Status AM Approved), 21/01/2004 12:19: Stephen J ALLEN
No Comments

---

IS Approved: (Old Status CS Approved), 01/21/2004 05:34 PM: Christopher Lok
No Comments

---

IB Denied: (Old Status IS Approved), 02/19/2004 04:26 PM: Beth Fisher
Pls remove Beth Fisher's name as RM for this bank. HBUS NYK CIB RMs have never met this bank. Since this is an SCC, an RM is not in the approval chain on the Notes system. If an RM name is needed, we suggest to input the Banknotes Product RM - or an RM in the Middle East who is familiar with the bank.

---

AM Approved: (Old Status IB Denied), 20/02/2004 09:01: Anna T BROBERG
No Comments

---

CS Approved: (Old Status AM Approved), 20/02/2004 09:13: Stephen J ALLEN
No Comments

---

IB Approved: (Old Status IS Approved), 03/16/2004 12:10 PM: Brian Robertson
No Comments

---

CO Denied: (Old Status IB Approved), 11/09/2004 04:51 PM: Teresa Pesce
No Comments

---

AM Approved: (Old Status CO Denied), 11/01/2005 17:30: Sally G LOMAS
Profile updated

---

CS Approved: (Old Status AM Approved), 12/01/2005 08:33: Stephen J ALLEN
No Comments

---

IS Approved: (Old Status CS Approved), 01/27/2005 11:22 AM: Christopher Lok
I would ask for conditional approval for another 6 months as todate despite negative news report no official commencement of investigations have commenced. If and when reliable info pointing to this client not appropriate for our business relationship we can then terminate immediately.

---

IB Approved: (Old Status IS Approved), 01/28/2005 06:11 PM: Timothy Waring
No Comments

---

CO Denied: (Old Status IB Approved), 02/02/2005 10:14 AM: Lynda J Cassell
Denied at the request of Daniel Jack

---

AM Approved: (Old Status CO Denied), 14/11/2006 17:26: Gordon BROWN
Reactivating customer, ready for KYC reapproval process.

---

CS Approved: (Old Status AM Approved), 14/11/2006 17:35: Stephen J ALLEN
No Comments

---

IS Approved: (Old Status CS Approved), 11/14/2006 02:13 PM: Christopher Lok
No Comments

---

IB Denied: (Old Status IS Approved), 11/17/2006 09:20 AM: Beth Fisher
Please remove my name as RM. I do not know this bank.

---

AM Approved: (Old Status IB Denied), 04/12/2006 14:08: Gordon BROWN
RM approval changed to Christopher Lok, ready for KYC approval process.

---

CS Approved: (Old Status AM Approved), 04/12/2006 14:13: Stephen J ALLEN



Confidential Treatment Requested HSBC-PSI-PROD-0102322

No Comments

---

IS Approved: (Old Status CS Approved), 12/04/2006 02:33 PM: David M Wilens
No Comments

---

IB Approved: (Old Status IS Approved), 12/04/2006 03:07 PM: Christopher Lok
No Comments

---

Approved: (Old Status IB Approved), 12/04/2006 04:44 PM: Alan T Ketley
Approval is given for Banknotes business - if PCM business is added at some future date it must not include cash letter or demand drafts. Should a PCM relationship commence, senior PCM management should approve it in writing.

---

In Process: (Old Status Approved), 06/02/2008 11:48: Christopher BAYLISS

Name of principals changed from: [Sulaiman Abdul Aziz Al Rajhi,Saleh Abdul Aziz Al Rajhi,Mohammed Abdul Aziz Al Rajhi,Abdullah Abdul Aziz Al Rajhi (four brothers control 57%),Publicly held (<5% shareholder)] to: [Sulaiman Abdul Aziz Al Rajhi,Saleh Abdul Aziz Al Rajhi,Abdullah Abdul Aziz Al Rajhi (three brothers control 44.5%),General Organization for Social Insurance,Publicly held (<5% shareholder)]
Ownership percentage changed from: [57,43] to: [ 24.7,13.7,6.1,10,45.5]

---

AM Approved: (Old Status In Process), 26/03/2008 12:03: Gordon BROWN
KYC review completed, ready for reapproval process.

---

CS Approved: (Old Status AM Approved), 26/03/2008 12:22: Stephen J ALLEN
No Comments

---

IS Approved: (Old Status CS Approved), 03/26/2008 04:38 PM: David M Wilens
No Comments

---

IB Approved: (Old Status IS Approved), 03/26/2008 04:43 PM: Christopher Lok
I fully support re-activating this account while we will diligently monitor the account's performance.

---

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

---

In Process: (Old Status Approved), 26/01/2010 13:40: Denise HOLDER

Name of principals changed from: [Sulaiman Abdul Aziz Al Rajhi,Saleh Abdul Aziz Al Rajhi,Abdullah Abdul Aziz Al Rajhi (three brothers control 44.5%),General Organization for Social Insurance,Publicly held (<5% shareholder)] to: [Lehman Al Rajhi,Saleh Abdul Aziz Al Rajhi,Abdullah Abdul Aziz Al Rajhi ,General Organization for Social Insurance,Publicly held (<5% shareholder)]
Ownership percentage changed from: [24.7,13.7,6.1,10,45.5] to: [ 24.9,13.9,5.9,9.9,45.4]

---

AM Approved: (Old Status In Process), 08/03/2010 07:51: Denise HOLDER
Temporary AM approval to allow HK to update their BN page

---

CS Denied: (Old Status AM Approved), 08/03/2010 11:02: Stephen J ALLEN
No Comments

---

AM Approved: (Old Status CS Denied), 12/04/2010 09:22: Denise HOLDER
Temporary AM approval to allow the London BN page to be updated

---

CS Denied: (Old Status AM Approved), 12/04/2010 09:36: Stephen J ALLEN
denied as requested by DH

---

AM Approved: (Old Status CS Denied), 16/08/2010 15:11: Denise HOLDER
No Comments

---

CS Approved: (Old Status AM Approved), 17/08/2010 13:10: Stephen J ALLEN
No Comments

---

IS Approved: (Old Status CS Approved), 08/17/2010 10:21 AM: David M Wilens
No Comments

---

IB Approved: (Old Status IS Approved), 08/18/2010 03:32 PM: Christopher Lok
No Comments

---

CO Denied: (Old Status IB Approved), 09/09/2010 08:58 AM: Joanna S Flanagan
business being exited



Confidential Treatment Requested HSBC-PSI-PROD-0102323

Revision History

| Editor | Date | Reason for Update |
|---|---|---|
| Denise HOLDER | 15/10/2010 08:12:31 | Profile Deactivated |
| Denise HOLDER | 11/08/2010 09:31:47 | Various updates - Financials, management, EDD ROF and ALE |
| Denise HOLDER | 26/01/2010 13:48:10 | Updated GRM support |
| Denise HOLDER | 26/01/2010 13:40:24 | Annual review - various updates |
| Denise HOLDER | 01/12/2009 12:56:04 | Updated financials, auditors report and call report |
| Denise HOLDER | 15/09/2009 08:01:10 | Updated p-cert |
| Denise HOLDER | 15/04/2009 09:32:24 | Updated Visitation |
| Denise HOLDER | 02/03/2009 08:28:42 | Added Hong Kong to HSBC Banknote Office |
| Denise HOLDER | 23/01/2009 10:36:09 | Updated EDD date |
| Sally G LOMAS | 15/01/2009 12:23:01 | GRM |

CRR Revision History

| Last Updated By/ On | Update Type(Field/General) | Old Value | New Value |
|---|---|---|---|
| Denise HOLDER - 15/10/2010 08:12:36 | epic_activityStatus | Active | Deactivated |



Confidential Treatment Requested

[redacted] = Redacted by the Permanent Subcommittee on Investigations

# Know Your Customer Profile

## HSBC Bank USA, N.A.

Version 7.0

Reference: [redacted] Client Profile Approval Status: In Process

Country Risk Status: High Risk

Needs Re-Approval

Client Name: Islami Bank Bangladesh Limited
Country: BANGLADESH

* Changes to these fields on "Approved" Profiles require Re-approval.

## I. General Information

| | |
|---|---|
| Client Name: | Islami Bank Bangladesh Limited |
| Is this a Client of Global Payments and Cash Management (PCM in Delaware)? | ● Yes ○ No |
| Is this a Client of Corporate and Institutional Banking (CIB)? | ● Yes ○ No |
| If yes, CIB Industry: | Banks & Securities Companies |
| * Client Activity Status: | Active |
| * Client Category: | ○ Domestic Financial Institution<br>● Foreign Financial Institution<br>○ Investment Advisor or Fund<br>○ Corporate Client<br>○ Sole Proprietor or Partnership |
| Type of Client: | ● Bank ○ Non-Bank |
| Legal entity: | ● Parent ○ Branch ○ Subsidiary |
| Is the Client a Central Bank? | ○ Yes ● No |
| * Is Client a "Special Category of Client"? (Refer to Group Policy GCL 000074 on SCCs) | ○ Yes ● No |
| Has the Client's name and location been checked against Government lists of known or suspected terrorists or criminals (e.g., OFAC and World-Check)? [This is to be completed for prospects only - existing clients are scanned monthly and when the OFAC list changes .] | ● Yes ○ No |
| Address (Business / Permanent): (A PO Box alone is not sufficient for address .) | 40, Dilkusha Commercial Area |
| City: | Dhaka, Bangladesh 1000 |
| * Country: | BANGLADESH |
| Telephone: | +880 2 955 2616<br>+880 2 956 7162<br>+880 2 956 9147 |
| Email address of Client contact : | [redacted] |
| Client's URL (Web Site): | www.islamibankbd.com |
| Fax: | +880 2 956 4532<br>+880 2 956 8634 |
| Swift Code: | IBBLBDDH |

Permanent Subcommittee on Investigations
EXHIBIT #86

[redacted] = Redacted by the Permanent Subcommittee on Investigations

| | |
|---|---|
| Taxpayer ID (EIN or SSN): | Pending |
| New Client or Existing Client : | ○ New (prospect)<br>● Existing (active)<br>○ Agency Arrangements only |
| Account Number: | [redacted] |
| Date Account Activated : | 10/18/2000 |
| * Purpose of Account : | USD clearing Services,Funds Transfer Clearing Account |
| Is the Client or its Parent traded on an Exchange ? | ● Yes ○ No |
| If yes, Name of Exchange : | Dhaka & Chittagong Stock Exchanges |

| | |
|---|---|
| CIP Verification of ID - Has the original customer identification/documentation been verified , as per USA PATRIOT Act regulations for new customers (or new accounts /locations for existing customers )? (Documentary and/or Non-Documentary evidence ) | ● Yes ○ No |
| Documentary Evidence for CIP : (this may include banking license , registered articles of incorporation , partnership agreement , etc. - with more detail in Section VII ) For the Banking License , indicate "Yes" if you have a copy of the license or a printout /screenshot from their Central Bank 's website appropriately listing the client /bank. | |
| If yes, was documentary evidence verified ? | ● Yes ○ No |
| If yes, type of document (s): | Banking License |
| Non-Documentary Evidence CIP : (this may include financial statements , references, customer contact/visitation, Patriot Act Certification , company website, database searches, etc. - with more detail in other sections ) | |
| Was non-documentary evidence verified ? | ● Yes ○ No |
| If yes, indicate verification methods used : | Customer Contact/Visitation, Financial Statements, Third Party Source (eg Banker's Almanac), Banker's Almanac, Client's website & Stock Exchange, Regulator's Website Screenprint, Auditor's Report |

| | |
|---|---|
| General comments : | I. Company Overview<br>**********<br>The establishment of Islami Bank Bangladesh Limited on March 13, 1983, is the true reflection of this inner urge of its people, which started functioning with effect from March 30, 1983. This Bank is the first of its kind in Southeast Asia. It is committed to conduct all banking and investment activities on the basis of interest-free profit-loss sharing system. In doing so, it has unveiled a new horizon and ushered in a new silver lining of hope towards materializing a long cherished dream of the people of Bangladesh for doing their banking transactions in line with what is prescribed by Islam. With the active co-operation and participation of Islamic Development Bank (IDB) and some other Islamic banks, financial institutions, government bodies and eminent personalities of the Middle East and the Gulf countries, Islami Bank Bangladesh Limited has by now earned the unique position of a leading private commercial bank in Bangladesh.<br><br><source: http://www.islamibankbd.com/introduction.php> |
| | II. Support Statement<br>**********<br>GRM Support provided by Sadique Reza on 04/17/2011," You have our support for the below mentioned relationship."<br><br>III. Findings<br>**********<br>EDD ROF requested 9/21/2009, Compliance denied responding, "I believe an updated EDD ROF is NOT needed at this time for this PCM client. |



Confidential Treatment Requested

[redacted] = Redacted by the Permanent Subcommittee on Investigations

EDD ROF 5/11/2006, 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.

GRM was queried and visited client:

CLIENT'S RESPONSE:
The client has indicated that the above-referenced case was not of terrorist financing but rather an isolated case of failure/negligence by branch officials to follow their AML guidelines and operating procedures.

GRM'S COMMENT:
"We performed the due diligence visit yesterday afternoon." "As, we found the explanation on the event and responses to the KYC questionnaire satisfactory, we recommend not to take any further action on Islami Bank. However, considering that Islami Bank is involved in mass banking with a pretty large branch network without a sophisticated or integrated IT platform, there will always be a chance that isolated incidents like this might be found. As such, we will closely monitor the future events and keep you informed as soon as any issue of concern is detected." Muhammad Shohiduzaman, email dated March 21, 2006
According to FIG HBUS, various sources have indicated that this is the third time that the client, Islami Bank Bangladesh has been fined for covering up militants' transactions.

Additionally, ROF recommended that the subject client's KYC profile should be classified as SCC due to the following reason:

"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." One of the subject client's shareholder Islamic Development Bank, Jedda, Saudi Arabia, (7.50%) has membership in 56 countries and field representatives in 11 several countries, some of which are OFAC sanctioned countries.

LCO on 5/15/2007 replied, "As for the IDB connection I would say no to SCC."

LCO was queried for review of status 2/3/2010, replied "The information appearing below does merit SCC classification."

IV. AML Discussion
**********

AML Discussion took place 3/29/2011, see visitation section for details

V. AML Policy
**********

AML Policy in file

MTS Questionnaire in file. Client lists 53 MSBs for which it acts as payout agent. Bank of Bangladesh confirms the following as remittance relationships:

[redacted]



Confidential Treatment Requested

[redacted] = Redacted by the Permanent Subcommittee on Investigations

| | |
|---|---|
| | [redacted]<br><br>Client pays out funds but does not transmit. AML program applies and user must have an account. Transactions are monitoreed as per AML KYC Policy of bank.<br><br>VI. Notable Information<br>**********<br>Directors biographies pending |

## II. Ownership/Management/Business Information

| * Name of Principals or Beneficial Owners : (List all shareholders with 10% or more ownership. If Corporate Client not publicly traded, Special Category Client or High Risk Country , then list all shareholders with 5% or more ownership): | * % of ownership: |
|---|---|
| Arabsas Travel & Tourist Agency K.S.A<br>Al Rajhi Company for Industry & Trade, Riyadh Al-KhobaraSaudi Arabia<br>Islamic Development Bank, JeddahSaudi Arabia<br>The Public Institution for Social Security, Kuwait CityKuwait<br>Kuwait Finance House KSC, Kuwait CityKuwait<br>Abdullah Abdul Aziz Al-Rajhi, KSA<br>Others, none with 5% or Greater | 9.99<br>9.94<br>7.50<br>6.46<br>5.25<br>7.58<br>43.73 |
| **Name of Corporate Officers :** | **Title:**<br>(e.g. Chairman, Vice/Deputy Chairman, President, Chief Executive Officer, Chief Financial Officer, and those Members of the Board or others with direct influence over the operations of the entire organization) |
| ~~Abu Nasser Muhammad Abduz Zaher~~<br>Yousif Abdullah Al-Rajhi<br>Abdul Mannan<br>Shamsul Haque<br>Mustafa Anwar | ~~Chairman of the Board~~<br>Vice-Chairman<br>Managing Director<br>Deputy MD<br>Vice chairman |
| **Total Number of Employees :** | 9588 Source: Bankers almanac |
| **Where is the Client incorporated :** | BANGLADESH |
| **Year Established :** | 1983 |
| **What is Client's Rank in country (asset based):** | 3 Source: Banker's Almanac |
| **How many branches/offices does Client have :** | 200 Source: Client's website |
| **Where are the branches/offices located :** | |



Confidential Treatment Requested

HSBC-PSI-PROD-0117225

| | |
|---|---|
| | Bangladesh |
| For Foreign Financial Institutions only : Indicate nature of Client 's business (select all that apply): | Commercial/Retail Banking, Money Service Business Pay Out Agent, Other<br>**Please describe:** Other: Shariah Banking |
| Indicate reporting agency or supervisory /regulatory body(ies) in the country(ies) of operation: | Bangladesh Bank |
| * List license type: | * Year of Issuance: * Country of Issuance: |
| Commercial Banking License | 1983 BANGLADESH |
| | |
| Is Client's Shareholders' Equity 25 Million USD or more? | ● Yes ○ No |
| Has the Client been under the same ownership for last 10 years (or 5 years if in a High Risk Country )? | ○ Yes ● No |
| Is the Client or its Parent State -Owned? (Answer "Yes" if the government has the largest ownership percentage) | ○ Yes ● No |
| Please list principal affiliates which have relationships with HSBC: | None |
| If the Client or affiliates have other Accounts with HSBC entities , provide the country in which each account is located : | HSBC Dhaka |

## III. Referral Information

| | |
|---|---|
| How was the Client introduced to the bank ? | Long standing relationship |
| By whom: | Long standing relationship |
| Is a GIF form or a CIBM KYC Profile from a referring office in the Client file? (If the client was referred from another HSBC entity /office) | ● Yes ○ No |
| Global Relationship Manager (GRM) or Country Relationship Manager (CRM) recommendation received and in Client file ? | ● Yes ○ No |
| If yes, name of GRM or CRM: | Sadique Reza |
| If yes, date: | 04/17/2011 |
| Name of Sales/Marketing/Trading person assigned to Client : | Hersel Mehani |
| Name of Relationship Manager (RM) for KYC Approval: | Wen Lu WU |

## IV. Visitation

### General Visitation:

| | |
|---|---|
| Was a Client Site Visit performed ? | ● Yes ○ No |

### Visitation Details:

| | Most Recent Site Visitation : | Prior Site Visitation : |
|---|---|---|
| Date of visitation : | 10/19/2010 | 01/20/2010 |
| By Whom: | Shafquat Hossain, Sadique Reza - Mgr IB/HSS, Razi S Fakih - Acting CEO Amanah, Amhad Rabiul Hasan | Quazi, Ahsan H, RM, IB |
| Purpose - Banking Products/Services discussed: | Site Visit: Visit Head Office | AML Discussion |
| Is call report in Client file ? | ● Yes ○ No | ● Yes ○ No |
| Comments - provide other details regarding visitation (e.g., Client contact name and title, documentation reviewed): | Client Attendees: Atiqur Rahman Khadem - Principal Officer | On site visit with Assistant VP Atiqur Rahman KHADEM |

## V. Purpose/Nature of Activity

| Transactions* | Expected Frequency | Transactions* | Expected Frequency |
|---|---|---|---|
| | | | |



Confidential Treatment Requested HSBC-PSI-PROD-0117226

| | | | |
|---|---|---|---|
| ACH (Clearing House) | | Money Market | |
| ARP (Account Reconciliation) | | Securities Lending | |
| Asset Management | | Swaps | |
| Check Collection (Cash Letter) | Occasionally | Sweep Overnight Investment | Daily |
| Checks/Demand Drafts | | Time Deposits | |
| Clearing (Funds Transfer) | Daily | Trading - Banknotes * | |
| Commercial Line | | Trading - Bonds | |
| Commitments | | Trading - Derivatives | |
| Control Disbursement | | Trading - Emerging Markets | |
| Current Account | Daily | Trading - Equities | |
| Derivatives | | Trading - Fixed Income | |
| Factoring | | Trading - Foreign Exchange | |
| Forward Rate Agreements | | Trading - Futures | |
| Globalization | | Trading - Securities (Treasury) | |
| Guarantees (CD offset, Deposits) | | Trading/Lending - Precious/Base Metals | |
| Intra Day Exposure Limit | | Zero Balance Account | |
| Letters of Credit / Bankers Acceptances | Occasionally | | |
| Loans | | | |
| Lockbox | | Other: | |

* Refer to Client's file for anticipated volume of activity.

| | |
|---|---|
| Managing for Value - Client's Profitability for HSBC (Annualized revenue - actual or anticipated, in USD equivalent): This is required for all PCM clients. | 100,082 |

## VI. Financial Summary

| All financial data reported below should be in USD equivalent for comparison purposes globally (e.g., no non-USD currencies and denominated in actual USD dollars ). | |
|---|---|
| Financial Statement date: | 12/31/2009 |
| Currency (Local): | BANGLADESH TAKA |
| Exchange rate (per USD): | 68.139100 |
| Denomination: | Actual |
| Assets: | 3,939,140,000 |
| Shareholders Equity: | 284,577,000 |
| Net Income: | 48,174,400 |

## VII. Documentation Checklist

| | |
|---|---|
| List of Authorized Signatories and /or Corporate Resolution in Client file? | ○ Yes ● No |
| If no, explain: | Signatures are housed in our Buffalo Office. |
| Current Annual Report (Form 10-K) or Financial Statement in Client file? | ● Yes ○ No |
| Indicate Banking References and Relationship (List 3) (Name, Country, Date and Relationship): | See below |
| Is banking reference documentation in Client file (for Clients located in High Risk Countries )? | ○ Yes ● No |
| If no, explain: | "Longstanding Relationship; Waived per Compliance's email dd 10/5/04 |



Confidential Treatment Requested HSBC-PSI-PROD-0117227

## Bank Client and Not a Central Bank

| | |
|---|---|
| Copy of Banking License in Client file ? | ● Yes ○ No |

## Foreign Bank Client and Not a Central Bank

| | |
|---|---|
| Is a USA Patriot Act Certification on file ? | ● Yes ○ No |
| If yes, date received by HSBC: | 03/27/2011 |
| If yes, date most recent Certification or Re -Certification was executed/signed by customer? (required by US Treasury every 3 years) | 03/27/2011 |

## VIII. Summary of Reasons

We have reviewed the information provided above in the context of the bank 's "Know Your Customer" policy and "due diligence" requirements and criteria . Based on the following summary of reasons , we feel comfortable recommending this client for banking business .

Purpose - Explain the purpose of this account / Client relationship and summarize the anticipated activity :

The purpose of this account is to handle USD funds clearing services, Funds Transfer Clearing Account, Cash Letter, Letters of Credit, Sweep Overnight Investments.

Variance: Clients actual activity for the period 05/01/2009 to 04/30/2010 vs 05/01/2010 to 04/30/2011 showed no variance in actual vs expected volumes.

Ownership - Comment on the owner's / principal's background, history and reputation :

Arabsas Travel & Tourist Agency, 9.999%:
**********
Arabsas Travel &Tourist Agency, Kingdom of Saudi Arabia (K S A), 9.99%, is represented by the Al Rajhi Family members. Arabsas is located at Prince Faisal Bin Turki Street, Wizarat District, P.O. Box 152, Riyadh 11411 Saudi Arabia, Tel: (+966-1) 4056565 and Fax (+966-1) 4066009. Arabsas is a travel agency within the Kingdom of Saudi Arabia.

Source: GRM

Yousif Abdullah Abdul Aziz Al-Rajhi, 9.936%
**********
Yusif Abdullah Abdul Aziz Al-Rajhi is a businessman within the Kingdom of Saudi Arabia and also the Vice Chairman of the Board of Directors, Islami Bank Bangladesh Limited. Please refer to the Ownership Section below for his details.

Source: GRM

Al-Rajhi Company for Industry & Trade, 9.94%
**********
According to the ownership confirmation provided by the GRM, Al-Rajhi Company for industry & Trade is represented by Janab Yusif Abdullah Abdul Aziz Al-Rajhi (referenced above), Vice Chairman of the Board of Directors, Islami Bank Bangladesh Limited. Please refer to the Ownership Section below for his details. Al-Rajhi Company for industry & Trade is member of the Al-Rajhi group of companies.which specializes in manufacturing building material products and metal fabrication. The Al Raijhi family is considered by most in Saudi arabia as the country's wealthiest non-royals.

Source:www.alrajhiindustrial.com; & http://en.wikipedia.org/wiki/Al_Rajhi_Bank

Abdullah Abdul Aziz Al-Rajhi, 7.58%
**********
Abdullah Abdul Aziz Al-Rajhi is the Chairman of Gulf Paper Industries Factory (GPIF), a subsidiary of the Al Rajhi group of factories. GPIF is said to be a leading paper mill factory in the Middle East located at the heart of Saudi Arabia.

Source: www.alrajhigroup.com/english'paper/paper_main.html

Islamic Development Bank, Jedda, Saudi Arabia, 7.50%:
**********



Confidential Treatment Requested HSBC-PSI-PROD-0117228

The functions of the Bank are to participate in equity capital and grant loans for productive projects and enterprises besides providing financial assistance to member countries in other forms for economic and social development. The Bank is also required to establish and operate special funds for specific purposes including a fund for assistance to Muslim communities in non-member countries, in addition to setting up trust funds. The Bank is authorized to accept deposits and to mobilize financial resources through Shari'ah compatible modes. It is also charged with the responsibility of assisting in the promotion of foreign trade especially in capital goods, among member countries; providing technical assistance to member countries; and extending training facilities for personnel engaged in development activities in Muslim countries to conform to the Shari'ah.

The present membership of the Bank consists of 56 countries. The basic condition for membership is that the prospective member country should be a member of the Organization of the Islamic Conference, pay its contribution to the capital of the Bank and be willing to accept such terms and conditions as may be decided upon by the IDB Board of Governors.

Each member country is represented on the Board by a Governor and an Alternate Governor. Each member has five hundred basic votes plus one vote for every share subscribed. Generally, decisions are taken by the Board of Governors based on a majority of the voting power represented at the meeting. The Board of Governors meets once every year to review the activities of the Bank for the previous year and to decide future policies. In its annual meeting the Board designates a Chairman, who holds office until the election of another Chairman at the next Board meeting. The Board of Governors is the highest policy-making body. It can delegate powers to the Board of Executive Directors for the general operation of the Bank. However, only the Board of Governors can deal with issues relating to membership, increase or decrease in the Bank's authorized capital, authorize cooperation agreements with international and regional organisations, election of the President and Executive Directors and decide their remuneration.

The Bank's principal office is in Jeddah in the Kingdom of Saudi Arabia. Two regional offices were opened in 1994; one in Rabat, Morocco, and the other in Kuala Lumpur, Malaysia. In July 1996, the board of Executive Directors also approved the establishment of an IDB Representative Office at Almaty, Kazakhstan, to serve as a link between IDB member countries and Central Asian Republics. The office became operational in July 1997 and is now a full-fledged Regional Office. The Bank also has field representatives in eleven member countries. These are: Indonesia, Iran, Kazakhstan, Libya, Pakistan, Senegal, Sudan, Gambia, Guinea Bissau, Mauritania and Algeria.

Source: http://www.isdb.org/irj/portal/anonymous?NavigationTarget=navurl://338b0248cc316b93543d314b0123f928

The Public Institution for Social Security, Kuwait, 6.46%:
**********

Kuwait began a pension scheme on January 1, 1955 within the framework of civil servant system in the public sector. The first independent law for pensions was issued in Law Decree No.3 of 1960. This covered government employees, civil and military, and was followed by an independent law for pensions and indemnities for the military, in accordance with law No.27 of 1961, which came into force on September 9th,1961.

The Public Institution for Social Security is a public institution of independent budget, having a legal personality and subject to the supervision of the Minister of Finance.

The Institution is managed by a Director General with four deputies. They are liable for the implementation of the policy drawn by the Board of Directors. The Director General specifies the Institution's Departments and the specialization of each.

The works of the Institution are performed through five main sectors, which are General Administration Sector, Insurance Sector, Automation Sector, Investment Sector & Insurance Service Personnel

Source: http://www.pifss.gov.kw/english/index2_eng.htm

Kuwait Finance House, 5.25%
**********

Kuwait Finance House (KFH or the Bank) was incorporated in the State of Kuwait in1977, and is listed on the Kuwait Stock Exchange with a market capitalization of US$ 1,950 million as of 31 December 2001. KFH has a an investment grade rating, and has been rated A3 by Moody's. The Government of Kuwait owns 49% of the equity, and the general public holds the remaining shares. KFH is engaged in providing Islamic banking services, and its spectrum of activities include consumer banking, real estate financing, lease financing, trade finance and portfolio investing, all of which are conducted in strict compliance with Islamic Shari'a. The Bank is the market leader in the Islamic banking industry in Kuwait, and holds an estimated 20% of the total deposit base of the country.

During 2002, KFH received a number of regional and international awards, which affirmed the bank's financial strength, quality of assets, and its status as one of the leading banks in the region. In a study carried out by Gulf Banking Consultants based on 2001 financial performance, KFH was ranked first among 25 Gulf based banks in terms of "economic value.

In the global Islamic banking arena, KFH is on the forefront of the industry in terms profitability and total assets under its management. In terms of total assets and net profits, KFH is ranked second to
Al Rajhi Banking and Investment Corporation, Saudi Arabia.

The branch network has grown to 29 branches in Kuwait with separate ladies section. In addition KFH has also recognized the impact of non-branch distribution of services, both in terms of customer service and reduced costs. The bank has become a leader in exploiting technology to serve business needs and its e-Services offer a range of services which we believe to be among the most comprehensive in the world.

Source:http://www.kfh.com/english/Aboutus/index.asp



Confidential Treatment Requested HSBC-PSI-PROD-0117229

Others, none with 5% or more shares, 43.34%

Management - Comment on the Client's professionalism, expertise, experience, and education of senior officers / executives:

Abu Nasser Muhammad Abduz Zaher - Chairman of the Board (Representative: Ibn Sina Pharmaceutical Industry Limited)
**********
Born into a devoted Muslim family at Companygo in Noakhali on July 1, 1948. He achieved his Masters Degree in English literature from the University of Rajshahi. He is the Managing Director of Ibn Sina Pharmaceuticals Industry Limited. He started his professional life with teaching at Khandaker Mosharrof Hossain Degree College in the seventies. Later, he was assigned at the Royal Embassy of Saudi Arabia to Dhaka as Secretary and performed duties for 13 years. He is the Chairman of Industrialists and Businessmen Association of Bangladesh.

Yousif Abdullah Al-Rajhi - Vice Chairman (Representative: Al-Rajhi Co. for Industry & Trade Industrial Division)
**********
Yousif Abdullah Al-Rajhi obtained his Masters Degree from U.S.A. He is the 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 during 1987 to 1995.

<Source: http://www.newagebd.com/2007/sep/04/busi.html>

Abdul Mannan, Managing Director
**********
Mohammad Abdul Mannan, Managing Director of Islami Bank Bangladesh Limited joined the bank at the time of its inception in 1983 as Public Relations Officer. Later, he worked in its Nawabpur & Islampur Branch and served as Branch Incumbent in different capacities in Jessore, Mouchak and Head Office Complex Corporate branch for more than a decade with Success. He received the First Best Manager award of the bank for his outstanding performance in 1991 & 1993. He moved to Saudi Arabia in 1995 as the BankÃ¢â‚¬â„¢s marketing & development representative for KSA and subsequently he was simultaneously assigned to five other Gulf States, namely Kuwait, Qatar, Oman, Bahrain and the U.A.E. He served in those GCC countries till June 2000 and did extensive groundwork for facilitating expatriate remittance to the country as well as to the bank. After returning from his assignment in abroad he took the charge of Head Office Complex Corporate Branch in August 2000 and under his leadership the branch became one of the top branch of the bank within a very short time. He was promoted to the post of Executive Vice President in January 2003. Mr. Mannan took the charge of International Banking Wing in August 2005. He was promoted as Deputy Executive President in 2006.
Source - http://www.islamibankbd.com/management.php

Shamsul Haque, Deputy Managing Director
**********
Md. Shamsul Haque, a career banker joined Islami Bank Bangladesh Limited in 1984 as Principal Officer and served in different capacities in IBBL. He worked as Second Officer of Narayanganj Branch & Rajshahi Branch. He also worked as Manager of Rajshahi Branch, Bogra Branch and also worked as Manager of Foreign Exchange Corporate Branch, Dhaka. He headed Dhaka North Zone and Chittagong Zone to help affiliated branches of respective Zones on progressive line to ensure growth. He also headed Assets Management Division of IBBL and at present he has been entrusted with responsibility for looking after the Internal Control & Compliance Wing of the Bank. He started his career in the Janata Bank as a Probationary Officer in 1979. Later on, he joined the services of United Commercial Bank Limited in 1984 and switched over to Islami Bank Bangladesh Limited in the same year. He obtained his Masters Degree with Honors in Accounting (Finance Group) from Rajshahi University. He obtained Banking Diploma from the Institute of Bankers, Bangladesh. He participated in various training courses, seminars, conferences & workshops at home and abroad and traveled Hongkong, Thailand, Singapore, Malaysia, China, Saudi Arabia, Australia, Iran, UAE and Bahrain. In recognition of his meritorious services, he had been rewarded with Gold Medal for best managerial performance in 1990 and again nominated as one of the Best Managers for the year 1991. He performed the Holy Hajj in the year 2003. Mr. Haque was born in 1st September 1952 in a respectable Muslim family of Noahata in the neighborhood of Rajshahi Divisional City.
Source - http://www.islamibankbd.com/management.php

Mustafa Anwar, Vice Chairman
**********

<source: http://www.islamibankbd.com/management_dtls.php?MID=16>

Visitation - Summarize information obtained from Client visitations and discussions (Call Reports, etc):

AML Discussion - 03/29/2011
HSBC attendees - Saad Ahmed
Client Attendees - Atiqur Rahman Khadem

Detailed Description

Existing Attachments
Since we conducted an FEDD visit to Islami Bank Bangladesh Ltd. along with Mr. Paul M Kennedy, Managing Director, GB FIG and Allen C H Chang, SVP, GB FIG on 01Mar11, we completed the customer due diligence over phone. During the meeting, the following issues have been discussed and details are given below:



Confidential Treatment Requested HSBC-PSI-PROD-0117230

Introduction of New Business and Branch expansion:
There has been only horizontal expansion of branch network. Total 55 branches including SME branches have been opened since 2008.

Ownership Changes:
There has not been any major change in the Banks ownership. ARK confirmed that Mr. Abdullah Abdul Aziz Al-Rajhi is holding more than 5% of the Bank s total shareholding as an individual.

Change in AML policy:
Both the Money Laundering Prevention Ordinance, 2008 and Anti-Terrorism Act 2008 have been approved by the Government as Money Laundering Prevention Act and the Anti- Terrorism Act in 2009. However, there has been no change from the ordinances. 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.

Client on-boarding process:
Islami Bank Ltd advised that they follow very strict KYC policy prescribed by the central bank. For individual clients, photo ID of the customers like passport, driving license etc. are obtained. In recent days, copy of National Identification Card is preferred. Two copies of customers photographs duly attested by the introducer, who is an existing customer/acceptable person to the Bank is obtained. Same procedures are followed while on-boarding local corporate entities for each of the Directors/Sponsors. In case of cross-border clients, all the related documents must be verified by the Bangladesh Embassy in the country of domicile of the client. For cross-border entities other than individuals, reports are obtained through credit agencies like Dun & Bradstreet and others. In addition to the above, to meet Money laundering Prevention Act requirement, possible transaction profile of the client is also recorded.

Policy and status regarding Money Business & other high risk customers:
Dealing with any shell is not permissible in Bangladesh. Islami Bank Bangladesh Ltd does not accommodate any shell bank. According to ARK, they maintain relationships with some exchange houses to facilitate handling of inward remittance business. These exchange houses are maintaining account with them. But the accounts are opened only after the endorsement of Central Bank. Bangladesh Bank, Central Bank considers transacting with money exchange houses as high risk and prescribed specific guidelines to deal with this. It requires the Money Services license issued by the Central Bank or other appropriate authority of its country of domicile, Credit report from any internationally reputed agency, audited financial of last three years, profile of all the directors etc. Also a certificate of clearance from the Bangladesh Consular Office in the country of domicile of the Money Service is required before commencing the relationship with them. ARK confirmed that Islami Bank does not deal with any precious metal or gem traders.

AML Policy & screening process of restricted clients while on-boarding and transactions:
Bangladesh is a member of APG, an FATF style body on prevention of money laundering. All APG members commit to effectively implement the FATF's international standards for anti-money laundering and combating the financing of terrorism. Islami Bank advised that as per their AML policy and guidelines, the Branch and Head Office AML Compliance Officers are regularly monitoring the transactions against a list of persons and entities suspected for terrorism which is provided by the Central Bank. Central Bank, Bangladesh Bank in its AML Circular No. 02 dated 17Jul2002 specifically identified the requirements of KYC and provided formats for regular reporting of abnormal/suspicious transactions. The Branch Managers of Islami Bank Ltd are Branch Anti Money Laundering Compliance Officer (BAMLCO) who require to submit this report to Chief Anti Money Laundering Compliance Officer (CAMLCO) in the Head Office. CAMLCO decides whether to report the transaction to Central Bank or not. CAMLCO is required to submit a quarterly report to Central Bank on abnormal/suspicious transactions.

Correspondent banking and payable through accounts:
Islami Bank Bangladesh Ltd is not allowing any of their customers to provide correspondent banking services through their account maintained with HSBC Bank USA, N.A. Payable through account is also not permissible within the Banking guideline of the country.

**Client Site Visit: 10/19/2010**
HSBC Attendees: Shafquat Hossain, Sadique Reza - Mgr IB/HSS, Razi S Fakih - Acting CEO Amanah, Amhad Rabiul Hasan
Cleitn Attendees: Client Attendees: Atiqur Rahman Khadem - Principal Officer
Title: Visit Head Office

The primary purpose of the visit was for Mr. Fakih to ascertain a greater understanding of the Islamic banking market in Bangladesh and to have an insight into the performance of Islami bank in terms of market penetration, market demographics, growth prospective and product assortment.

Mr. Nurul Islam, DMD gave a power point presentation to the HSBC visiting team. The presentation contained an over all financial performance history of the bank. With specific deliberation on an overview of their business growth (average growth 21% over the last decade), asset (USD 3 billion as at 31Dec2009) growth (over 20% in last five years, liability (USD 3.5 billion as at 31Dec2010) growth (over 20% in the last five years), liquidity position and capital growth, also their wallet share position in the Islamic banking market of Bangladesh was explained in the said presentation along with the Islamic product propositions in offer by them. Mr. Islam also elucidated on the future of the Islamic banking market in Bangladesh and its growth prospective in the coming years. With a market size of 136 million (85% of 160 million) people growth potentials are tremendous for any sort of Islamic banking products in Bangladesh. Mr. Islam mentioned that they were aware of the Shariah council of HSBC and they were very appreciative of the council's composition and the quality.

Mr Fakih explained to the attendees to the presentation about the Amanah proposition of HSBC and its overall gamete and scope in terms of operations and business objectives. Mr. Fakih also motioned that he was very hopeful about the prospective of the Amanah



Confidential Treatment Requested HSBC-PSI-PROD-0117231

initiative of HSBC in Bangladesh both in terms of growth and market penetration He advised the Islami bank's representatives that in future if they require any support or clarifications on any issues or product know how (Islamic banking products) they are more than welcome to approach him for assistance and auxiliary dialogue on the quarries at hand.

Mr. Sadique Reza advised that IB DAK has already presented the Automated Murabaha Servise product of HSBC (overnight swing) to Islami Bank Bangladesh Limited. And the subject product is in discussion and consideration for availing by the said.

Upon the completion of the presentation the HSBC team was directed to meet the managing director (Mr. Md Abdul Mannan) Islami Bank. Mr. Mannan cordially received the visiting team and advised that he was aware and welcomed the HSBC's Islamic banking initiatives in Bangladesh and reiterated the positive prospects of such initiatives. Mr. Fakih thanked Mr. Mannan for his insightful advice and informed that his (Mr. Fakih) visits to the country will increase in the coming days and years as the Amanah preposition develops further to its growth to the pinnacle of the country's Islamic banking market/segment.

**********

Onsite Visitation 1/20/2010

**********

During the meeting Mr. Khadem confirmed that no individual shareholder of the bank is holding over 10% of total shares of the Bank. The latest shareholding position has been requested. Islami Bank confirmed that they do not have any off shore banking activities. They do not entertain any anonymous customer. There was one change in their senior management in last one year.

Mr. Khadem advised that Islami Bank got its own AML policies & guidelines in line with country's Money Laundering Prevention Act, 2009. In the Act, all responsibilities have been entrusted with Bangladesh Bank to investigate and monitor ML cases in the Banks. Islami Bank has got a Compliance Department headed by a senior executive who is responsible for enforcing the AML policies allover the Bank, including the Branches. AML training has been included in the induction training for all staff. Workshops, Seminars and trainings on AML are conducted by the Compliance Department in regular intervals. AML training programs with is included in the foundation course for new incumbents.

Onsite Visitation 10/29/2009

**********

Promising branch for large value DCs. Branch is very much willing to get confirmations from HSBC with competitive pricing. They are satisfied with HSBC's service.

| | |
|---|---|
| Does the Client have KYC and Anti -Money Laundering (AML) policies and procedures documented ? | ● Yes ○ No |
| If yes, has a copy been filed in the Client file ? (Required if Client is in a High Risk Country ): | ● Yes ○ No |
| Does the Client's KYC and AML Policies and Procedures require identification documentation and verification when opening an account? | ● Yes ○ No |
| Does the Client have a screening process regarding the procedures for the establishment of new accounts (including obtaining information on the source of funds )? | ● Yes ○ No |
| Does the Client offer accounts or services to anonymous customers? | ○ Yes ● No |
| Does the Client have an ongoing system in place to monitor and report suspicious activity ? | ● Yes ○ No |
| What are the procedures when unusual transactions are detected as a result of the Client 's ongoing monitoring process ? | When unusual transactions are detected, the transactions are report to the Branch Control Unit and they would report it to the Head Office. If transactions is identified as suspicious, Head Office would report it to the Central Bank. |
| How are the Client's KYC and AML Policies and Procedures communicated and enforced in the Client 's network of domestic and foreign offices ? | Client's KYC and AML policies and procedures are communicated and enforced via their Central Control Unit and each Branch Control Unit. The Central Control Unit is reponsible for formulating the policies and procedures and monitor each Branch Control Unit. |
| Does the Client have a formal / independent Anti-Money Laundering Compliance function ? | ● Yes ○ No |
| If yes, does the Client provide Anti -Money Laundering Training to its employees? | ● Yes ○ No |
| If yes, how often is this AML training provided and to whom : | Continous training is provided at least annually to each staff member. |
| Comment on the Client 's KYC and AML practices (past, present and/or future): | Client has provided a copy of their comprehensive AML guidelines, which covers areas such as identification procedures for new customers, record keeping, recognition ad reporting of suspicious transactions, training and awareness etc. A copy of this document is in the client's file. |



Confidential Treatment Requested HSBC-PSI-PROD-0117232

| | |
|---|---|
| **Does the Country the Client is located in have KYC and AML laws and regulations ?** | ● Yes ○ No |
| **If yes, comment on the country 's KYC and AML practices (past, present and/or future) regarding prevention of money laundering and terrorist financing :** | Bangladesh is not a regional or offshore financial center. Under the caretaker government that declared a state of emergency when it came to power on January 11, 2007, evidence of funds laundered through the official banking system escalated. The new government instituted a stringent anticorruption campaign that netted more than $180 million in proceeds--a fraction of the estimated total amount of corrupt funds located both domestically and abroad. Fighting corruption is a keystone of the caretaker government under the state of emergency. Money transfers outside the formal banking and foreign exchange licensing system are illegal and therefore not regulated. The principal money laundering vulnerability remains the widespread use of the underground hawala or "hundi" system to transfer money and value outside the formal banking network. The vast majority of hundi transactions in Bangladesh are used to repatriate wages from expatriate Bangladeshi workers.<br>In April and June 2008 the government promulgated the Money Laundering Prevention Ordinance (MLPO 2008) and the Anti-Terrorism Ordinance (ATO 2008). The laws facilitate international cooperation in recovering money illegally transferred to foreign countries and mutual legal assistance in terms of criminal investigation, trial proceedings, and extradition matters. The GOB has formed a national level committee headed by the Law Adviser and an inter-agency Task Force headed by the Governor of the CB to retrieve illegally transferred money.<br>For the past twenty years, corrupt practices became so common that, between 2001 and 2005, Transparency International ranked Bangladesh in its Corruption Perception Index as the country with the highest level of perceived corruption in the world. In 2008, Bangladesh was ranked 147 out of 180 countries surveyed. Bangladeshis are not allowed to carry cash outside of the country in excess of the equivalent of $3,000 to South Asian Association for Regional Cooperation (SAARC) countries and the equivalent of $5,000 to other countries. Proper documents are required by authorized foreign exchange banks and dealers. The GOB does not place a limit on how much currency can be brought into the country, but amounts over $5,000 must be declared within 30 days. The Customs Bureau is primarily a revenue collection agency, accounting for 40-50 percent of Bangladesh's annual government income.<br>Although positive legislation has been passed and progress has been made, the Government of Bangladesh should continue to strengthen its anti-money laundering/terrorist finance regime so that it adheres to world standards. The GOB should support technology enhancements to reporting channels from outlying districts to the Central Bank. While the FIU is growing steadily, the FIU analysts and investigators need to enhance their ability to conduct analysis, investigations, understand money laundering and terror finance methodologies and guide the ROs. Bangladesh law enforcement and customs should examine forms of trade-based money laundering and initiate money laundering and financial crimes investigations at the "street level" instead of waiting for a STR to be filed with the FIU. A crackdown on pervasive customs fraud would add new revenue streams for the GOB. Continued efforts should be made to fight corruption, which is intertwined with money laundering, smuggling, customs fraud, and tax evasion. The GOB should ratify the UN Convention against Transnational Organized Crime.<br><br>Source - http://www.state.gov/p/inl/rls/nrcrpt/2010/database/141512.htm |
| **Sources used for Country KYC , supervisory regime and AML information are set out in the HBUS AML Country Risk List . Please refer to the KYC User Guide .** | |



Confidential Treatment Requested HSBC-PSI-PROD-0117233

| | |
|---|---|
| Has the Client been audited ? | ● Yes ○ No |
| If yes, date: | 03/29/2010 |
| If yes, by whom (Audit Firm): | Aziz Halim Khair Chowdhry (Chartered Accountants) & Howladar Yunus & Co., (Chartered Accountants). Auditor's report was favorable |
| Does the Client have a credit rating ? | ● Yes ○ No |
| If yes, who issued it (S&P, Moody's or other): | Credit Rating Information & Services (CRISL) |
| If yes, date issued: | 06/21/2010 |
| If yes, credit rating: | LT: AA; ST: ST-1 |

| | |
|---|---|
| Employing reasonably available information , has due diligence been conducted on the Client 's AML record? | ● Yes ○ No |
| Has negative information been identified ? | ○ Yes ● No |

| | |
|---|---|
| Has Enhanced Due Diligence been conducted for this High Risk Client/Country, which includes Compliance (ICRO) checking OFAC & public databases for the names of the customer , principals/beneficial owners , and executive officers ? | ● Yes ○ No |
| If yes, has Compliance confirmed that there is no direct adverse information to preclude business with this client ? | ● Yes ○ No |
| If yes, date: | 09/29/2009 |
| Date of most recent KYC review : | 06/30/2010 |
| Department of the Account Manager / Administrator (AM) who prepared this profile : | Global Payments & Cash Mgmt. |

## Signature Section

| | |
|---|---|
| Account Manager / Administrator (AM) Approval: | |
| Client Services / Manager (CS) Approval: | |
| Functional Head of Business / Executive (IS) Approval: | |
| Relationship Manager (RM) Approval: | |
| Institutional Banking / Team Leader (IB) Approval: | |
| Regional Money Laundering Control Officer (CO) Approval: | |

## APPROVE/DENY HISTORY:

Created: 05/29/2001 10:22:26 AM Converted from Epic

05-23-2001 15:26 PM Created by: <EPIC to KYC Conversion Process>

<Address>:

Head Office
71, Dilkusha Commercial Area
Dhaka - 1000 Bangladesh
BANGLADESH

<Status> :N - Needs Approval
<Client Name> :ISLAMI BANK BANGLADESH LIMITED
<Acct_offr_code> :343104
<Acct_offr> :
<Approval_acct_officer> :
<Unit_offr_code> :
<Unit_mgr> :
<Approval_unit_mgr> :*** Graham, Russel *** 10/19/00 10:43:20:61



Confidential Treatment Requested HSBC-PSI-PROD-0117234

<Exec_dept> :
<Approval_exec_dept> :
<Legal_dept> :
<Approval_legal_dept> :
<Legal dep comments> :

---

AM Approved: (Old Status In Process), 07/18/2001 12:38 PM: Ravi R Polu
No Comments

---

RM Denied: (Old Status AM Approved), 10/04/2001 05:15 PM: Beth Fisher
1. Pls check shareholders. Pls add list of shareholders in Summary section. Refer to list in Almanac.
2. Is shareholders' equity more or less than USD25M?
Tks.

---

AM Approved: (Old Status RM Denied), 10/05/2001 12:27 PM: Ravi R Polu
OWNERSHIP:

AL RAJHI COMPANY FOR INDUSTRY AND TRADE, RIYADU 14.453%
ISLAMIC DEVELOPMENT BANK, JEDDAH 7.55%
KUWAIT FINANCE HOUSE KSC, SAFAT 5.286%
THE PUBLIC INSTITUTION FOR SOCIAL SECURITY, KUWAIT 8.503%
HE ABDYLLAH ABDULLAH AL-RAJHI 7.223%
HE MOHAMMAD ABDUL AZIZ 7.223%

REST OF THE SHAREHOLDERS ARE PUBLIC SPONSORS, GENERAL PUBLIC AND GOVERNMENT OF BANGLADESH

---

Approved: (Old Status AM Approved), 10/11/2001 08:49 AM: Beth Fisher
Existing USD account with HBUS.

---

In Process: (Old Status Approved), 07/31/2003 01:09 PM: Rhonda Lee-Thomas
Customer is sent back for re-approval

---

AM Approved: (Old Status In Process), 07/31/2003 04:45 PM: Rhonda Lee-Thomas
Updated all info.

---

Approved: (Old Status AM Approved), 07/31/2003 04:47 PM: Manwei Huang
No Comments

---

In Process: (Old Status Approved), 12/15/2004 10:07 PM: Rhonda Lee-Thomas
Customer is sent back for re-approval

---

AM Approved: (Old Status In Process), 09/28/2005 11:40 AM: Shannon M Jones
KYC profile match supporting doc's on file

---

CS Approved: (Old Status AM Approved), 09/28/2005 12:05 PM: Sharyn Malone
No Comments

---

IS Denied: (Old Status CS Approved), 09/30/2005 03:01 PM: Bob Shetty
Please review and reconcile management / ownership information with details appearing on EDD

---

AM Approved: (Old Status IS Denied), 06/22/2007 03:26 PM: Angela Cassell-Bush
No Comments.

---

CS Denied: (Old Status AM Approved), 06/29/2007 02:39 PM: Gillian E Bachstein
Pls update section VIII explaining the purpose of account and also update activity monitoring details. Under general comments, define Islamic Sharia banking.

---

AM Approved: (Old Status CS Denied), 07/02/2007 11:45 AM: Angela Cassell-Bush
ALL CS concerns noted on 06/29/07 have been addressed.

---

CS Denied: (Old Status AM Approved), 07/11/2007 02:18 PM: Gillian E Bachstein
Pls update %age ownership and variance report.

---

AM Approved: (Old Status CS Denied), 07/11/2007 02:45 PM: Angela Cassell-Bush
ALL CS concerns above have been addressed

---



Confidential Treatment Requested HSBC-PSI-PROD-0117235

CS Approved: (Old Status AM Approved), 07/11/2007 02:44 PM: Gillian E Bachstein
No Comments

IS Denied: (Old Status CS Approved), 08/30/2007 06:45 PM: Bob Shetty
Please clarify the ownership position of Al Rajhis

AM Approved: (Old Status IS Denied), 09/06/2007 09:23 AM: Angela Cassell-Bush
Profile previously IS denied due no response from the GRM regarding IS Approver request for a comment on the ownership of the Al Rajhi family within this bankl. GRM has provided his comment which is documented in Section 1: General Comments Section.

CS Approved: (Old Status AM Approved), 09/10/2007 10:40 AM: Gillian E Bachstein
No Comments

IS Approved: (Old Status CS Approved), 09/12/2007 05:06 PM: Bob Shetty
Based on GRM support and clarification re ownership by Al Rajhi Organization.

IB Denied: (Old Status IS Approved), 10/10/2007 02:04 PM: Lawrence Karp
Subject bank not known to CIB.

CS Approved: (Old Status AM Approved), 12/06/2007 11:26 AM: Gillian E Bachstein
No Comments

IS Approved: (Old Status CS Approved), 12/11/2007 03:43 PM: Bob Shetty
See my earlier comments

IB Approved: (Old Status IS Approved), 12/12/2007 09:02 AM: Christopher Lok
No Comments

Approved: (Old Status IB Approved), 03/10/2008 05:40 PM: Alan P Williamson
Please provide explanation of activity variance in this account within 30 days. Also please note that visitation is due within a month.

In Process: (Old Status Approved), 03/02/2010 05:04 PM: Jon K Jones

Name of principals changed from: [Arabsas Travel & Tourist Agency,Janab Yousif Abdullah Al-Rajhi,Al-Rajhi Co. for Industry & Trade,Abdullah Abdul Aziz Al-Rajhi,Islamic Development Bank,The Public Institution for Social Security,Kuwait Finance House,Others, none with 5% or more shares] to: [Arabsas Travel & Tourist Agency,Janab Yousif Abdullah Al-Rajhi,Al-Rajhi Co. for Industry & Trade,Abdullah Abdul Aziz Al-Rajhi,Islamic Development Bank,The Public Institution for Social Security,Kuwait Finance House,Others, none with 5% or Greater]
BankNotes Activity changed from: [See Banknotes Activity Section] to: []

AM Approved: (Old Status In Process), 03/02/2010 05:05 PM: Jon K Jones
No Comments

CS Approved: (Old Status AM Approved), 03/31/2010 11:45 PM: Gillian E Bachstein
No Comments

IS Approved: (Old Status CS Approved), 06/07/2010 08:29 PM: Bob Shetty
No Comments

IB Approved: (Old Status IS Approved), 06/29/2010 11:48 AM: Wen Lu WU
No Comments

Approved: (Old Status IB Approved), 06/30/2010 11:39 AM: Joanna S Flanagan
No Comments

In Process: (Old Status Approved), 06/03/2011 02:14 AM: Arijeet NEOGI

Name of principals changed from: [Arabsas Travel & Tourist Agency,Janab Yousif Abdullah Al-Rajhi,Al-Rajhi Co. for Industry & Trade,Abdullah Abdul Aziz Al-Rajhi,Islamic Development Bank,The Public Institution for Social Security,Kuwait Finance House,Others, none with 5% or Greater] to: [Arabsas Travel & Tourist Agency K.S.A,Al Rajhi Company for Industry & Trade, Riyadh Al-KhobaraSaudi Arabia,Islamic Development Bank, JeddahSaudi Arabia,The Public Institution for Social Security, Kuwait CityKuwait,Kuwait Finance House KSC, Kuwait CityKuwait,Abdullah Abdul Aziz Al-Rajhi, KSA,Others, none with 5% or Greater]
Ownership percentage changed from: [9.99,9.94,9.94,7.58,7.5,6.46,5.25,43.34] to: [ 9.99,9.94,7.5,6.46,5.25,7.58,43.73]

Revision History

| Editor | Date | Reason for Update |
|---|---|---|



Confidential Treatment Requested HSBC-PSI-PROD-0117236

| | | |
|---|---|---|
| Arijeet NEOGI | 06/03/2011 02:14:58 AM | Annual Review, General Comments |
| Frashiah X Muiruri | 04/06/2011 10:28:57 AM | Update to US Pat Cert date |
| Frashiah X Muiruri | 02/09/2011 10:03:00 AM | For BAU Purposes |
| Karyn X Scarfo | 02/02/2011 09:03:44 AM | Updated visitation |
| Danielle X Fawra | 08/18/2010 02:19:19 PM | updated new RM------prev memo incorrect |
| Danielle X Fawra | 08/17/2010 03:57:22 PM | prev memo error-----should be updated new RM |
| Danielle X Fawra | 08/17/2010 03:36:33 PM | update for potential exit of this relationship |
| Shannon M Jones | 08/10/2010 03:29:32 PM | Updated certification date |
| Shannon M Jones | 07/28/2010 01:24:55 PM | updated certification date |
| Jon K Jones | 06/30/2010 04:22:35 PM | Update Review Date for Fully approved |

CRR Revision History

| Last Updated By/ On | Update Type(Field/General) | Old Value | New Value |
|---|---|---|---|
| Arijeet NEOGI - 6/3/2011 2:15:09 AM | rpt_epic_address2 | Dhaka - 1000 Bangladesh | |
| | epic_city | Dhaka | Dhaka, Bangladesh 1000 |
| | Status | Approved | In Process |
| | rpt_epic_nameOfCorpOfficers3 | M. Fariduddin Ahmad | Abdul Mannan |
| | rpt_epic_nameOfCorpOfficers4 | | Shamsul Haque |
| | rpt_epic_nameOfCorpOfficers5 | | Mustafa Anwar |
| | rpt_epic_nameOfPrincipals1 | Arabsas Travel & Tourist Agency | Arabsas Travel & Tourist Agency |
| | rpt_epic_nameOfPrincipals2 | Janab Yousif Abdullah Al-Rajhi | Al Rajhi Company for Industry & T |
| | rpt_epic_nameOfPrincipals3 | Al-Rajhi Co. for Industry & Trade | Al-KhobaraSaudi Arabia |
| | rpt_epic_nameOfPrincipals4 | Abdullah Abdul Aziz Al-Rajhi | Islamic Development Bank, Jedda |
| | rpt_epic_nameOfPrincipals5 | Islamic Development Bank | Arabia |
| | rpt_epic_nameOfPrincipals6 | The Public Institution for Social Security | The Public Institution for Social Se |
| | rpt_epic_nameOfPrincipals7 | Kuwait Finance House | Kuwait CityKuwait |
| | rpt_epic_nameOfPrincipals8 | Others, none with 5% or Greater | Kuwait Finance House KSC, Kuw |
| | | | CityKuwait |
| | | | Abdullah Abdul Aziz Al-Rajhi, KSA |
| | | | Others, none with 5% or Greater |



Confidential Treatment Requested

**From:** Bean, Elise (HSGAC)
**To:** Robertson, Mary (HSGAC)
**Cc:** Schram, Zachary (HSGAC); Stuber, Laura (HSGAC)
**Subject:** FW: Senate Inquiry
**Date:** Thursday, July 05, 2012 5:04:05 PM
**Attachments:** AML Policy of IBBL.pdf

---

**From:** Md. Nurul Islam [mailto:mnislam@islamibankbd.com]
**Sent:** Wednesday, July 04, 2012 08:52 AM
**To:** Schram, Zachary (HSGAC)
**Subject:** Senate Inquiry

Dear Sir,

Greetings!

Please find below the responses of your queries:

1. **What is Islami Bank's relationship with HSBC, including HSBC Bank USA (HBUS)?**

Islami Bank Bangladesh Limited (IBBL) is the largest private sector commercial bank in Bangladesh which has got around 600 hundred correspondent banking network including almost all globally reputed banks in different locations. HSBC is one of such correspondent banks of Islami Bank Bangladesh Limited. In this process, Relationship between Islami Bank Bangladesh Ltd. and HSBC began in early 2000 by arranging RMA (Relationship Management Application) with different HSBC Group offices. Later, an USD account in HSBC Bank USA N.A. was opened on 11 October 2000. The USD ACU (Asian Clearing Union) accounts with HSBC India and Pakistan were opened on 28 April 2006 and 23 July 2006 respectively. So far, we have got RMA arrangement with HSBC in 24 locations of the world which includes Australia, Brazil, Canada, China, Dhaka, Hong Kong, India, Indonesia, Italy, Japan, South Korea, Malaysia, Mexico, Pakistan, Peru, Singapore, Spain, Switzerland, Taiwan, Thailand, Turkey, UAE, UK and USA. The purpose of this relationship is to facilitate our foreign trade related transactions i.e. LC advising, trade confirmation, trade

Permanent Subcommittee on Investigations
EXHIBIT #87a

payments, trade receipts, customer receipts and treasury coverage.

2. **What is Islami Bank's relationship with the Al Rajhi group and the Al Rajhi family?**

At the outset, Central Bank took initiatives for establishment of Islamic Banking in Bangladesh. Islami Bank Bangladesh Limited was incorporated in 1983 with the initiatives of Government of Bangladesh including renowned local and foreign sponsors. Among the foreign sponsors, Islamic Development Bank, Kuwait Finance House, Kuwait, Dubai Islami Bank, UAE, Bahrain Islami Bank, Bahrain, Ministry of Awqaf and Islamic Affairs, Kuwait (Present Name: Kuwait Awqaf Public Foundation, Kuwait), The Public Institution for Social Security, Kuwait, Al-Rajhi Company for Currency Exchange and Commerce KSA (Present Name: Al-Rajhi Company for Industry and Trade, KSA) and Ministry of Justice, Department of Minors Affairs Kuwait (Present Name: The Public Authority for Minors Affairs, Kuwait), Jordan Islamic Bank, Islamic Banking System International Hondlings S.A., Luxembourg were prominent. Government of Bangladesh joined with 5 percent shares and continued until government decided to offload its shares from all private commercial banks. These entities along with Al-Rajhi Company for Industry and Trade, KSA have been elected Director of our bank from time to time. At present Mr. Abdullah Abdul Aziz Al-Rajhi from Al-Rajhi family is also a shareholder and director of the Bank.

3. **What are Islami Bank's KYC and AML practices?**

We have adopted our AML policy in line with Central Bank regulation and relevant acts of the government and follow the same strictly and meticulously. For details, please find attached our AML Policy.

4. **Did Abdur Rahman,** chief of the Jamaatul Mujahidden of **Bangladesh have any accounts at Islami Bank? Please describe those accounts, including relevant dates.**

We have had no account in the name of either Abdur Rahman or the organization under question.

5. **What were the findings of any Central Bank of Bangladesh investigation into Islami Bank since 2005?**

Central Bank as a regulator of this Banking Industry conducts their regular and routine inspection & investigations from time to time since establishment of the Bank in 1983. Till today we do not have any mentionable outstanding issue with the Central Bank regarding the aforesaid investigations other than routine matters.
However, an incident took place in 2006 in connection with some transactions originated from our Gazipur and Savar Branches through eight telegraphic transfers for an amount ranging from BDT 10,000(USD 144) to BDT 79,000 (USD1,137) of

altogether sum BDT 4,17,000 equivalent to approximately USD 6,000(United States Dollar six thousand). The transfers were destined to an account in the name of one Mr. Saidur Rahman who had opened account with our Laldighirpar Branch, Sylhet in February 1999 complying all usual norms. Initially, the concerned officials did not find anything suspicious in good faith. Upon inspection from Head Office, it was revealed that the transactions were made in an inoperative account and thereby suspicious in nature and then we made STR to Central Bank. Instantly, Bank also suspended the concerned officials. As the reporting was not done in time, Central Bank fined BDT one hundred thousand (equivalent to USD 1,439) and IBBL paid the amount. Later on, IBBL carried a thorough investigation on the matter and terminated the delinquent officials from the service of the bank. Mentionable that several banks including some foreign bank were also fined by Central Bank at that time due to failure of timely STR.

6. **Did the International Islamic Relief Organization have any accounts at Islami Bank? Please describe those accounts, including relevant dates.**

International Islamic Relief Organization (IIRO) had accounts bearing number [redacted] and [redacted] with our bank. These accounts were opened on 17.04.1993 and 06.06.1994 respectively as a regular and approved NGO and maintained with our bank till 03.08.2010 along with other 2(two) Banks. As the entity was a UN sanction listed organization informed by Central Bank in 2006, we instantly freezed the accounts and confirmed our actions to the Central Bank and there was no transaction from that date to 03.08.2010 i.e till transfer. In 2010, we received instruction from Central Bank at the direction of Ministry of Finance, Government of Bangladesh to defreeze the accounts in the name of IIRO maintained with three banks including IBBL and transfer the accounts with IBBL to BASIC Bank, a Government owned bank and accordingly we confirmed our actions to Central Bank.

We feel our reply will satisfy your query and please feel free to contact us if you have got any query further.

Thanking You,

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Md. Nurul Islam
Deputy Managing Director &
Head of International Banking Wing
Islami Bank Bangladesh Limited

----- Original Message -----
**From:** AMM FARHAD/Social Islami Bank Limited.
**To:** Schram, Zachary (HSGAC)
**Cc:** 'Golam Kibria, SIBL, ID' ; mds@sibl-bd.com ; 'MR. MUHAMMAD ALI ' ; 'MR. QUAZI FAZLUL KARIM'
**Sent:** Tuesday, July 10, 2012 7:57 PM
**Subject:** Re: Senate Inquiry

Dated: July 10, 2012

**Mr. Zachary Schram**
Senior Counsel
Permanent Subcommittee on Investigations
United States Senate
202-224-9379.

**Dear Sir,**

This has reference to your email dated June 30, 2012 and our subsequent reply dated July 5, 2012 on your questionnaire, pursuant to your investigations on HSBC.

In this regard, we furnish below our response to all your queries chronologically.

1. **What is Social Islami Bank's relationship with HSBC, including HSBC Bank USA (HBUS)? How has the relationship changed over time?**

Ans: Social Islami Bank Ltd. had account relationship with HSBC Bank USA for the purpose of reimbursement of import Payments against letters of credit opened by our different branches; receive export proceeds and also inwards remittance.
Effective from May 2012 we **DO NOT** have any kind of relationship with HSBC, including HSBC Bank USA.

2. **What are Social Islami Bank's KYC and AML practices?**

Ans: Social Islami Bank Ltd. has its own AML Policy and separate AML Compliance Cell for fighting money laundering, terrorist financing and ensuring "know your customer" KYC.

Permanent Subcommittee on Investigations
EXHIBIT #87b

The Bank's Management strictly ensures the compliance with all statutory and regulatory requirements, including designating AML Officer for this specific purpose and conducting training for staff at all levels.

Bank's compliance with Anti-Money-Laundering requirements and procedures is monitored by the Central Bank of Bangladesh (Bangladesh Bank) and also by Bank's internal and external auditors.

Each and every account of the bank and any transaction in any account are fully complied with our KYC procedures.

**3. Please describe the relationship of Social Islami Bank with the Al Rajhi group?**

Ans: Social Islami Bank **DOES NOT** have any kind of relationship with Al Rajhi group.

**4. Was Abdul Majid of Singapore a director of Social Islami bank? Was the same Abdul Majid arrested by the Singapore government for terrorism-related activities? What was the result of any legal action against Mr. Majid?**

Ans: SIBL Board had never a Director named Mr. Abdul Majid and as such the answer is that Mr. Abdul Majid of Singapore **WAS NEVER** a director of Social Islami bank.

**5. Please describe the relationship of Social Islami Bank with the International Islamic Relief Organization (IIRO)? Is (or was) the IIRO a shareholder of Social Islami Bank?**

Ans: International Islamic Relief Organization (IIRO) is a foreign shareholder of Social Islami Bank who currently holds 1.61% share of the bank. It is of mention that the bank doesn't have any transactions with this organization except that this organization purchased some primary shares of the bank when it was floated in 1995, during the year of bank's inception. In 2006 we came to know that the United Nations Security Council enlisted International Islamic Relief Organization (IIRO) under "Individuals and Entities Associated with Al Qaida" as one of the Directors of IIRO was accused of having association with Al Qaida.

The matter was viewed with due concern by the management and the Board 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 06.11.2006 and adopted a resolution unanimously that the whole shares held by International Islamic Relief Organization will be disposed off by way of sale/transfer in accordance with the law of Securities and Exchange Commission (SEC), Bangladesh Bank and in line with the law of the land.

The matter was also taken to the notice of Bangladesh Bank and Securities Exchange Commission. The Central Bank issued instruction on 10.12.2006 not to disburse any bonus shares, issue of right shares or pay any cash dividend to IIRO until further instructions of Bangladesh Bank.

In compliance with the instructions of Bangladesh Bank, the bank immediately stopped issuing bonus shares, right shares and paying any cash dividend to IIRO.

To overcome the situation the bank communicated with IIRO several times and requested them to dispose off their entire share held with the bank by way of sale/transfer but they did not respond to the bank's request to offload their shares.

A Board Memo was then placed before the Board of Directors of the bank on 30.06.2009 and the Board unanimously agreed to dispose off the whole shares held by International Islamic Relief Organization (IIRO). The Board of Directors also agreed to seek permission from the **High Court** praying for Court's intervention to sell the entire shareholding of IIRO in the capital market and the proceeds may be deposited in any government account/screw account or as would be determined by the Hon'ble court of justice to save the Bank from any unwanted trouble and for smooth operation of the foreign exchange business of the Bank.

But in 2010 Ministry of Finance, Government of the Peoples Republic of Bangladesh has issued a circular dated 31/05/2010 providing IIRO permission to run their business/ activities legally in Bangladesh.

The Central Bank has also endorsed the circular issued by the Ministry of Finance, Government of the Peoples Republic of Bangladesh vide their Letter No. AMLD-432010-2797 dated 30.06.2010 and instructed us to comply with the Circular issued by the Ministry of Finance.

Under the above circumstance, the bank is under definite obligation in paying dividend/ issuing bonus shares/ right shares to IIRO as per the instructions of the Central Bank and Ministry of Finance which were not paid/ issued in their favour till 31/05/2010.

**06. Does (or did) IIRO have any accounts at Social Islami Bank? Please describe those accounts, including relevant dates.**

Ans: IIRO has only one Foreign Currency Account with the bank which they opened in 1995 at the time of buying primary shares of the bank. Present balance of the account is zero. Other than that the bank does not have any sort of transaction in that account of IIRO .

**07. Please describe the relationship of Social Islami Bank with the Islamic Charitable Society Lajnat al-Birr Al Islam (Lajnat al-Birr)? Is (or was) the Lajnat al-Birr a shareholder of Social Islami Bank?**

Ans: The Islamic Charitable Society Lajnat al-Birr Al Islam (Lajnat al-Birr) is a foreign shareholder of Social Islami Bank who currently holds 0.22% share of the bank. It is of mention that the bank doesn't have any transactions with this organization except that this organization purchased some primary shares of the bank when it was floated in 1995, during the year of bank's inception.

**08. Does (or did) Lajnat al-Birr have any accounts at Social Islami Bank? Please describe those accounts, including relevant dates.**

Ans: Lajnat al-Birr **DOES NOT** have any account with the bank.

**Should you have any query or require further clarification please feel free to contact us.**

With thanks & Kinds regards,

Sincerely Yours,

A.M.M.Farhad

Deputy Managing Director,

Social Islami Bank Ltd,

Head Office,

City Center, Level (18-21)
103, Motijheel C/A,Dhaka, Bangladesh.
Tel: + 88 09612001122 /50006
Fax: + 88 02 9564944
E mail: ammfarhad@sibl-bd.com; [redacted]

Web: www.siblbd.com
Skype: farhadamm

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: ANNE LIDDY/HBUS/HSBC
Sent: 9/9/2008 7:25:51 AM
To: DENISE A REILLY/HBUS/HSBC@HSBC02
CC:
Subject: Fw: Hokuriku Bank Ltd- Compliance query

Denise, do you know when Denis was planning on providing the overall summary document on this overall topic? I am anxious to review, including together with the below info, to determine if we need to file any further reports. Thanks.

Anne Liddy
SVP, AML Compliance | HSBC Bank USA, N.A.
452 5th Avenue, Tower 7, New York, NY 10018

Phone 212-525-5906
Fax 212 525 5769
Email anne.liddy@us.hsbc.com

----- Forwarded by Anne Liddy/HBUS/HSBC on 09/09/2008 08:20 AM -----

Judy P Stoldt/HBUS/HSBC@HSBC02
09/09/2008 07:25 AM

To
Anne Liddy/HBUS/HSBC@HSBC, Denise A Reilly/HBUS/HSBC@HSBC, Mary A Caskin/HBUS/HSBC@HSBC
cc
Jonathan Dean/HBUS/HSBC@HSBC
Subject
Fw: 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.

Judy P Stoldt
Vice President, AML Compliance | HSBC Bank USA, National Association
One HSBC Center
Buffalo, New York 14203

Phone (716) 841- 6425
Fax (212) 382 - 7586
Email judy.p.stoldt@us.hsbc.com

----- Forwarded by Judy P Stoldt/HBUS/HSBC on 09/09/2008 07:17 AM -----

Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC
09/09/2008 03:52 AM

To
Judy P Stoldt/HBUS/HSBC@HSBC02
cc
Anthony Julian/HBUS/HSBC@HSBC02, Garie S K HO/PCM ASP/HBAP/HSBC@HSBC, Jennifer E Kelleher/HBUS/HSBC@HSBC02, Jennifer FONG/TKY/HBAP/HSBC@HSBC, Stephanie L

Permanent Subcommittee on Investigations
EXHIBIT #88

Napier/HBUS/HSBC@HSBC02, Saeka TAKEBAYASHI/TKY/HBAP/HSBC@HSBC
Subject
Re: Fw: Hokuriku Bank Ltd- Compliance query

Judy,

Thank you for waiting. Please find attached the original copy prepared by Hokuriku Bank and the one translated by myself.

Hope it helps.

Regarding the other batch, I shall forward the information as soon as details are received.

Best regards,

Ako Kobayashi
PCM Client Services
HSBC, Tokyo

Judy P Stoldt/HBUS/HSBC@HSBC02
08 Sep 2008 21:35 Mail Size: 49719

To
Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC
cc

Subject
Re: Fw: Hokuriku Bank Ltd- Compliance query

Our Ref

Your Ref

---

Ako,

Thank you for your assistance in getting us the information.

Regards,

Judy P Stoldt
Vice President, AML Compliance | HSBC Bank USA, National Association
One HSBC Center
Buffalo, New York 14203

Phone (716) 841- 6425
Fax (212) 382 - 7586
Email judy.p.stoldt@us.hsbc.com

Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC
09/08/2008 05:58 AM

To
Judy P Stoldt/HBUS/HSBC@HSBC02
cc
Anthony Julian/HBUS/HSBC@HSBC02, Garie S K HO/PCM ASP/HBAP/HSBC@HSBC, Jennifer E Kelleher/HBUS/HSBC@HSBC02, Jennifer FONG/TKY/HBAP/HSBC@HSBC, Stephanie L Napier/HBUS/HSBC@HSBC02
Subject
Fw: Hokuriku Bank Ltd- Compliance query

Judy,

I have called Hokuriku Bank and received the required information. However as the information is provided in Japanese, I shall foward it as soon as translation is ready. It won't take long.

Appreciate your understanding.

Best regards,

Ako Kobayashi
PCM Client Services
HSBC, Tokyo

----- Forwarded by Ako KOBAYASHI/TKY/HBAP/HSBC on 2008/09/08 18:54 -----

Ako KOBAYASHI/TKY/HBAP/HSBC
06 Sep 2008 12:14 Mail Size: 42762
Phone No. 813 5203 3161

To
Stephanie L Napier/HBUS/HSBC@HSBC02
cc
Anthony Julian/HBUS/HSBC@HSBC02, Garie S K HO/PCM ASP/HBAP/HSBC@HSBC, Jennifer E Kelleher/HBUS/HSBC@HSBC02, Jennifer FONG/TKY/HBAP/HSBC@HSBC, Judy P Stoldt/HBUS/HSBC@HSBC02
Subject
Re: Fw: Hokuriku Bank Ltd- Compliance query

Our Ref

Your Ref

Stephanie,

Noted. I shall call Hokuriku Bank again first thing Monday morning and give Judy the update.

Best regards,

Ako Kobayashi
PCM Client Services
HSBC, Tokyo

Stephanie L Napier/HBUS/HSBC@HSBC02
06 Sep 2008 00:12 Mail Size: 36347

To
Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC
cc
Garie S K HO/PCM ASP/HBAP/HSBC@HSBC, Jennifer FONG/TKY/HBAP/HSBC@HSBC, Judy P Stoldt/HBUS/HSBC@HSBC02, Anthony Julian/HBUS/HSBC@HSBC02, Jennifer E Kelleher/HBUS/HSBC@HSBC02
Subject
Re: FW: Hokuriku Bank Ltd- Compliance query

Our Ref

Your Ref

Ako, this has been a long outstanding request. It is imperative that Compliance receive the response to our inquiry. Please urgently follow-up with client.

Best regards,

Stephanie L Napier
AVP AML Compliance | HSBC Bank USA
90 Christiana Road, New Castle, DE 19720

Phone. 302 327 2161
Fax. 302-3272250
Email. stephanie.l.napier@us.hsbc.com

Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC

09/03/2008 04:33 AM

To
Stephanie L Napier/HBUS/HSBC@HSBC02
cc
Jennifer FONG/TKY/HBAP/HSBC@HSBC, Garie S K HO/PCM ASP/HBAP/HSBC@HSBC
Subject
Re: Fw: Hokuriku Bank Ltd- Compliance query

Stephanie,

Regarding the information requested, I have contacted Hokuriku Bank and was advised that the report has already been prepared. I shall forward it to you as soon as the copy has been received.

Best regards,

Ako Kobayashi
PCM Client Services
HSBC, Tokyo

Stephanie L Napier/HBUS/HSBC@HSBC02
02 Sep 2008 23:28 Mail Size: 28276

To
Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC
cc

Subject
Fw: Hokuriku Bank Ltd- Compliance query

Our Ref

Your Ref

Ako, I understand you have replaced Yumi. Please follow-up on the promised information.

Best regards,

Stephanie L Napier
AVP AML Compliance | HSBC Bank USA
90 Christiana Road, New Castle, DE 19720

Phone. 302 327 2161
Fax. 302-3272250
Email. stephanie.l.napier@us.hsbc.com

----- Forwarded by Stephanie L Napier/HBUS/HSBC on 09/02/2008 10:26 AM -----

Kyoko OKAZAKI/TKY/HBAP/HSBC@HSBC
08/07/2008 10:54 PM

To
Stephanie L Napier/HBUS/HSBC@HSBC02
cc
Judy P Stoldt/HBUS/HSBC@HSBC02, Nanayo Ryan/HBUS/HSBC@HSBC02, Yumi SETO/TKY/HBAP/HSBC@HSBC
Subject
Re: Hokuriku Bank Ltd- Compliance query

Dear Stephanie,

They are still preparing the report and will provide us within 4th week of AUG08.

Kind regards,
Kyoko Okazaki
PCM Client Services
HSBC Tokyo

Stephanie L Napier/HBUS/HSBC@HSBC02
06 Aug 2008 00:27 Mail Size: 21975

To
Yumi SETO/TKY/HBAP/HSBC@HSBC
cc
Judy P Stoldt/HBUS/HSBC@HSBC02, Kyoko OKAZAKI/TKY/HBAP/HSBC@HSBC, Nanayo Ryan/HBUS/HSBC@HSBC02
Subject
Re: Hokuriku Bank Ltd- Compliance query

---

Our Ref

Your Ref

Yumi, please advise status of information required.

Thanks

Best regards,

Stephanie L Napier
AVP AML Compliance | HSBC Bank USA
90 Christiana Road, New Castle, DE 19720

Phone. 302 327 2161
Fax. 302-3272250
Email. stephanie.l.napier@us.hsbc.com

Yumi SETO/TKY/HBAP/HSBC@HSBC
07/28/2008 04:43 AM

To
Stephanie L Napier/HBUS/HSBC@HSBC02
cc
Judy P Stoldt/HBUS/HSBC@HSBC02, Kyoko OKAZAKI/TKY/HBAP/HSBC@HSBC, Nanayo Ryan/HBUS/HSBC@HSBC02
Subject
Re: Hokuriku Bank Ltd- Compliance query

Stephanie

They are preparing the report.

Yumi Seto
PCM Client Service
HSBC Tokyo

Stephanie L Napier/HBUS/HSBC@HSBC02
26 Jul 2008 04:23 Mail Size: 14298

To
Yumi SETO/TKY/HBAP/HSBC@HSBC
cc
Judy P Stoldt/HBUS/HSBC@HSBC02, Kyoko OKAZAKI/TKY/HBAP/HSBC@HSBC, Nanayo Ryan/HBUS/HSBC@HSBC02
Subject
Re: Hokuriku Bank Ltd- Compliance query

Our Ref

Your Ref

Yumi, just a quick follow-up. Any update?

Best regards,

Stephanie L Napier
AVP AML Compliance | HSBC Bank USA
90 Christiana Road, New Castle, DE 19720

Phone. 302 327 2161
Fax. 302-3272250
Email. stephanie.l.napier@us.hsbc.com

Yumi SETO/TKY/HBAP/HSBC@HSBC
07/15/2008 02:46 AM

To
Stephanie L Napier/HBUS/HSBC@HSBC02
cc
Judy P Stoldt/HBUS/HSBC@HSBC02, Kyoko OKAZAKI/TKY/HBAP/HSBC@HSBC, Nanayo Ryan/HBUS/HSBC@HSBC02
Subject
Re: Hokuriku Bank Ltd- Compliance query

Stephanie

We have today contacted Hokuriku Bank Ltd.
On receipt of their reply, we will advise you.

Thanks and regards,
Yumi Seto
PCM Client Service
HSBC Tokyo

Stephanie L Napier/HBUS/HSBC@HSBC02
15 Jul 2008 01:13 Mail Size: 173608

To
Yumi SETO/TKY/HBAP/HSBC@HSBC
cc
Kyoko OKAZAKI/TKY/HBAP/HSBC@HSBC, Nanayo Ryan/HBUS/HSBC@HSBC02, Judy P Stoldt/HBUS/HSBC@HSBC02
Subject
Hokuriku Bank Ltd- Compliance query

Our Ref

Your Ref

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Yumi, hope all is well. As you know I moved on to Compliance. I am tasked with Target Monitoring. We have undertaken a review of Hokuriku Bank acct [redacted]. We've noticed a pattern of payments which we seek information for the Beneficiary & Originator (if known). Our inquiry is based on either insufficient details within the payment or lack of internet information to adequately research BEN or ORG.

We'd appreciate your reaching out to the client to obtain requested information. Thank you in advance.

Parties in question:

| Name | #Trans | Period | $total |
|---|---|---|---|
| De Araujo Roseli Aparecida | 6 | 4/08-5/08 | $24,480 |
| Aksys Corporation, Japan | 3 | all 5/7/08 | $60,000 |
| R S Corporation | 3 | 5/08 | $54,000 |
| Sanhu Corporation Imizi-Shi Shitim | 15 | 4/08-6/08 | $810,800 |

I have attached a sample payment for each.

[attachment "r1495569.tif" deleted by Stephanie L Napier/HBUS/HSBC]

Below Information being sought

Individual Address & DOB or Customer Location( whichever is applicable):
Place of incorporation ( if applicable):
Nature of business:
Beneficial owners (if applicable):
How long a client:
Reason for the transfer(s):
Does the bank's due diligence on this customer and transaction(s) appear satisfactory.
Relationship between the originator / beneficiary if known

Best regards,

Stephanie L Napier
AVP AML Compliance | HSBC Bank USA
90 Christiana Road, New Castle, DE 19720

Phone. 302 327 2161
Fax. 302-3272250
Email. stephanie.l.napier@us.hsbc.com

Attachment: image.tif.zip
Attachment: Information.xls.zip

香港上海銀行 小林 様 OCC-PSI-00409215 9/8

北陸財 宝田

(シンミナト) (オリオカ) (コスギ) (オリオカ)

| | DE ARAUJO ROSELI APARECIDA | AKSYS CORPORATION | RS CORPORATION | SANDHU CORPORATION |
|---|---|---|---|---|
| INDITIDUAL ADDRESS & DOB OR CUSTOMER LOCATION | 富山県射水市 在西町1-3-20 1958.2.4(DOB) | 富山県射水市 七美中野200 2007.6.8 設立 | 富山県射水市 小杉白石608-1 2002.3.12 設立 | 富山県射水市 七美34 2001.10.2 設立(法人成り) |
| PLACE OF INCORPORATION | / | | | 射水市 |
| NATURE OF BUSINESS | 会社員 | 中古車販売 | 中古車販売 | 中古車販売 |
| BENEFICIAL OWNERS | | | | ラヒール アクタル 1961.10.1 (DOB) |
| REASON FOR THE TRANSFER | 該当した分を特定(日付, 金額)してもらわないと不詳 | 中古車販売代金 | 中古車販売代金 | 中古車販売代金 |
| DOES THE BANKS DUE DILIGENCE | 4先とも普通(総合)口座のみであり、他の債権債務は存在しません。 | | | |
| RELATIONSHIP BETWEEN THE ORIGINATOR | 普通 ↑ 特に問題ないという意味 | T/C買取あり。 | T/C買取あり 当行行員訪問 | T/C買取あり |
| 他の情報 | 個人 会社員 有)スギモト勤務 | 株式会社 | 有限会社 | 有限会社 |

↓

以上の情報を支店が持たない。

富山県 射水市(IMIZU-CITY) 在西町(SHOSAI-MACHI) 三ケ(SANGA) → 読みかです

| | De Araujo Roseli Aparecida | Aksys Corporation | R S Corporation | Sanhu Corp Imizi-shi Shitim |
|---|---|---|---|---|
| Address | 1-3-20, Shoseimachi, Imizu-shi, Toyama Pref, Japan | 200 Shichimi Nakano, Imizu-shi, Toyama Pref, Japan | 608-1 Kosugishiraishi, Imizu-shi, Toyama Pref, Japan | 34 Shichimi, Imizu-shi Toyama Pref, Japan |
| Postal Code | 934-0001 | 933-0253 | 939-0304 | 933-0252 |
| Date of Establishment | 04Feb1958 | 08Jun2007 | 12Mar2002 | 02Oct2001 |
| Place of Incorporation | - | - | - | Imizu-shi, Toyama Pref |
| Nature of Business | Business man | Sales of Used Cars | Sales of Used Cars | Sales of Used Cars |
| Beneficial Owners | - | - | - | Raheel Akutal (???)<br>* not sure about the spelling<br>(date of birth: 01Oct1961) |
| Reason for Transfer(s) | TC is required in order to identify the reason for transfer | Sales of Used Cars | Sales of Used Cars | Sales of Used Cars |
| Bank's Due Diligence | N/A (They maintain a savings account only.) | | | |
| Relationship between Originator | Satisfactory (no issues) | Purchase of TC<br>(* Visit made by Hokuriku staff.) | Purchase of TC<br>(* Visit made by Hokuriku staff.) | Purchase of TC<br>(* Visit made by Hokuriku staff.) |
| AOB | The owner works with a company called Sugimoto. | Public company | Company with limited liability | Company with limited liability |

OCC-PSI-00409216

Occ-Psi-00808695

From: ANTHONY JULIAN/HBUS/HSBC
Sent: 11/13/2008 8:39:04 AM
To: DENIS E O'BRIEN/HBUS/HSBC@HSBC02;JUDY P STOLDT/HBUS/HSBC@HSBC02
CC:
Subject: Fw: Hokuriku Bank

Machiko M YAMASHITA/TKY/HBAP/HSBC@HSBC
09/12/2008 06:52 AM

To
Anthony Julian/HBUS/HSBC@HSBC02
cc
Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC, Alan P Williamson/HBUS/HSBC@HSBC02, Cam ADAMS/PCM ASP/HBAP/HSBC@HSBC, Hideki MATSUMOTO/TKY/HBAP/HSBC@HSBC, Michael B Gallagher/HBUS/HSBC@HSBC02, Navin GUPTA/TKY/HBAP/HSBC@HSBC, Richard JAGGARD/PCM ASP/HBAP/HSBC@HSBC, Takahiko KANECHIKU/TKY/HBAP/HSBC@HSBC, Thomas W Halpin/HBUS/HSBC@HSBC02
Subject
Fw: Hokuriku Bank

Anthony

My apologies. I sent mistakenly to Julian Anthony.

Sorry and Regards

Yamashita
----- Forwarded by Machiko M YAMASHITA/TKY/HBAP/HSBC on 2008/09/12 19:49 -----

Machiko M YAMASHITA/TKY/HBAP/HSBC
12 Sep 2008 19:01 Mail Size: 35523
Phone No. 813 5203 3328

To
Julian H ANTHONY/PFS PUN/HBAP/HSBC@HSBC
cc
Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC, Alan P Williamson/HBUS/HSBC@HSBC02, Cam ADAMS/PCM ASP/HBAP/HSBC@HSBC, Hideki MATSUMOTO/TKY/HBAP/HSBC@HSBC, Michael B Gallagher/HBUS/HSBC@HSBC02, Navin GUPTA/TKY/HBAP/HSBC@HSBC, Richard JAGGARD/PCM ASP/HBAP/HSBC@HSBC, Takahiko KANECHIKU/TKY/HBAP/HSBC@HSBC, Thomas W Halpin/HBUS/HSBC@HSBC02
Subject
Fw: Hokuriku Bank

---

Our Ref

Your Ref

Anthony

We informed them that due to regulatory burden, HBUS decided to cease



Permanent Subcommittee on Investigations
EXHIBIT #89

processing bulk TCs used for business purpose but continue processing other ordinary TCs. Also informed that this decision is not made only for the deals with Hokuriku Bank but also for any other banks.

Their response is as follows.

They wish you to allow respite until they will fix time frame to meet with your decision given the following internal situation at their end.

- First of all, they should consider whether or not they will continue dealing this business.
- If they continue the business; 1) they have to select alternative provider. As you mentioned, it is true that there are several candidates in Japan but it may not be easy for them to select the most appropriate provider as they should consider pricing, procedure and etc through selecting process; and 2) they need to change their internal system and procedure. (As mentioned in my previous LN, their systems including accounting system are arranged to deal with HBUS. They also have to change their procedure manual etc. to meet with the alternative provider's processing manner. )
- As you may be aware, September is the month for their interim fiscal period and due to this, it is one of the busiest months for Hokuriku Bank (not only for them but also for Japanese banks).

As to sort out TCs which HBUS can continuously deal with, they wish to know the clear definition of bulk TCs

We suggest that we should withdraw very carefully given the fact that Japanese regional banks' world is very small. If we will push Hokuriku drastically, HSBC may likely have bad reputation on our PCM business in this marketplace. Your feedback would be appreciated.

Regards

Yamashita

----- Forwarded by Machiko M YAMASHITA/TKY/HBAP/HSBC on 2008/09/12 18:55 -----

Anthony Julian/HBUS/HSBC@HSBC02
12 Sep 2008 06:48 Mail Size: 30103

To
Machiko M YAMASHITA/TKY/HBAP/HSBC@HSBC
cc
Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC, Alan P Williamson/HBUS/HSBC@HSBC02, Cam ADAMS/PCM ASP/HBAP/HSBC@HSBC, Hideki MATSUMOTO/TKY/HBAP/HSBC@HSBC, Michael B Gallagher/HBUS/HSBC@HSBC02, Navin GUPTA/TKY/HBAP/HSBC@HSBC, Richard JAGGARD/PCM ASP/HBAP/HSBC@HSBC, Takahiko KANECHIKU/TKY/HBAP/HSBC@HSBC, Thomas W Halpin/HBUS/HSBC@HSBC02
Subject
Re: Fw: Hokuriku Bank

---

Our Ref

Your Ref

Please note that HBUS senior management has reviewed this service extensively

and determined that we can not continue to support this business. Thiis is not an issue for negotiation with Hokuriku. HBUS has decided to withdraw from processing bulk quantities of TCs, as the regulatory burden is costly and the operational / regulatory risk is not acceptable.

We respect Hokuriku's perspective, and 30 days notification should be acceptable for withdrawal of services (as stated in our cash letter documentation).

As Cash Letter is a manual process, there should be no significant systemic issues with them shifting this business to another provider. Hokuriku maintains accounts with all of the major USD service providers (Citi, Chase, BoNY, Wachovia, Deutsche, Amex, etc), each of whom offer competitive Cash Letter services. They can shift this business relatively easily, and we would appreciate their cooperation in ceasing bulk TC deposit as soon as possible. We will return bulk TC deposits received by HBUS after October 12.

Thanks and best regards

Anthony Julian
First Vice President
HSBC Bank USA, N.A.
Global Transaction Banking
Office: (302) 327-2665
Mobile (BB): [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Machiko M YAMASHITA/TKY/HBAP/HSBC@HSBC
09/11/2008 05:07 AM

To
Alan P Williamson/HBUS/HSBC@HSBC02
cc
Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC, Anthony Julian/HBUS/HSBC@HSBC02, Cam ADAMS/PCM ASP/HBAP/HSBC@HSBC, Michael B Gallagher/HBUS/HSBC@HSBC02, Richard JAGGARD/PCM ASP/HBAP/HSBC@HSBC, Takahiko KANECHIKU/TKY/HBAP/HSBC@HSBC, Thomas W Halpin/HBUS/HSBC@HSBC02, Navin GUPTA/TKY/HBAP/HSBC@HSBC, Hideki MATSUMOTO/TKY/HBAP/HSBC@HSBC
Subject
Fw: Hokuriku Bank

Dear Alan

Matsumoto-san and myself visited Mr. Takahashi, GM and Mr. Takarada, Deputy MGR of International Operations Center to advise of your decision.

We conveyed the message that we understand that AML process is appropriately 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@HSBC02
11 Sep 2008 01:22 Mail Size: 18427

To
Hideki MATSUMOTO/TKY/HBAP/HSBC@HSBC, Navin GUPTA/TKY/HBAP/HSBC@HSBC, Machiko M
YAMASHITA/TKY/HBAP/HSBC@HSBC
cc
Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC, Anthony Julian/HBUS/HSBC@HSBC02, Cam ADAMS/PCM ASP/HBAP/HSBC@HSBC, Michael B Gallagher/HBUS/HSBC@HSBC02, Richard JAGGARD/PCM ASP/HBAP/HSBC@HSBC, Takahiko KANECHIKU/TKY/HBAP/HSBC@HSBC, Thomas W Halpin/HBUS/HSBC@HSBC02
Subject
Re: Hokuriku Bank

---

Our Ref

Your Ref

Gentlemen

Can I ask for the status on this matter?

Thank you all for your help.

Alan

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

From: Hideki MATSUMOTO
Sent: 09/05/2008 09:35 AM ZE9
To: Navin GUPTA; Machiko M YAMASHITA
Cc: Ako KOBAYASHI; Alan P Williamson; Anthony Julian/HBUS/HSBC@HSBCAMERICAS; Cam ADAMS; Michael Gallagher; Richard JAGGARD; Takahiko KANECHIKU; Thomas W Halpin
Subject: Re: Hokuriku Bank

Navin

RM is Yamashita san for Hokuriku Bk.

Yamashita san

it seems internal due date is tight for them to change structure involving their own clients. shall we move quickly to discuss on this with Hokuriku Bk.

rgds, hideki

Navin GUPTA/TKY/HBAP/HSBC
05 Sep 2008 08:29 Mail Size: 14141
Phone No. 813 5203 4252

To
Takahiko KANECHIKU/TKY/HBAP/HSBC@HSBC, Hideki MATSUMOTO/TKY/HBAP/HSBC@HSBC
cc
Alan P Williamson/HBUS/HSBC@HSBC02, Anthony Julian/HBUS/HSBC@HSBCAMERICAS, Cam ADAMS/PCM ASP/HBAP/HSBC@HSBC, Michael B Gallagher/HBUS/HSBC@HSBC02, Richard JAGGARD/PCM ASP/HBAP/HSBC@HSBC, Thomas W Halpin/HBUS/HSBC@HSBC02, Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC
Subject
Re: Hokuriku Bank

---

Our Ref

Your Ref

Kanechiku san,

Request your support in commuincation to Hokuriku bank as below.

Warm Rgs, Navin

Fred SHYUR/PCM ASP/HBAP/HSBC
09/05/2008 07:40 AM
Mail Size: 3916

To
Cam ADAMS/PCM ASP/HBAP/HSBC@HSBC, Navin GUPTA/TKY/HBAP/HSBC@HSBC, Anthony Julian/HBUS/HSBC@HSBCAMERICAS@REPUBLIC
cc
Thomas W Halpin/HBUS/HSBC@HSBC02, Michael B Gallagher/HBUS/HSBC@HSBC02, Richard JAGGARD/PCM ASP/HBAP/HSBC@HSBC, Alan P Williamson/HBUS/HSBC@HSBC02
Subject
Re: Hokuriku Bank
Our Ref

Your Ref

Cam and Navin,

FYI. Please kindly work with Anthony and Alan on the AML issue below.

Regards,

Fred Shyur

**********
The Hongkong and Shanghai Banking Corporation Limited
whose registered address is 1 Queen's Road Central, Hong Kong
**********

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

From: Alan P Williamson
Sent: 09/04/2008 11:05 AM EDT
To: Anthony Julian/HBUS/HSBC@HSBC02; Fred SHYUR
Cc: Thomas W Halpin/HBUS/HSBC@HSBC02; Michael B Gallagher/HBUS/HSBC@HSBC02
Subject: Hokuriku Bank

Anthony, Fred

As you may know, Compliance meets monthly with senior management in the Payments and Cash Management AML Management Review Committee. Recently we discussed the fact that Hokuriku has been sending a large number of sequential traveller's checks from a number of similar businesses through cash letter here in the US. This use of cash letter is inappropriate and the Committee has concluded that PCM should no longer allow Hokuriku to send traveler's checks through cash letter. Hokuriku should therefore cease the activity and make 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: DENIS E O'BRIEN/HBUS/HSBC
Sent: 12/19/2008 11:16:25 AM
To: AKO KOBAYASHI/TKY/HBAP/HSBC@HSBC03
CC: ANTHONY JULIAN/HBUS/HSBC@HSBC02;DENISE A REILLY/HBUS/HSBC@HSBC02;HIDEKI MATSUMOTO/TKY/HBAP/HSBC@HSBC03;
JONATHAN DEAN/HBUS/HSBC@HSBC02;JUDY P STOLDT/HBUS/HSBC@HSBC02;MACHIKO M YAMASHITA/TKY/HBAP/HSBC@HSBC03;
SAEKA TAKEBAYASHI/TKY/HBAP/HSBC@HSBC03;SHINJI KAWAMURA/TKY/HBAP/HSBC@HSBC03;STEPHANIE K BROWN/HBUS/HSBC@HSBC02;
TAKAO TAKENAKA/TKY/HBAP/HSBC@HSBC03;WILLIAM WEHMEYER/HBUS/HSBC@HSBC02
Subject: Re: Fw: Hokuriku Bank - information needed

We are appreciative of your assistance and thank you for your diligence in this regard. We have closed our investigation as it relates to this issue.

Thanks and regards,

Denis E O'Brien
_____
Vice President, Head of Global Transaction Banking Compliance, | HSBC Securities (USA) Inc.
452 Fifth Avenue, New York, NY 10018

Phone. 212 525 1147
Fax. 917-229-5257
Mobile. [redacted]
Email. denis.e.o'brien@us.hsbc.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC03
12/19/2008 02:00 AM

To
Denis E O'brien/HBUS/HSBC@HSBC02
cc
Denise A Reilly/HBUS/HSBC@HSBC02, Hideki MATSUMOTO/TKY/HBAP/HSBC@HSBC03, Jonathan Dean/HBUS/HSBC@HSBC02, Judy P Stoldt/HBUS/HSBC@HSBC02, Machiko M YAMASHITA/TKY/HBAP/HSBC@HSBC03, Saeka TAKEBAYASHI/TKY/HBAP/HSBC@HSBC03, Stephanie K Brown/HBUS/HSBC@HSBC02, William Wehmeyer/HBUS/HSBC@HSBC02, Anthony Julian/HBUS/HSBC@HSBC02, Takao TAKENAKA/TKY/HBAP/HSBC@HSBC03, Shinji KAWAMURA/TKY/HBAP/HSBC@HSBC03
Subject
Fw: Hokuriku Bank - information needed

Denis,

Hokuriku Bank has provided the information at their risk and confirmed that the purchasers of the travelers checks - Alexander Tokarenko, Andrey Davydov, Yuriy Zimchuk, Leonid Efimovich Egorov, Kopychev Valery or Bulgarov Maxim; are not signers or are NOT connected in any way to the previously requested named relationships at Hokuriku Bank. This should be the last favour and we cannot expect further or next assistance from them.



Permanent Subcommittee on Investigations
EXHIBIT #90

Best regards,

Ako KOBAYASHI
Assistant Vice President | Global Payments and Cash Management, Asia Pacific
HSBC Building, 3-11-1 Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan

Phone. 813 5203 3161
Fax. 813 5203 4236
Email. ako.kobayashi@hsbc.co.jp

----- Forwarded by Ako KOBAYASHI/TKY/HBAP/HSBC on 2008/12/19 15:58 -----

Shinji KAWAMURA/TKY/HBAP/HSBC@HSBC03
17 Dec 2008 17:11 Mail Size: 59442

To
Denis E O'brien/HBUS/HSBC@HSBC02
cc
Denise A Reilly/HBUS/HSBC@HSBC02, Hideki MATSUMOTO/TKY/HBAP/HSBC@HSBC03, Jonathan Dean/HBUS/HSBC@HSBC02, Judy P Stoldt/HBUS/HSBC@HSBC02, Machiko M YAMASHITA/TKY/HBAP/HSBC@HSBC03, Saeka TAKEBAYASHI/TKY/HBAP/HSBC@HSBC03, Stephanie K Brown/HBUS/HSBC@HSBC02, William Wehmeyer/HBUS/HSBC@HSBC02, Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC03@HSBC, Anthony Julian/HBUS/HSBC@HSBC02, Takao TAKENAKA/TKY/HBAP/HSBC@HSBC03
Subject
Fw: Hokuriku Bank - information needed

Our Ref

Your Ref

Denis,
I am Shinji Kawamura, MLCO in Japan.
They have been good enough to provide information so far but as you may understand from bank secrecy view point, they should not or cannot disclose customer information. So they will no longer provide information. If you need my suggestion to clear those backlogs, I will tell you that you should file suspicious transaction report to your authority.

Regards,
Shinji Kawamura
Money Laundering Control Officer
The Hongkong and Shanghai Banking Corporation, Tokyo
TEL : 813-5203-3364
FAX : 813-5203-3794

----- Forwarded by Shinji KAWAMURA/TKY/HBAP/HSBC on 2008/12/17 16:49 -----

Takao TAKENAKA/TKY/HBAP/HSBC
17 Dec 2008 08:31 Mail Size: 54754

To
Shinji KAWAMURA/TKY/HBAP/HSBC@HSBC03
cc

Subject
Fw: Hokuriku Bank - information needed

Our Ref

Your Ref

----- Forwarded by Takao TAKENAKA/TKY/HBAP/HSBC on 12/17/2008 08:30 AM -----

Denis E O'brien/HBUS/HSBC@HSBC02
17 Dec 2008 03:03 Mail Size: 54194

To
Takao TAKENAKA/TKY/HBAP/HSBC@HSBC03
cc
Denise A Reilly/HBUS/HSBC@HSBC02, Hideki MATSUMOTO/TKY/HBAP/HSBC@HSBC03, Jonathan Dean/HBUS/HSBC@HSBC02, Judy P Stoldt/HBUS/HSBC@HSBC02, Machiko M YAMASHITA/TKY/HBAP/HSBC@HSBC03, Saeka TAKEBAYASHI/TKY/HBAP/HSBC@HSBC03, Stephanie K Brown/HBUS/HSBC@HSBC02, William Wehmeyer/HBUS/HSBC@HSBC02, Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC03@HSBC, Anthony Julian/HBUS/HSBC@HSBC02
Subject
Re: Fw: Hokuriku Bank - information needed

Our Ref

Your Ref

Takao,

By way of introduction, I am responsible for Global Transaction Banking Compliance in the U.S.

Ako Kobayashi has been very helpful thus far in assisting us in obtaining additional information as it relates to Hokuriku Bank customers that were utilizing our Cash Letter (Pouch) services. In response to the additional questions Hokuriku Bank has requested for our specific request:

1. The reason you are reviewing transaction from first and second quarter of 2008 at this time of the year.
Internal backlogs

2. Where did you get the name of the 30 companies?
From Hokuriku Bank bulk deposits

3. Are you only asking Hokuriku Bank to provide such information?
Yes, as it relates to Hokuriku Bank transactions

4. What would be the course of action you would take if any of the Russians are

related in any way with the named relationships?
(repeat of previous response)
We are required to understand and vet transactions processed that are alerted in our systems because of patterns or trends. To the best of our knowledge, we are unaware of any pending criminal act and would appreciate any information that can be shared with us regarding any law enforcement actions. The Russian names were identified during our due diligence as purchasers of travelers checks on behalf of third parties that used the items to purchase goods from your clients. Our request for information directly relates to transactions processed and alerted in our systems because of the large volumes, this processing is normal as we review in arrears and currently are backlogged reviewing transactions from first and second quarter of 2008. These investigations are time consuming as in most instances, like this one, we need to rely on our customers to provide additional information.

5. What is the reason for the request when there is no more outstanding travelers checks with Hokurku Bank
To clear the pending HBUS system generated alerts on previous activity.

We understand from the previous e-mails that Hokuriku Bank has requested some time to gather information for us, which we greatly appreciate and understand that we cannot expect completion by year-end. Again, we cannot stress enough, that all we are asking is confirmation that the purchasers of the travelers checks - Alexander Tokarenko, Andrey Davydov, Yuriy Zimchuk, Leonid Efimovich Egorov, Kopychev Valery or Bulgarov Maxim; are not signers or are connected in any way to the previously requested named relationships at Hokuriku Bank.

Thanks and regards,

Denis E O'Brien
Vice President, Head of Global Transaction Banking Compliance, | HSBC Securities (USA) Inc.
452 Fifth Avenue, New York, NY 10018

Phone. 212 525 1147
Fax. 917-229-5257
Mobile. [redacted]
Email. denis.e.o'brien@us.hsbc.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC03
12/15/2008 01:43 AM

To
Denis E O'brien/HBUS/HSBC@HSBC02@HSBC
CC
Denise A Reilly/HBUS/HSBC@HSBC02, Jonathan Dean/HBUS/HSBC@HSBC02, Judy P Stoldt/HBUS/HSBC@HSBC02, Saeka TAKEBAYASHI/TKY/HBAP/HSBC@HSBC03, Stephanie K Brown/HBUS/HSBC@HSBC02, William Wehmeyer/HBUS/HSBC@HSBC02, Machiko M YAMASHITA/TKY/HBAP/HSBC@HSBC03, Hideki MATSUMOTO/TKY/HBAP/HSBC@HSBC03
Subject
Fw: Hokuriku Bank - information needed

Denis,

Please be advised that other contact of Hokuriku Bank called us today and he has requested for further background for your specific request.
The reason you are reviewing transaction from first and second quarter of 2008 at this time of the year.
Where did you get the name of the 30 companies?
Are you only asking Hokuriku Bank to provide such information?
What would be the course of action you would take if any of the Russians are related in any way with the named relationships?
What is the reason for the request when there is no more outstanding travelers checks with Hokurku Bank

Please be advised that apparently they are not very happy with your request as they have other matters to attend toward the end of the year. Besides they are only given a very short timeframe.

Hokuriku Bank is not saying that they will not assist you to provide the required information however they are upset with the nature of the request without being given sufficient background. Given the nature of the queries, please understand it is time consuming and consider to allow them more time. They might not be able to supply the information by the end of the year.

Appreciate your understanding on the above.

Best regards,

Ako KOBAYASHI
Assistant Vice President | Global Payments and Cash Management, Asia Pacific
HSBC Building, 3-11-1 Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan

Phone. 813 5203 3161
Fax. 813 5203 4236
Email. ako.kobayashi@hsbc.co.jp

----- Forwarded by Ako KOBAYASHI/TKY/HBAP/HSBC on 2008/12/15 14:58 -----

Ako KOBAYASHI/TKY/HBAP/HSBC
11 Dec 2008 14:24 Mail Size: 40837
Phone No. 813 5203 3161

To
Denis E O'brien/HBUS/HSBC@HSBC02@HSBC
cc
Denise A Reilly/HBUS/HSBC@HSBC02, Jonathan Dean/HBUS/HSBC@HSBC02, Judy P Stoldt/HBUS/HSBC@HSBC02, Saeka TAKEBAYASHI/TKY/HBAP/HSBC@HSBC03, Stephanie K Brown/HBUS/HSBC@HSBC02, William Wehmeyer/HBUS/HSBC@HSBC02
Subject
Re: Fw: Hokuriku Bank - information needed

Our Ref

Your Ref

Denis,

I have had dialogues with the Hokuriku Bank and they do not appear to retain ownership information. According to the client, they have identitied the name of the branches where those named entities maintain an account with and shall shorlty make a request to each branch to supply them with the required information.

Please bear with us some time for the Hokuriku Bank to complete the whole process.

Best regards,

Ako KOBAYASHI
Assistant Vice President | Global Payments and Cash Management, Asia Pacific
HSBC Building, 3-11-1 Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan

Phone. 813 5203 3161
Fax. 813 5203 4236
Email. ako.kobayashi@hsbc.co.jp

Denis E O'brien/HBUS/HSBC@HSBC02
11 Dec 2008 14:12 Mail Size: 35895

To
Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC03@HSBC, Stephanie K Brown/HBUS/HSBC@HSBC02
cc
Denise A Reilly/HBUS/HSBC@HSBC02, Jonathan Dean/HBUS/HSBC@HSBC02, Judy P Stoldt/HBUS/HSBC@HSBC02, Saeka TAKEBAYASHI/TKY/HBAP/HSBC@HSBC03, William Wehmeyer/HBUS/HSBC@HSBC02
Subject
Re: Fw: Hokuriku Bank - information needed

Our Ref

Your Ref

Thanks Ako,

I may be missing something here, all we are asking is if any of the named individuals are owners or account signers in the named entities. Doesn't Hokuriku Bank retain ownership information & signature cards on there customers.

Please advise as we would appreciate closing this investigation out before year end.

Thanks,
Denis O'Brien
Vice President
Head of GTB Compliance
Tel. (212) 525-1147
Cell
Cell [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: Ako KOBAYASHI
Sent: 12/11/2008 01:54 PM ZE9
To: Stephanie Brown
Cc: Denis O'brien; Denise Reilly; Jonathan Dean; Judy Stoldt; Saeka TAKEBAYASHI/TKY/HBAP/HSBC@HSBC03; William Wehmeyer
Subject: Re: Fw: Hokuriku Bank - information needed

Stephanie,

I have called Hokuriku Bank and was advised to allow some time. As they do not know how those Russian names are pronounced, Hokuriku Bank needs to visit the companies listed below one by one and it would certainly require certain amount of time. Please consider to wait till the end of this year.

Appreciate your understanding.

Best regards,

Ako KOBAYASHI
Assistant Vice President | Global Payments and Cash Management, Asia Pacific
HSBC Building, 3-11-1 Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan

Phone. 813 5203 3161
Fax. 813 5203 4236
Email. ako.kobayashi@hsbc.co.jp

Stephanie K Brown/HBUS/HSBC@HSBC02
11 Dec 2008 05:41 Mail Size: 31533

To
Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC03
cc
Saeka TAKEBAYASHI/TKY/HBAP/HSBC@HSBC03, Judy P Stoldt/HBUS/HSBC@HSBC02@HSBC, Denise A Reilly/HBUS/HSBC@HSBC, Jonathan Dean/HBUS/HSBC@HSBC, William Wehmeyer/HBUS/HSBC@HSBC, Denis E O'brien/HBUS/HSBC@HSBC
Subject
Re: Fw: Hokuriku Bank - information needed

Our Ref

Your Ref

Hello Ako,

Do you have any information concerning the below matter?

Please note it is imperative that we received an answer as soon as possible.

Thanks and regards,

Stephanie K Brown
HSBC Bank USA, National Association
Account Manager | GPCM Client Services
90 Christiana Road, New Castle, De. 19720

Phone 0302 327 2291
Fax 212 642 4065
Email stephanie.k.brown@us.hsbc.com

---

Hello Ako,

Here is additional information concerning our questions related to Hokuriku Bank:

The background of our queries stem from our requirement to understand and vet transactions processed that are alerted in our systems because of patterns or trends. To the best of our knowledge, we are unaware of any pending criminal act and would appreciate any information that can be shared with us regarding any law enforcement actions. The Russian names were identified during our due diligence as purchasers of travelers checks on behalf of third parties that used the items to purchase goods from your clients. Our request for information directly relates to transactions processed and alerted in our systems because of the large volumes, this processing is normal as we review in arrears and currently are backlogged reviewing transactions from first and second quarter of 2008. These investigations are time consuming as in most instances, like this one, we need to rely on our customers to provide additional information.

Your immediate attention would be greatly appreciated in advising us if Alexander Tokarenko, Andrey Davydov, Yuriy Zimchuk, Leonid Efimovich Egorov, Kopychev Valery or Bulgarov Maxim are signers or are connected in any way to the previously requested named relationships at Hokuriku Bank.

Thanks in advance your assistance in this regard.

Thanks and regards,

Stephanie K Brown
HSBC Bank USA, National Association
Account Manager | GPCM Client Services
90 Christiana Road, New Castle, De. 19720

Phone 0302 327 2291
Fax 212 642 4065
Email stephanie.k.brown@us.hsbc.com

---

Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC03

12/03/2008 08:56 PM

To
gpcmclientservices/HBUS/HSBC@HSBC02
cc
Saeka TAKEBAYASHI/TKY/HBAP/HSBC@HSBC03, Stephanie K Brown/HBUS/HSBC@HSBC02
Subject
Fw: Hokuriku Bank - information needed

Stephanie,

Hokuriku Bank has raised the following questions:

What is the background for your queries? Does it relate to your compliance reason or does it relate to criminal act and the police asks such information?
Where did you get those Russian names?
Since no cheques has been presented to you since Nov08, why such information is required now?

Appreciate your feedback on the above.

Thanks and best regards,

Ako KOBAYASHI
Assistant Vice President | Global Payments and Cash Management, Asia Pacific
HSBC Building, 3-11-1 Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan

Phone. 813 5203 3161
Fax. 813 5203 4236
Email. ako.kobayashi@hsbc.co.jp

----- Forwarded by Ako KOBAYASHI/TKY/HBAP/HSBC on 2008/12/04 10:50 -----

Ako KOBAYASHI/TKY/HBAP/HSBC
01 Dec 2008 11:21 Mail Size: 20181
Phone No. 813 5203 3161

To
gpcmclientservices/HBUS/HSBC@HSBC02
cc
Saeka TAKEBAYASHI/TKY/HBAP/HSBC@HSBC03, Stephanie K Brown/HBUS/HSBC@HSBC02
Subject
Re: Hokuriku Bank - information needed

---

Our Ref

Your Ref

Stephanie,

I have forwarded your message to Hokuriku Bank. Upon receipt of their reply, I shall revert to you.

Best regards,

Ako KOBAYASHI
Assistant Vice President | Global Payments and Cash Management, Asia Pacific
HSBC Building, 3-11-1 Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan

Phone. 813 5203 3161
Fax. 813 5203 4236
Email. ako.kobayashi@hsbc.co.jp

gpcmclientservices/HBUS/HSBC@HSBC02
Sent by: Stephanie K Brown@HSBC02
29 Nov 2008 04:31 Mail Size: 16116

To
Ako KOBAYASHI/TKY/HBAP/HSBC@HSBC03
cc
Saeka TAKEBAYASHI/TKY/HBAP/HSBC@HSBC03
Subject
Hokuriku Bank - information needed

Our Ref

Your Ref

Hello Ako,

Can you please contact Hokuriku Bank and request they provide us with the following information:

Please advise within a week if Alexander Tokarenko, Andrey Davydov, Yuriy Zimchuk, Leonid Efimovich Egorov, Kopychev Valery or Bulgarov Maxim are signers or are connected in any way to the following relationships at Hokuriku Bank:

MARIC TRADING CORPORATION
I.K. AUTO LTD
S.K. TRADING CO., LTD.
DEAN CORPORATION CO LTD
GONDAL CORPORATION
SHIN KYOWA INTERNATIONAL
JAMSOU TRADERS CO. LTD.
CHOWDHURY TRADE INTL CO. LTD
AWAN INTERNATIONAL K.K.
SHIWA SANGYO CO. LTD
CARLAND HOKURIKU CO.
MALIK SEKINE BOEKI COMPANY
SHAKI CORPORATION
M.A AWAN CORPORATION
AUTO SAM CO.

A.S.U. CORPORATION
P J ENTERPRISE
SUNRISE TRADING CO LTD
FRIENDSHIP MOTOR CAR K.K.
SANDO CORPORATION
GROMAKOV BORIS
AUTO STAGE LTD.
CHACHA ENTERPRISE CO., LTD.
COSMOS CORPORATION
JAPAN TREK INC
KABIR AUTO EXPORT CO., LTD
KG COMPANY CO., LTD
SEIIN YONEDA
SEKIZAWASYOUJI CO LTD
ZHELOMKO RUSLAN

Feel free to contact me directly, if further information is needed.

Thanks and kind regards,

Stephanie Brown
GPCM Client Services
HSBC Bank USA, N.A.
90 Christiana Rd., New Castle, DE 19720
Telephone: 302 327 2171
Facsimile: 212 642 4008

---

T- 3 inquiry.

Nanayo Ryan
PCM Client Services | HSBC Bank USA NA
90 Christiana Road, New Castle, DE 19720 U.S.A.

Phone. 302-327-2256
Fax. 212-642-4065
Email. nanayo.ryan@us.hsbc.com

----- Forwarded by Nanayo Ryan/HBUS/HSBC on 11/26/2008 01:12 PM -----

Judy P Stoldt/HBUS/HSBC
11/26/2008 10:14 AM

To
Nanayo Ryan/HBUS/HSBC@HSBC02
cc
William Wehmeyer/HBUS/HSBC@HSBC, Denis E O'brien/HBUS/HSBC@HSBC
Subject
Fw: Hokuriku Bank

Nan,

We do need the information so can you send the request to Hokuriku Bank? Keep us posted.

Judy P Stoldt
Vice President, AML Compliance | HSBC Bank USA, National Association
One HSBC Center
Buffalo, New York 14203

Phone (716) 841- 6425
Fax (212) 382 - 7586
Email judy.p.stoldt@us.hsbc.com

----- Forwarded by Judy P Stoldt/HBUS/HSBC on 11/26/2008 10:14 AM -----

Judy P Stoldt/HBUS/HSBC
11/24/2008 04:30 PM

To
Nanayo Ryan/HBUS/HSBC
cc
Denis E O'brien/HBUS/HSBC@HSBC, William Wehmeyer/HBUS/HSBC@HSBC
Subject
Fw: Hokuriku Bank

Nan,

We talked this over and can you hold this request until tomorrow. I'll let you if we need you to send it.

Judy P Stoldt
Vice President, AML Compliance | HSBC Bank USA, National Association
One HSBC Center
Buffalo, New York 14203

Phone (716) 841- 6425
Fax (212) 382 - 7586
Email judy.p.stoldt@us.hsbc.com

----- Forwarded by Judy P Stoldt/HBUS/HSBC on 11/24/2008 04:29 PM -----

William Wehmeyer/HBUS/HSBC
11/24/2008 04:15 PM

To
Nanayo Ryan/HBUS/HSBC@HSBC
cc
Judy P Stoldt/HBUS/HSBC, Denis E O'brien/HBUS/HSBC, Jonathan Dean/HBUS/HSBC@HSBC
Subject
Hokuriku Bank

Nan,

Please reach out to Hokuriku Bank and request that they advise within a week if Alexander Tokarenko, Andrey Davydov, Yuriy Zimchuk, Leonid Efimovich Egorov, Kopychev Valery or Bulgarov Maxim are signers or are connected in any way to the following relationships at Hokuriku Bank:

MARIC TRADING CORPORATION
I.K. AUTO LTD
S.K. TRADING CO., LTD.
DEAN CORPORATION CO LTD
GONDAL CORPORATION
SHIN KYOWA INTERNATIONAL
JAMSOU TRADERS CO. LTD.
CHOWDHURY TRADE INTL CO. LTD
AWAN INTERNATIONAL K.K.
SHIWA SANGYO CO. LTD
CARLAND HOKURIKU CO.
MALIK SEKINE BOEKI COMPANY
SHAKI CORPORATION
M.A AWAN CORPORATION
AUTO SAM CO.
A.S.U. CORPORATION
P J ENTERPRISE
SUNRISE TRADING CO LTD
FRIENDSHIP MOTOR CAR K.K.
SANDO CORPORATION
GROMAKOV BORIS
AUTO STAGE LTD.
CHACHA ENTERPRISE CO., LTD.
COSMOS CORPORATION
JAPAN TREK INC
KABIR AUTO EXPORT CO., LTD
KG COMPANY CO., LTD
SEIIN YONEDA
SEKIZAWASYOUJI CO LTD
ZHELOMKO RUSLAN

Please confirm to me when the message is sent and notify me on the response. Thank you for your assistance in this matter.

Regards,

William Wehmeyer
AVP - AML Compliance Officer | HSBC Bank USA NA
90 Christiana Road, New Castle, Delaware 19720

Phone. 302 327 2052
Fax. 212-642-4013
Email. william.wehmeyer@us.hsbc.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

**From:** Boss, Joseph
**To:** DiLorenzo, Anthony;
**cc:** [redacted] Boss, Joseph;
**Subject:** SK Trading
**Date:** Monday, December 01, 2008 10:48:54 AM

---

Tony, HSBC Compliance management provided me with an update on the situation involving SK Trading.

If you recall, 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. The travelers' checks were being processed in bulk and all checks were payable to SK Trading, with each bundle (average size of $250M) signed by the same individual and in $1000 denominations and sequentially numbered. We were informed that the aforementioned amounts we identified during our sampling was the peak amount sent in for processing for SK Trading.

We were informed that once [redacted] received a 314 request from HSBC regarding the matter, they [redacted] dispatched investigators to Russia to conduct surveilliance at the bank in which the travelers' checks were being purchased. The result was that [redacted] identified five individuals who were purchasing the checks with cash at the Russian Savings Bank and signing the checks. In turn, the five individuals were providing the checks to Mr. Alexander Tokarenko who is the owner of SK Trading. Mr. Tokarenko then stamped the checks payable to SK Trading. HSBC identified all accounts, including SK Trading, at Hokuriku Bank that were forwarding bulk deposits of [redacted] travelers' checks to HSBC for clearing. There were 30 accounts at Hokuriku Bank that were sending bulk deposits of travelers' checks. HSBC is attempting to discern if Mr. Alexander Tokarenko has ownership interest in the other 29 entities. HSBC advised that the total dollar amount of bulk travelers' checks processed by HSBC for the 30 entities during the period of November 2007 to October 2008 was over $61 million.

Recently, HSBC informed Hokuriku Bank that HSBC could no longer process travelers' checks for them. Once HSBC management ascertains if Mr. Alexander Tokarenko has ownership in any of the other entities, management will [redacted]

Please let me know if you require any further information.

Thanks, Joe

Permanent Subcommittee on Investigations
**EXHIBIT #91**

FOX HORAN & CAMERINI LLP
825 THIRD AVENUE
NEW YORK, NEW YORK 10022

ATTORNEYS AND COUNSELLORS
AT LAW

TELEPHONE: (212) 480-4800
TELECOPIERS: (212) 269-2383
(212) 709-0248

June 26, 2012

By Email and FedEx

Zachary Schram, Esq.
Senior Counsel
Permanent Subcommittee on Investigations
United States Senate
Washington, D.C.

Re: **Questions Posed to the New York Representative Office Of The Hokuriku Bank, Ltd.**

Dear Mr. Schram:

Our client, the Hokuriku Bank, Ltd. ("Hokuriku Bank") has asked us to respond to the questions you posed to it in your email of May 21, 2012. The information conveyed here came from our client.

**Question 1**

**What is Hokuriku's relationship with HSBC, including HSBC Bank USA (HBUS) ?**

Hokuriku Bank's relationship began with HBUS's predecessor in interest, Marine Midland Bank, in May of 1973. In September of 1985, Hokuriku Bank and Marine Midland entered into an International Cash Letter Service Agreement, pursuant to which the two banks cleared travelers' checks for each other. In October of 2008, the bank, by then named HBUS, stopped clearing travelers' checks for Hokuriku Bank, and on May 21, 2012, HBUS terminated its relationship with Hokuriku Bank entirely.

Hokuriku Bank also has a correspondent relationship with Hong Kong and Shanghai Banking Corporation, Ltd. However, this relationship will be terminated by mutual consent on July 4, 2012.

Hokuriku Bank currently has a correspondent relationship with the four branches of HSBC Banking (China) Company, Ltd. pursuant to a Relationship Management Application ("RAM"). Hokuriku Bank also has a RAM arrangement with the Taiwan branch of HSBC (Taiwan) Ltd.

Hokuriku Bank also maintains correspondent relationships with HSBC Banking Middle East, Ltd. and HSBC Bank PLC (now known as HSBC PLC) pursuant to an agency agreement.

Permanent Subcommittee on Investigations
EXHIBIT #92

Until May 29, 2012, Hokuriku Bank had a correspondent relationship with HSBC Malaysia Berhad, pursuant to a RAM.

**Questions 2 and 3**

**What is Hokuriku's experience with submitting U.S. dollar travelers' checks to HBUS for clearance from 2005 to the present, including the volume of checks submitted each year, why HBUS stopped processing the travelers' checks in 2008, and when and why HBUS restarted processing them.**

**Hokuriku's understanding of the travelers' checks cashed by clients in Russia involved in the used car business, HBUS's 2008 inquiry into those travelers' checks, and whether Hokuriku is still processing those checks.**

Due to the geographic proximity of Russia across the Sea of Japan, many Japanese dealers of pre-owned automobiles are located along the coast, including the Hokuriku region. (Hokuriku means "North Land" in Japanese). Hokuriku Bank is headquartered in this area and has several branches in the surrounding areas. Some of such dealers have accounts at Hokuriku Bank.

In a typical transaction, a customer of Hokuriku Bank (that is to say an account holder) sells a used car (or cars) to a Russian buyer who is a passenger or crew member of a ship at a nearby port. The buyer pays with travelers' checks. The seller/account holder brings the travelers' checks to its bank (Hokuriku) and deposits them into its account. Hokuriku Bank accepts the travelers' checks, credits the customer's account, and sends the checks to clearing banks. About 90% of the travelers' checks which were cleared by HSBC were in denominations of $1,000 or $500. All the travelers' checks were issued by American Express.

Until October of 2008, HBUS was the clearing bank for Hokuriku Bank in the U.S. HBUS would clear the checks and credit Hokuriku's correspondent account at HBUS. In or about October of 2008, HBUS notified Hokuriku Bank that it would no longer clear travelers' checks for Hokuriku Bank. The reason offered by HBUS was that the cost of processing the travelers' checks, especially the ones submitted by used car dealers, had become too high.

Hokuriku Bank then turned to Bank of New York Mellon which has been clearing the travelers' checks ever since. HBUS has not restarted clearing traveler's checks for Hokuriku Bank.

Hokuriku Bank does not have "clients in Russia" who bring in travelers checks. The traveler's checks are brought in by Hokuriku's account holders which are companies incorporated under Japanese law. Hokuriku does not accept travelers' checks unless deposited by customers into existing accounts (other than travelers' checks total of which is less than $1,000 brought in by individual tourists). Please refer to the attached document which is an excerpt of the compliance manual of Hokuriku Bank. The pages attached list identification and other documentation required the Hokuriku Bank in order for them to engage in various transactions, including processing traveler's checks.

Hokuriku Bank still accepts traveler's checks brought in by its customers, which are now sent to Bank of New York Mellon for clearance.

Hokuriku Bank does not have any knowledge regarding "HBUS's 2008 inquiry into those traveler's checks."

Please see the attachment for the volume of travelers' checks sent to HBUS for clearance each year.

**Question 4**

**Whether Hokuriku clears its U.S. dollar travelers' checks with any bank other than HSBC**

As stated above, The Bank of New York Mellon has been clearing Hokuriku's U.S. dollar travelers' checks since November 1, 2008.

**Question 5**

**What is Hokuriku's KYC and AML practices?**

Hokuriku Bank has established comprehensive Compliance Regulations to assure compliance with all applicable laws and regulations including, without limitation, the Laws Preventing Transfer of Profits Generated by Criminal Activities and the Foreign Exchange and Foreign Trade Control Law. Hokuriku Bank reviews and updates the Compliance Regulations annually and as required by law.

The legal section which is created within the Compliance Office is responsible for overseeing the bank compliance matters.

All branches perform internal inspection on a monthly basis to ensure their compliance pursuant to certain procedures set up by the bank. In addition, the Internal Auditing Department conducts thorough investigations of all bank activities including, without limitation, compliance with AML matters.

Hokuriku Bank accepts U.S. dollar traveler's checks only on the following conditions:

- No more than $1,000 per person per day.
  Two exceptions may apply:

  (1) If a regular customer brings in a travelers' check in excess of $1,000 and if by Hokuriku's judgment, it is deemed that the funds will be collected from the customer should it turn out that the travelers' cheek was not duly issued; or

  (2) If the travelers' checks were issued by Hokuriku Bank.

- In either case, Hokuriku Bank requires an ID to clear travelers' checks in the excess of ¥2,000,000. (approximately $25,000 at the exchange rate of $1 = ¥80)

- Whenever someone who does not have an account at Hokuriku (such as a tourist or sailor) whose address is not verified brings in travelers' checks in denominations of $500 or $1,000 or more, Hokuriku would check if a lost or stolen report has been filed regarding them.

- Whenever a non-Japanese customer opens a new account, Hokuriku will confirm if the customer (as well as the person in charge in case of a corporate account) is subject to economic sanctions or their assets are frozen. The Hokuriku Bank has a database for such confirmations and performs searches based on the surname, given name, middle name and corporate name.

Very truly yours,

William M. Brodsky
Chizuko S. Ueno

WMB:kg
w/Encls.
cc: Mr. Shigeo Hikage (w/o Encls.)

# Volume of U.S.Dollar Travelers Checks to HBUS for Clearance by year

THE HOKURIKU BANK,LTD
International Department
MAY 30 2012

| | | Volume(USD) | Clearing Bank |
|---|---|---|---|
| 2005 | | 76,983,897.00 | HSBC Bank USA,N.A. |
| 2006 | | 71,802,654.00 | |
| 2007 | | 90,248,281.00 | |
| 2008 | to Oct | 52,539,290.00 | |
| | from Nov | 3,992,610.00 | Bank of New York Mellon |
| 2009 | | 7,031,660.00 | |
| 2010 | | 10,598,030.00 | |
| 2011 | | 7,991,460.00 | |
| 2012 | to Apr | 2,181,210.00 | |

# 第２節　本人確認（犯罪収益移転防止法）

## 第１項　本人確認の重要性と対象取引

### １．犯罪収益移転防止法とは

（１）平成15年1月施行の「本人確認法」及び「組織的犯罪処罰法」は、捜査機関によるテロ資金や犯罪収益等の追跡のため情報を確保し、金融機関がテロ資金供与やマネーロンダリング等に利用される事を防ぐことを目的とし、金融機関が公的証明書により顧客の本人特定事項を確認するよう義務付けた。

（２）その後、平成20年3月に措置を講ずべき特定事業者の範囲を、非金融業者や職業的専門家等に拡大する等により、従来法に代えて「犯罪収益移転防止法」が施行された。

≫≫　犯罪収益移転防止法：犯罪による収益の移転防止に関する法律（平成20年3月1日施行）

（３）防止対策として「本人確認」と「疑わしい取引の届出制度」がある。

### ２．本人確認の重要性

取引先の本人確認は、架空の名義を利用したり、資金移動のくり返しによる「マネーローンダリング」の防止に重要な意味をもっている。

### ３．本人確認事項および対象者

| 項目 | 確認方法 | | |
|---|---|---|---|
| 規制の性質 | 義務づけ | | |
| 本人特定事項 | 自然人 | 本人確認書類により、氏名・生年月日・住居を確認<br>⚠注意　個人における「住居」とは、確認書類の住所のこと。<br>⚠注意　法人における「主たる事務所の所在地」とは、必ずしも登記された支店の所在地でなくてもよい。 | |
| | 法人 | 本人確認書類により、名称・本店又は主たる事務所の所在地及び当該法人の取引の任に当たる個人の本人確認 | |
| | 国・地公体、権利能力なき社団・財団、任意団体 | 取引の任に当たっている個人 | |
| | 代理取引 | 本人及び代理人。ただし保護者が学生に代わって振込みを依頼した場合保護者のみ。 | |
| 本人確認方法 | 公的証明による確認書類 | | |
| | 自然人 | 印鑑証明書、戸籍謄本又は抄本、国民健康保険等の各種保険証、運転免許証、外国人登録証明書、国民年金等の証書、旅券、その他官公庁発行又は発給の書類その他これに類する書類等 | |
| | 法人 | 登記簿謄本又は抄本、印鑑証明書、官公庁発行又は発給の書類その他これに類する書類等 | |
| | 外国人 | 日本国政府の承認した外国政府または権限ある国際機関の発行した書類又はこれに類する書類 | |
| 大口現金取引の下限 | 200万円超（但し、本人確認済の顧客については再度の本人確認を要しない） | | |
| 取引記録の作成保存期間 | 本人確認記録 | 取引終了後７年 | |
| | 取引記録 | 取引時から７年 | |
| 行政庁の監督 | 所管行政庁による報告徴求、立入検査及び是正命令の規定あり | | |
| 顧客側への規制 | 金融機関は本人確認に応じない顧客とは取引に応じないことが出来る | | |
| 罰則規定 | 金融機関等及び顧客等に対する罰則あり | | |

| | | | |
|---|---|---|---|
| 店内管理編 | 第１章　店内事務管理 | 第２節　本人確認（犯罪収益移転防止法） | |

4．確認対象取引

| 本人確認基準 | 本人確認対象取引 |
|---|---|
| 金融機関等と顧客等の間の継続的な取引関係の開始 | ①預金口座の開設（外貨預金、非居住者円預金、譲渡性預金を含む）、定期積金の新規契約<br>②投資信託口座の開設<br>③保険契約の締結（掛捨型は除外）、満期保険金等の支払保険契約者の変更<br>④金銭の貸付<br>⑤貸金庫の貸与の開始<br>⑥保証預りの開始（公社債、金地金保護預り等） |
| 金額200万円超の単発取引 | 取引が200万円超の下記取引<br>①現金取引（両替含む）<br>②持参人払式小切手、自己宛小切手、旅行小切手の受払い取引<br>③無記名公社債の本券もしくは利札の受払い取引 |
| 現金１０万円超の為替取引または自己あて小切手の振出取引 | 取引が現金１０万円超の下記取引<br>①振込（国、地公体あてのものを除く）<br>②代金収納（国、地公体あてのものを除く）<br>③持参人払式小切手支払い（振出人が現金を受け取る場合を除く）<br>④自己あて小切手の作成依頼 |
| 自行カードホルダーが他行ＡＴＭで行う10万円超カード振込 | 本人確認済をシステムチェックし、未済の場合エラーとする。 |
| 本人特定事項の真偽に疑いがある顧客等との取引 | ①本人確認の際に本人特定事項を偽っていた疑いがある取引<br>②取引の名義人になりすましている疑いのある取引 |

⚠注意　財形貯蓄については、事業主の本人確認が行われている場合、預金者の本人確認を省略する。

5．確認対象外取引

| 本人確認対象外取引 |
|---|
| ①旧ガイドラインによる確認方法で本人確認済となっている顧客との取引<br>②既に本人確認法による本人確認を行っており、本人確認書を保存している場合の取引<br>（※本人確認済みの先については、その後に発生する取引の本人確認不要）<br>③国または地方公共団体に対する金品の納付または納入に係わるもの<br>④国または地方公共団体を顧客とし、当該取引の任に当たっている当該国または地方公共団体の職員が法令上の権限に基づき、かつ、法令上の手続に従い行う取引<br>⑤破産管財人またはこれに準ずる者が法令上の権限に基づき行う取引 |

## 第２項　本人確認の方法と提示書類

1．本人確認の方法

本人確認方法として、確認書類の種類により次のとおり確認する。

（１）確認書類の提示を受け本人を確認する。記入必須項目を記入。

なお、本人確認書類の原本または写しの送付により本人確認する場合、当該書類またはその写し（領収書等補足書類含む）を本人確認書に添付し保存する。

（２）確認書類の写しを取り受け、次のａ、ｂのいずれかを併用する方法。

ａ．本人住所として、新規作成した「通帳」「証書」「キャッシュカード」または「ご案内状」等の当該取引に係わる文書を書留または簡易書留郵便により転送不要郵便（封筒に転送不要と表示）として送付。

ｂ．確認書類記載の住所を訪問し当該取引に係わる文書を交付。

（3）本人確認書に「提示を受けた本人確認書類の写し」を添付できない場合、本人確認書余白に、記入必須項目として本人確認書類の提示を受けた「時刻」も記入する。

⚠注意　「犯罪収益移転防止法」では、「本人限定受取郵便においては、金融機関に代わって本人確認を行った郵便配達者の氏名、本人確認書類の提示を受けた時刻、本人確認書類名称、記号番号等を金融機関に伝達する措置が必要」と定められているが、現行の本人限定受取郵便ではこの措置が講じられていないため、本人限定受取郵便による本人確認手続きは行わない。

2．本人確認方法の例外的取扱

下記の（1）～（4）の理由により、確認書類と届出住所が異なる場合、本人確認方法の例外的な取り扱いとして、本人確認書類以外に次の書類（※）のいずれかの原本またはその写しの提示または送付を受けて現在の住所等を確認する。

| |
|---|
| ①国税または地方税の領収証書または納税証明書 |
| ②社会保険料の領収証書 |
| ③公共料金（電気・ガス・水道・電話・ＮＨＫなど）の領収証書 |
| ※各書類とも、領収日付の押印または発行年月日の記載があり、その日付が提示等を受けた日から６カ月以内のもの。 |

（1）出張などで一時的に住居と異なる地域に滞在している場合
（2）住居の変更をしたが住民登録などの手続きが終了していない場合
（3）個人事業主が本人確認書類に記載されている住所と異なる事業所の住所で口座を開設する場合
（4）法人の登記をしていない事務所等と口座を開設する場合

3．本人確認書類

（1）個人を対象とする場合

| 限定確認書類 | 確認方法 |
|---|---|
| ① 取引を行うための申込または承諾に係る書類に顧客等が押印した印鑑に係る印鑑登録証明書<br>② 国民健康保険、健康保険、船員保険若しくは介護保険の被保険者証、医療受給者証（後期高齢者医療の被保険者証）、健康保険日雇特例被保険者手帳、国家公務員共済組合若しくは地方公務員共済組合の組合員証又は私立学校教職員共済制度の加入者証<br>③ 国民年金手帳、児童扶養手当証書、特別児童扶養手当証書、母子健康手帳、身体障害者手帳、精神障害者保健福祉手帳、療育手帳又は戦傷病者手帳<br>④ 運転免許証、外国人登録証明書、住民基本台帳カード、旅券、乗員手帳（氏名・生年月日の記載があるもの）（注1）<br>⑤ ①～④以外で、官公庁から発行（又は発給）された書類その他これに類するもので、顧客の氏名、住居及び生年月日の記載があるもの（かつ当該官公庁がその個人の写真を貼付のもの） | 窓口で左記①～⑤の確認書類（郵送確認不要の書類）の提示を受け、その場で本人確認が出来れば完結。<br><br>（注１）提示又は送付を受けた旅券（および乗員手帳）に住居の記載がないときは、他の本人確認書類、国税又は地方税の領収証書、公共料金の領収証書等（領収日付の押印又は発行年月日の記載のあるもので発行日から６ケ月以内のものに限る）の提示又はその写しの送付を受けて、現在の住居を確認することができる。 |
| ⑥ 印鑑証明書（上記①に掲げるものを除く）<br>⑦ 住民票又は住民票の記載事項証明書（※１）<br>⑧ 戸籍の謄本若しくは抄本（戸籍の附票の写しが添付されているものに限る。）<br>⑨ 外国人登録票の写、外国人登録原票の記載事項証明書（※２）<br>⑩ 官公庁から発行（又は発給）された書類その他これに類するもので、顧客の氏名、住居及び生年月日の記載があるもの。（但し、住民基本台帳ネットワーク稼動による通知書は対象 | 左記⑥～⑩の確認書類の提示を受けた場合は、確認書類に記載されている住居宛、通帳その他当該取引に係わる文書（注２）を簡易書留郵便により転送不要郵便物として送付するか直接訪問して交付する。<br>※１．地方公共団体の長の住民基本台 |

| 限定確認書類 | 確認方法 |
|---|---|
| 外） | 帳の氏名、住所その他の事項を証する書類<br>※２．地方公共団体の長の外国人登録原票に登録された事項を証する書類 |
| ⑪　確認書類（上記①～⑩）の原本及び写しの送付を受ける場合、ならびに代理人および取引の任にあたっている個人からの提示を受けた場合。 | 確認書類に記載されている住所宛、取引に係わる文書（注２）を簡易書留郵便により転送不要郵便物として送付するか、直接訪問して交付。 |

（注２）預金通帳、キャッシュカード、新約礼状等

（２）法人を対象とする場合

| 限定確認書類 | 確認方法 |
|---|---|
| ①　設立の登記に係る登記事項証明書（登記ないときは当該法人を所轄する行政機関の長の当該法人の名称及び本店又は主たる事務所の所在地を証する書類）<br>②　印鑑登録証明書<br>③　官公庁から発行（又は発給）された書類その他これに類するもので、当該法人の名称及び本店又は主たる事務所の所在地の記載があるもの | 窓口で左記①～③の確認書類の提示を受け、当該法人並びに代表者等取引の任に当たっている者の本人確認が出来れば完結。<br>（取引の任に当たっている者の確認方法は個人の場合に準ずる。） |
| 確認書類（上記①～③）の原本及び写しの送付を受ける場合 | 確認書類に記載されている顧客等の本店、主たる事務所、支店または営業所宛、取引に係わる文書を簡易書留郵便等により転送不要郵便物として送付する。 |

（３）外国人を対象とする場合

⚠注意　外国人の本人確認書類として旅券（および乗員手帳）を利用する場合、当該旅券等に「住居」の記載がない時は別途次の方法により確認を行うことができる。

| 確認書類 | 確認方法 |
|---|---|
| 上記個人及び法人を対象にした確認書類の他、日本国政府の承認した外国政府または権限ある国際機関の発行した書類その他これに類するもので、上記書類に準ずるもの。 | 上記個人、法人の対応に準ずる。<br>（乗員手帳の他、在日米軍の軍人・軍属及びその家族については外国政府の発行した身分証明書も本人確認書類とする。） |

4．本人確認書類の有効期限

確認書類は下記の基準に従い有効な書類かどうかを確認する。

| 有効な書類の要件 | | | 確認書類 |
|---|---|---|---|
| 個人 | 有効期間・有効期限のあるもの<br>⇒提示または送付を受ける日において有効であること | | 運転免許証（注1）、旅券・乗員手帳（氏名・生年月日の記載があるもの）、外国人登録証明書（注2）、各種健康保険証（船員保険、国家公務員共済組合もしくは地方公務員共済組合の組合員証、私立学校教職員共済制度の加入者証等）官公庁発行の写真付証明書（氏名・住所・生年月日の記載があるもの） |
| | 有効期限の定めがないもの | 提示または送付を受ける日において作成・発行後６カ月以内であること | 印鑑証明書、住民票又は住民票の記載事項証明書、戸籍の謄本若しくは抄本（戸籍の附票の写しが添付されているものに限る）、外国人登録票の写、外国人登録原票の記載事項証明書、官公庁から発行されまたは発給された |

| 有効な書類の要件 | | | 確認書類 |
|---|---|---|---|
| | | | 書類その他これに類するもので、顧客の氏名、住所及び生年月日の記載があるもの「(例) 官公庁発行の写真付証明書」 |
| | | 提示または送付を受ける日において確認日現在で有効であること | 各種健康保険証（国民健康保険・健康保険等）、各種年金手帳（国民年金・厚生年金手帳等）、各種福祉手帳（精神障害者保険福祉手帳）官公庁発行の写真付証明書（氏名・住所・生年月日の記載があるもの） |
| 法人 | 有効期限の定めがないもの<br>⇒作成・発行後6カ月以内であること。<br>有効期間・有効期限のあるもの<br>⇒提示または送付を受ける日において有効であること | | 登記簿謄本・抄本、印鑑証明書、官公庁から発行され、または発給された書類その他これに類するもので、当該法人の名称および本店または主たる事務所の所在地の記載があるもの |

(注1) 旧来の運転免許証では、有効期間が誕生日の応答日までとなっていたが、道路交通法の改正により、有効期間が誕生日の1カ月後の応答日まで有効となったのに伴い、本人確認書類としても同様の取り扱いが可能。

(注2) 在留期限内であること、「在留資格なし」と表示されていないことも併せて確認する。

## 第3項　本人確認手続き

### 1. 取引の開始時における手続

取引の開始に当たって、新規先である場合には、本人確認を行う。

(1) 本人確認の手続

a. 窓口における口座の開設等において、本人確認に必要な書類等の提示を求めても応じてもらえない場合は、口座開設等の取引の開始を謝絶する。なお万一、謝絶が困難な場合または後日速やかに提示を受ける旨の確約を得て取引を行う場合は、役席の承認を得て、次の点に注意して確認未済の本人確認書を作成する。(大口現金取引も同様である。)

(a) 本人確認手続きについては、「犯罪収益移転防止法」のほか、組織的犯罪処罰法や麻薬特例法による規定があり、慎重な判断が求められる。

(b) 確認未済の取引が麻薬等の不正取引以外の犯罪行為に利用された場合は、社会的責任を問われる可能性が大きい。

b. 顧客を開設するオペレーションの中で本人確認コードを入力する。

c. 確認の証しとして、本人確認書を作成する。

| 本人確認書作成 | RG, 01763 |
|---|---|

d. 本人確認未済のときは、当該CIFに注意コード「201本人確認未済」を自動的に設定する。

e. 口座開設当初、本人確認「未済」であったものが、後日確認できたときは本人確認の登録を行うと自動的に注意コードが解除される。

| 顧客属性データ設定変更 | RG, 01602 |
|---|---|

f. 本人確認状況を把握する場合には、他の注意コードの照会と同様に、元帳照会・注意コード照会等により注意コード「201本人確認未済」を確認することにより把握可能である。

g. 顧客番号に本人確認未済の注意コードが登録された先のオンライン取引を行うと、端末に「本人確認未済（確認書作成必要）」のメッセージを出力する。
当該本人確認未済のメッセージが出力された場合は、取引先に本人確認書類等の提示を求め、本人確認に努める。

⚠注意　ネット取引時に本人確認未済の注意メッセージが出力された場合は、取引先に本人確認資料の提示を求め

る。届出内容との一致を確認後、ＣＩＦに本人確認の登録を行う。

⚠注意 本人確認書は顧客管理店に送付する。

（2）確認書類等の返却

提示を受けた確認書類等のコピーを保管する。原本は取引先へ返却する。

コピーすることに同意されない場合、本人確認書の欄外に提示を受けた時刻（２４時間ベース）を記入する。

2．点検・保管

（1）本人確認書は、主任以上（または事務リーダー）の役席が次の内容を点検し、点検印を押す。

<点 検 内 容>

・確認方法は適切か確認書類の種類毎に定められた確認方法に合致しているか
・記入不備はないか住所・氏名・生年月日等必要事項の記入漏れがないか
・確認者の確認印漏れがないか
・確認書類の添付はしてあるか　　確認書類の写を取り受付の場合は確認書に添付してあるか
（写での確認書類は７年間の保存義務あり）

（2）本人確認書に不備があるものは本人確認未済の登録を行い再度本人確認を行う。

（3）本人確認書は、翌営業日に「本人確認書管理システム」により出力する「本人確認書集中保管送付書」と照合する。

（4）手書分の本人確認書を同送付書に追加記入し、本人確認書と確認書類はすべて北陸ビジネスサービス㈱へ送付する。

（5）取引記録とは当該取引にかかる伝票類等を指すものであり通常の事務においては、特段、伝票類に関する取引記録の作成は不要。但し、伝票類以外の取引記録（例：２００万円以上の両替等）は別途絞り込みのうえ、当該取引時より７年間保存。

3．本人確認書票の保管等

本人確認書は、北銀ビジネスサービス㈱で集中保管する。

4．本人確認未済先リスト

センターで毎月、顧客番号に本人確認未済のコードが登録されている先を「本人確認未済（省略先）顧客一覧表（共通ＤＢ）」（以下「一覧表」）として営業店に還元するので、取引先の本人確認を行う。

⚠注意 本人確認未済先は、本人確認未済のコードが確認済のコードに変更とならないかぎり、繰り越して毎月の一覧表に掲載する。

⚠注意 一覧表は、該当がない場合でも「該当なし」と表示して還元する。

## 第２項　外為法上の本人確認

平成15年１月６日施行の改正外為法では、国連安保理決議の求めるテロリスト等に対する資産凍結等の措置の実効性を確保するために、金融機関等に対して本人確認を義務付けている。

また、改正外為法と同時に、テロ資金供与の防止とマネー・ローンダリングの防止を目的とした法律「金融機関等による顧客等の本人確認等に関する法律」も施行された。平成20年３月１日、当該法律に代わり、新たに「犯罪による収益の移転防止に関する法律」（以下「犯罪収益移転防止法」という）が施行された。

なお、改正外為法に基づく本人確認は、対象取引が外為取引であることを除き、犯罪収益移転防止法に基づく本人確認と、原則、同様の取り扱いとなる。

»» 店内管理_01_02_本人確認（犯罪収益移転防止法）

### １．本人確認事項および対象者

（１）本人確認に際しては、自然人（以下「個人」という）・法人に分けてそれぞれ次の事項について確認が必要。

| | |
|---|---|
| 個　人 | 氏名・住所または居所・生年月日 |
| 法　人 | 名称・主たる事務所の所在地 |

⚠注意　居所：生活の本拠ではないが、人がある程度継続して滞在している場所

（２）本人確認の必要な対象者は次のとおり。

| 取引の相手 | 本人確認対象者 |
|---|---|
| 個人 | 本人 |
| 法人 | 当該法人および取引の任に当たっている個人 |
| 国、地方公共団体、<br>人格のない社団・財団、<br>上場会社等 | 取引の任に当っている個人（当該個人を顧客として本人確認を行う） |
| 代理人 | 本人および代理人 |

### ２．本人確認対象取引

改正外為法では、本人確認義務の対象となる取引を

| |
|---|
| a．特定為替取引（法第18条第1項） |
| b．資本取引に係る契約締結等行為（法第22条の２第1項） |
| c．両替（法第22条の３） |

と定めており、具体的には、次の取引が本人確認対象取引となる。

| 本人確認対象取引 | 備　考 |
|---|---|
| a．特定為替取引<br>① 海外向け仕向送金（依頼人が居住者・非居住者に関係なく全て対象。信用状なし輸入手形接受を含む） | ・10万円相当額以下の取引は対象外。<br>・本人確認済み口座（本人確認記録を保存している場合であって、本人確認済みであることを確認したもの）における振替の場合は、本人確認不要。 |
| ② 海外からの被仕向送金（受取人が居住者、送金人が非居住者の場合のみ対象。輸出手形・小切手クリーンビルの取立を含む）<br>③ 国内の仕向送金（依頼人が居住者、受取人が非居住者の場合のみ対象）<br>④ 国内の被仕向送金（上記②と同様） | |

| 本人確認対象取引 | 備　　考 |
|---|---|
| b．資本取引に係る契約締結等行為<br>（a）次の取引に係る契約締結<br>① 外貨預金・非居住者円預金口座の開設<br>② 外貨貸付<br>③ 為替予約<br>④ デリバティブ（金融派生商品）<br>⑤ 輸出手形の買取<br>⑥ 小切手・クリーンビルの買取<br>（b）資本取引に係る契約の締結に基づいて行われる行為のうち、200万円相当額を超える現金取引<br>（c）上記の行為のうち、次に該当するもの<br>① 本人特定事項を偽っていた疑いがある顧客・代表者等との間の行為<br>② 当該行為の名義人等になりすましている疑いのある者との間の行為 | |
| c．両替（外国通貨・旅行小切手の売買） | 200万円相当額以下の両替は対象外。 |

3．本人確認対象外取引

上記２に対し、本人確認対象外の取引は次のとおり。

（1）既に本人確認を行っており、本人確認書を保存している場合の取引

（2）改正外為法の施行（平成１５年１月６日）前に改正外為法に基づく本人確認方法に準じた方法（旧大蔵省通達、旧全銀協ガイドライン、国外送金等に係る調書提出制度）による本人確認を行っており、かつ、本人確認記録を保存している場合の取引

⚠注意　本人確認済みの確認方法

・顧客との面識あり（本人確認書に記録されている顧客と同一人であることが明らかな場合）。

・本人確認書に記録されている顧客と同一であることを示す書類等（通帳・届出印鑑・キャッシュカード等）の提示または送付を受ける。

・顧客しか知り得ない事項の申告を受け、その内容と確認記録の内容照合。

顧客しか知り得ない事項の例：取引状況・口座番号・生年月日等

4．本人確認の方法と本人確認書類

（1）本人確認の方法

本人確認の方法には確認書類の種類により次の２種類がある。

a．確認書類の提示を受ける方法。

b．確認書類の提示または確認書類もしくはその写しの送付を受け、次の①②のいずれかを併用する方法（送付を受けた確認書類は、本人確認書に添付）。

① 確認書類記載の住所または居所に、新規作成した「通帳・証書」または「ご案内」〔営3238〕等の当該取引に係る文書を、書留または簡易書留郵便により転送不要郵便（封筒に転送不要と表示）として送付。

≫≫ 店内管理_01_02_第２項　本人確認の方法と提示書類

② 確認書類記載の住所または居所を訪問し、当該取引に係る文書を交付。

（2）本人確認書類

本人確認書類と本人確認書類別の本人確認方法は、次のとおり。

a．個人を対象とする場合

| 本人確認書類 | 有効な書類の要件 | 本人確認方法 |
|---|---|---|

| 本人確認書類 | 有効な書類の要件 | 本人確認方法 |
|---|---|---|
| ①　特定為替取引または資本取引に係る契約締結等行為を行うための申込みまたは承諾に係る書類に顧客が押印した印鑑に係る印鑑登録証明書 | 提示または送付を受ける日前６月以内に作成されたもの | 左記本人確認書類の提示を受ける。 |
| ②　国民健康保険証、健康保険証、船員保険証等<br>③　国民年金手帳、児童扶養手当証書等<br>④　運転免許証<br>⑤　外国人登録証明書<br>⑥　住民基本台帳カード（氏名、住所又は居所及び生年月日の記載（写真付）あるもの）<br>⑦　旅券・乗員手帳（氏名および生年月日の記載があるもの） | 提示または送付を受ける日において有効なもの | |
| ⑧　官公庁から発行され、または発給された書類その他これに類するもので、顧客の氏名、住所または居所および生年月日の記載があり、かつ、当該官公庁が当該顧客の写真をはり付けたもの | 提示または送付を受ける日前６月以内に作成されたもの（有効期間または有効期限のあるものにあっては、提示または送付を受ける日において有効なもの）に限る | 同上（本人からの提示に限る） |
| ⑨　印鑑登録証明書（上記①に掲げるものを除く）<br>⑩　外国人登録原票の写し、外国人登録原票の記載事項証明書<br>⑪　戸籍謄本もしくは抄本（戸籍の附票の写しが添付されているもの）<br>⑫　住民票の写し、住民票の記載事項証明書 | 提示または送付を受ける日前６月以内に作成されたもの | 左記本人確認書類の提示を受けるとともに、住所または居所にあてて、当該取引に係る文書を書留または簡易書留郵便により、転送不要郵便物として送付、または当該本人確認書類記載の住所または居所に赴いて交付する。 |
| ⑬　官公庁から発行され、または発給された書類その他これに類するもので、顧客の氏名、住所または居所および生年月日の記載があるもの（ただし、住民票コード通知書は対象外） | 提示または送付を受ける日前６月以内に作成されたもの（有効期間または有効期限のあるものにあっては、提示または送付を受ける日において有効なもの）に限る | |
| 上記本人確認書類またはその写しの送付を受ける場合 | 上記本人確認書類に同じ | 住所または居所にあてて、当該取引に係る文書を書留または簡易書留郵便により、転送不要郵便物として送付、または当該本人確認書類記載の住所または居所に赴いて交付する。 |

ｂ．本邦内に住所を有しない外国人の場合

| 本人確認書類 | 有効な書類の要件 | 本人確認方法 |
|---|---|---|
| 旅券・乗員手帳（氏名および生年月日の記載があるもの） | 提示または送付を受ける日において有効なもの | 左記本人確認書類の提示を受け、住所の代わりに国籍および旅券等の番号を確認する。 |

⚠注意　本邦に住居を有しない外国人とは、次の条件を満たす外国人をいう。

① 旅券等に記載された在留期間が90日を超えないこと

② 本邦に在留すること

③ その所持する旅券等の記載によって、その属する国における住居を確認することができないこと

c．法人を対象とする場合

| 本人確認書類 | 有効な書類の要件 | 本人確認方法 |
|---|---|---|
| ① 設立の登記に係る登記事項証明書<br>② 印鑑登録証明書 | 提示または送付を受ける日前６月以内に作成されたもの | 左記本人確認書類の提示を受ける。 |
| ③ 官公庁から発行され、または発給された書類その他これに類するもので、当該法人の名称および主たる事務所の所在地の記載があるもの | 提示または送付を受ける日前６月以内に作成されたもの（有効期間または有効期限のあるものにあっては、提示または送付を受ける日において有効なもの）に限る | 左記本人確認書類の提示を受ける。 |
| 上記本人確認書類またはその写しの送付を受ける場合 | 上記本人確認書類に同じ | 主たる事務所等にあてて、当該取引に係る文書を書留または簡易書留郵便により、転送不要郵便物として送付、または当該本人確認書類記載の主たる事務所等に赴いて交付する。 |

d．外国人および外国に主たる事務所を有する法人を対象とする場合

| 本人確認書類 | 有効な書類の要件 | 本人確認方法 |
|---|---|---|
| ① 上記個人および法人を対象とした本人確認書類<br>② 日本国政府の承認した外国政府または権限ある国際機関が発行した書類その他これに類するもので、上記書類に準じるもの | 提示または送付を受ける日前６月以内に作成されたもの（有効期間または有効期限のあるものにあっては、提示または送付を受ける日において有効なもの）に限る | 上記の個人、法人の対応に準じる。 |

⚠注意　外国人：　日本の国籍を有しない個人をいい、本邦に在留している者を除く。

e．本人確認書類で住所が確認できない場合

本人確認書類に記載されている住所若しくは居所が現在のものでないとき、または旅券・乗員手帳に住所若しくは居所の記載がないときは、次に掲げる書類の提示またはその写しの送付を受けて、現在の住所若しくは居所を確認することができる。

① 他の本人確認書類（外国人登録証明書など）

② 国税または地方税の領収証書または納税証明書

③ 社会保険料の領収証書

④ 公共料金（日本国内において供給される電気、ガス、水道水その他これに準ずるものに係る料金をいう）の領収証書

⑤ 官公庁から発行され、または発給された書類その他これに類するもので、当該顧客又は代表者等の氏名および住所または居所の記載のあるもの

⑥ 日本国政府の承認した外国政府または権限ある国際機関の発行した書類で、本人確認書類に準ずるもの

⚠注意　各書類とも、領収日付の押印または発行年月日の記載のあるもので、その日が提示または送付を受ける日前６カ月以内のものに限る。

| 外為総則編 | 第２章　外為法令遵守 | 第３節　本人確認義務 | 第２項　外為法上の本人確認 |
|---|---|---|---|

５．本人確認手続き

外為法上の本人確認対象取引に該当し、本人確認未済の場合（または本人確認済みであることが確認できない場合）は、所定の本人確認資料等により本人確認を行い、『本人確認書』を作成する。

≫≫　店内管理_01_02_第３項　本人確認手続き

【参考】外為取引において外為法上の本人確認書作成が必要となるケースの例

| 取引種類 | 金　額 | 本人確認書を作成するケース | 備　考 |
|---|---|---|---|
| 外国送金<br>（仕向・被仕向）<br><br>クリーンビル、輸出手形の取立 | 10万円相当超 | ①　一見先<br>②　口座保有者（本人確認済）の場合でも、代り金を口座に入出金せず現金取引する場合 | ・H19/1より金額基準は200万円→10万円に引下げ<br>・②の場合は、通帳提示等で「本人確認済み」であることが確認できれば改めて本人確認書を作成する必要はない。<br>・当行では一見先からのクリーンビル等の取立依頼は原則受付けないので、この取引にもとづく本人確認書は通常発生しない。 |
| 外貨両替 | 200万円相当超 | ①　一見先<br>②　口座保有者（本人確認済）の場合でも、代り金を口座に入出金せず現金取引する場合 | ・通常一見先で多額の「買取」取引は発生しない。（買取限度あるため）<br>・従って、発生するとすれば「売渡」か②のケース。<br>・②については外国送金に同じ。 |
| 外貨預金口座開設<br><br>外為与信取引の開始 | ー | ・　国内取引がなく、当該外預が本人との最初の取引となる場合のみ該当 | ・既に国内取引で本人確認済みのケースが大半であり、通常は改めての本人確認書作成は不要。（「本人確認済み」であることを確認すればよい） |
| 資本取引契約に基づく大口現金取引 | 200万円相当超 | ・　具体的には、外貨預金の入出金やクリーンビル買取代り金支払等を、国内口座を通さずに円貨現金を対価に行うケースが該当する。 | ・通常は本人確認済みの先であり、改めての本人確認書作成は不要（「本人確認済み」であることを確認すればよい） |

**From:** Schram, Zachary (HSGAC)
**To:** Robertson, Mary (HSGAC)
**Cc:** Stuber, Laura (HSGAC); Bean, Elise (HSGAC)
**Subject:** FW: Hokuriku Bank
**Date:** Friday, June 29, 2012 11:50:51 AM

---

**From:** William M. Brodsky [mailto:wmbrodsky@foxlex.com]
**Sent:** Friday, June 29, 2012 11:07 AM
**To:** Schram, Zachary (HSGAC)
**Cc:** Chizuko S. Ueno
**Subject:** Hokuriku Bank

Zach,

Here is our client's response to your queries:

1. When did the limits on the use of travelers checks mentioned in your answer to question 5 take effect?

The current policy has been in effect since 1984 or around that time,

2. Why do so many purchasers of used cars use travelers checks at Hokuriku?

The bank does not know why travelers checks were the primary method of payment in the past. Currently, most payment are being made by wire transfer.

3. How does Hokuriku receive travelers checks from its customers?

The customers (account holders) would bring them to the branch offices and give them to the tellers.

Bill Brodsky
Fox Horan & Camerini
825 Third Avenue
New York, NY 10022
212-480-4800

---

Occ-Psi-00318438

From: ALAN P WILLIAMSON/HBUS/HSBC
Sent: 8/27/2007 12:09:51 PM
To: TERRY WESTREN/HBUS/HSBC@HSBC
CC: CAROLYN M WIND/HBUS/HSBC@HSBC;CLARA HURTADO/HBUS/HSBC@HSBC;JEFF CLOUS/HBUS/HSBC@HSBC;
LOUIS MARINO/HBUS/HSBC@HSBC;MANUEL DIAZ/HBUS/HSBC@HSBC;MARTIN HOLY/HBUS/HSBC@HSBC;
STEFAN HARDY/HBUS/HSBC@HSBC;TERESA GARCIA/HBUS/HSBC@HSBC
Subject: Re: Bearer Share Companies

Stefan

Note from Terry:

Alan,
As requested, below is the list of New York Bearer Share accounts. It also gives the status of the documentation for these accounts and other information. The total is at the bottom of the spreadsheet.

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@hsbcpb.com

Terry Westren/HBUS/HSBC
08/27/2007 01:00 PM

To
Stefan HARDY/HBUS/HSBC@HSBC
CC
Alan P Williamson/HBUS/HSBC@HSBC, Carolyn M Wind/HBUS/HSBC@HSBC, Clara Hurtado/HBUS/HSBC@HSBC, Jeff Clous/HBUS/HSBC@HSBC, Louis Marino/HBUS/HSBC@HSBC, Manuel Diaz/HBUS/HSBC@HSBC, Martin Holy/HBUS/HSBC@HSBC, Teresa Garcia/HBUS/HSBC@HSBC
Subject
Re: Bearer Share Companies

---

Stefan,
OK. I have already provided the information on Bearer Shares you requested to Alan. Do you need it as well?

Thanks and regards,

Terry Westren

Permanent Subcommittee on Investigations
EXHIBIT #93

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@hsbcpb.com

Stefan HARDY/HBUS/HSBC
08/27/2007 12:49 PM

To
Alan P Williamson/HBUS/HSBC@HSBC, Jeff Clous/HBUS/HSBC@HSBC, Terry Westren/HBUS/HSBC@HSBC
cc
Carolyn M Wind/HBUS/HSBC@HSBC, Clara Hurtado/HBUS/HSBC@HSBC, Martin Holy/HBUS/HSBC@HSBC, Teresa Garcia/HBUS/HSBC@HSBC, Manuel Diaz/HBUS/HSBC@HSBC, Louis Marino/HBUS/HSBC@HSBC
Subject
Re: Bearer Share Companies

Thank you Alan.

Jeff - do you have a similar policy for new and existing a/cs?

Terry - I will call you to bring you up to speed with the meeting we had this morning. Can you provide a summary analysis of bearer share accounts for NY and the status for BOLs, shares in custody etc for new and existing a/cs as required by the policy listed below please?

Stefan Hardy
SVP, PB US Risk Management
New York

Phone. 212-525-0392

Alan P Williamson/HBUS/HSBC
08/27/2007 12:30 PM

To
Stefan HARDY/HBUS/HSBC@HSBC
cc
Carolyn M Wind/HBUS/HSBC@HSBC, Teresa Garcia/HBUS/HSBC@HSBC, Clara Hurtado/HBUS/HSBC@HSBC, Martin Holy/HBUS/HSBC@HSBC
Subject
Bearer Share Companies

The following is our current policy for Bearer Share Corporations in NY:

New Clients: For this purpose, new clients are considered to be new relationships to HSBC.

Bearer Share corporations will only be accepted if:
· CEO – NY IPB and AML LCO approval is received; and,
· Client commits to registering the shares or the shares are held in custody with an approved non-US resident third party custodian, who is authorized to advise HSBC of any changes in ownership

Existing clients:

If an existing client opens an account with a Bearer Share Corporation, then the Existing Clients section noted below applies:

For Bearer Share corporations classified as "high-risk"(see below), the client either must commit to converting the corporation to a registered share corporation or the bearer shares are held in custody with HSBC or an approved non-US resident third party custodian, who is authorized to advise HSBC of any changes in ownership. For all other Bearer Share corporations, the Beneficial Ownership letter must be completed and renewed every three years.

Each of the factors noted below will be considered in determining if the Bearer Share account should be classified high-risk:

· Risk classification of ultimate beneficial owner/decision maker
· Involvement of HSBC in the creation of the Bearer Share corporation (if HSBC created the corporation, the Relationship Manager will already 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 may be considered high risk)
· Length of time the Beneficial Owner of the Bearer Share corporation has been a client
· Level and nature of activity in the Bearer Share corporate account(s)

Exceptions:

Exceptions to this policy must be approved by any two of the following, one of whom must be the AML Officer: the CEO – NY IPB or designate, COO and Chief AML Officer, PB Americas.

Attachment: Bearer Shares Account Total.xls.zip

| | A | D | G | H | I | J | L |
|---|---|---|---|---|---|---|---|
| 1 | [redacted] | Customer Open Date | Document Description | Status (Current, Missing, ...) | Status Date | Country of Origin Desc | AUM Total |
| 2 | 1 | 3/27/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/8/2006 | British Virgin Islands | 1,136,782.88 |
| 3 | | 9/4/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/11/2006 | British Virgin Islands | 38,589.41 |
| 4 | | 8/20/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/28/2006 | British Virgin Islands | 1,074,913.22 |
| 5 | | 6/3/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/22/2003 | British Virgin Islands | 947,933.26 |
| 6 | | 4/14/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/8/2003 | British Virgin Islands | 55,360.53 |
| 7 | | 1/18/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/8/2006 | British Virgin Islands | 5,179.14 |
| 8 | | 1/10/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/29/2003 | British Virgin Islands | 990,251.50 |
| 9 | | 10/30/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/3/2003 | British Virgin Islands | 603,805.14 |
| 10 | | 12/19/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/12/2006 | Panama | 7,775,474.40 |
| 11 | | 1/6/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/12/2006 | Panama | 23,224.14 |
| 12 | | 1/23/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/13/2006 | British Virgin Islands | 6,866,027.90 |
| 13 | | 10/14/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/21/2004 | Netherlands Antilles | 3,258,583.54 |
| 14 | | 11/23/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 11/23/2004 | British Virgin Islands | 3,534,164.36 |
| 15 | | 7/9/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/10/2006 | British Virgin Islands | 19,927.13 |
| 16 | | 7/18/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/8/2006 | British Virgin Islands | 245,124.68 |
| 17 | | 6/28/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/17/2006 | British Virgin Islands | 719,454.15 |
| 18 | | 9/10/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/26/2007 | British Virgin Islands | 2,270,111.91 |
| 19 | | 7/10/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/8/2006 | British Virgin Islands | 4,930.35 |
| 20 | 1 | | | | | | |
| 21 | | | | | | | |
| 22 | Officer Group | Customer Open Date | Document Description | Status (Current, Missing, ...) | Status Date | Country of Origin Desc | AUM Total |
| 23 | 10 | 2/16/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 11/6/2003 | British Virgin Islands | 2,517,449.45 |
| 24 | | 7/27/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/18/2003 | Panama | 200,905.60 |
| 25 | | 6/8/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/11/2007 | Panama | 1,302,280.13 |
| 26 | | 6/16/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/8/2004 | British Virgin Islands | 77,774.66 |
| 27 | | 9/10/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/23/2003 | Panama | 2,590,551.27 |
| 28 | | 7/23/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/1/2006 | British Virgin Islands | 2,545,518.50 |
| 29 | | 11/23/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/30/2006 | British Virgin Islands | 202,051.94 |
| 30 | | 10/9/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/16/2007 | Antigua and Barbuda | 6,350,994.83 |
| 31 | | 11/30/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/8/2003 | British Virgin Islands | 576,467.62 |
| 32 | | 2/18/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/3/2006 | British Virgin Islands | 767,433.74 |
| 33 | | 9/8/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 11/16/2006 | British Virgin Islands | 2,978,127.99 |
| 34 | | 2/18/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/18/2003 | British Virgin Islands | 17,424.22 |
| 35 | | 3/24/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/6/2006 | British Virgin Islands | 2,321,305.83 |
| 36 | | 5/3/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/5/2007 | British Virgin Islands | 759,447.05 |
| 37 | | 5/21/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/29/2007 | Panama | 7,700,735.94 |
| 38 | | 6/7/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/27/2007 | Panama | 23,174.49 |
| 39 | | 7/6/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/14/2004 | Panama | 462,961.18 |
| 40 | | 7/12/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/27/2007 | Panama | 552,009.82 |
| 41 | | 7/23/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/27/2007 | British Virgin Islands | 216,149.90 |
| 42 | | 9/14/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 10/31/2003 | British Virgin Islands | 3,819,411.65 |
| 43 | | 9/1/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/1/2003 | British Virgin Islands | 657,755.48 |
| 44 | | 11/10/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/7/2006 | British Virgin Islands | 431,470.77 |
| 45 | | 11/16/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 11/25/2003 | British Virgin Islands | 473,027.49 |
| 46 | | 12/16/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 4/21/2003 | British Virgin Islands | 1,930,266.81 |
| 47 | | 12/22/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 4/22/2003 | British Virgin Islands | 1,163,673.41 |
| 48 | | 12/22/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/25/2006 | British Virgin Islands | 2,016,609.69 |
| 49 | | 1/21/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/26/2004 | British Virgin Islands | 949 |
| 50 | | 3/3/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/28/2004 | British Virgin Islands | 42,077.90 |
| 51 | | 4/28/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/8/2006 | British Virgin Islands | 2,574,586.56 |
| 52 | | 8/28/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 6/24/2003 | Panama | 34,988.23 |
| 53 | | 5/30/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 4/30/2003 | British Virgin Islands | 290,643.81 |
| 54 | | 11/16/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/4/2006 | British Virgin Islands | 292,876.84 |

**Redacted by the Permanent Subcommittee on Investigations**

**Redacted by the Permanent Subcommittee on Investigations**

| | A | D | G | H | I | J | L |
|---|---|---|---|---|---|---|---|
| 55 | | 7/24/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/10/2003 | British Virgin Islands | 9,352,529.75 |
| 56 | | 7/11/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/26/2004 | British Virgin Islands | 385,780.79 |
| 57 | | 7/7/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/12/2007 | British Virgin Islands | 915,411.04 |
| 58 | | 11/21/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/1/2003 | Panama | 1,175,437.21 |
| 59 | | 8/17/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/16/2004 | British Virgin Islands | 261,271.31 |
| 60 | | 8/23/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/23/2003 | Panama | 1,014,136.48 |
| 61 | | 11/22/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/11/2007 | Panama | 1,447,963.40 |
| 62 | | 9/13/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/8/2006 | British Virgin Islands | 2,130,953.65 |
| 63 | | 11/2/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/16/2006 | Panama | 3,734,897.26 |
| 64 | | 11/3/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/28/2006 | British Virgin Islands | 1,619,062.12 |
| 65 | | 11/29/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/9/2003 | British Virgin Islands | 1,022,053.07 |
| 66 | | 12/14/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/14/2006 | British Virgin Islands | 26,720,508.89 |
| 67 | | 11/17/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 10/27/2003 | British Virgin Islands | 362,587.94 |
| 68 | | 12/28/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/16/2003 | British Virgin Islands | 603,347.75 |
| 69 | | 2/14/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/4/2006 | British Virgin Islands | 1,659,101.78 |
| 70 | | 4/2/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/13/2007 | British Virgin Islands | 831,601.45 |
| 71 | | 8/31/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 4/16/2003 | British Virgin Islands | 3,089,609.50 |
| 72 | | 10/19/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/18/2003 | British Virgin Islands | 577,010.02 |
| 73 | | 10/19/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/18/2003 | British Virgin Islands | 404,872.08 |
| 74 | | 10/9/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 11/20/2002 | British Virgin Islands | 909,928.28 |
| 75 | | 12/24/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/22/2006 | British Virgin Islands | 3,251,736.23 |
| 76 | | 12/19/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/14/2004 | British Virgin Islands | 245,508.60 |
| 77 | | 3/6/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/16/2003 | Panama | 516,976.63 |
| 78 | | 3/27/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/11/2006 | British Virgin Islands | 73,753.24 |
| 79 | | 7/6/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 11/19/2003 | British Virgin Islands | 62,711.50 |
| 80 | | 9/13/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/25/2005 | British Virgin Islands | 4,786,698.59 |
| 81 | | 6/19/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/8/2005 | Netherlands Antilles | 55,918.20 |
| 82 | | 9/20/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/22/2006 | British Virgin Islands | 798,572.62 |
| 83 | | 10/25/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 2/5/2003 | British Virgin Islands | 207,028.84 |
| 84 | | 12/11/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/13/2006 | British Virgin Islands | 295,606.41 |
| 85 | | 1/9/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/22/2006 | British Virgin Islands | 15,733,179.03 |
| 86 | | 11/19/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/1/2006 | British Virgin Islands | 653,569.11 |
| 87 | | 5/8/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/30/2005 | Panama | 8,761,210.32 |
| 88 | | 7/22/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/8/2004 | Panama | 245,592.45 |
| 89 | | 7/22/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/1/2007 | Panama | 136,569.01 |
| 90 | | 7/22/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/1/2007 | Panama | 2,767.16 |
| 91 | | 1/13/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/13/2004 | Panama | 995,696.54 |
| 92 | | 12/23/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/24/2003 | British Virgin Islands | 502,498.20 |
| 93 | | 1/16/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/11/2006 | British Virgin Islands | 745,675.85 |
| 94 | | 3/12/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 3/12/2004 | United States | 571,300.32 |
| 95 | | 3/3/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 3/3/2004 | Panama | 2,459,043.67 |
| 96 | | 11/19/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 11/19/2004 | British Virgin Islands | 1,138,962.96 |
| 97 | | 1/10/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/10/2005 | Panama | 6,063,574.27 |
| 98 | | 3/16/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/16/2005 | Panama | 9,475.92 |
| 99 | | 4/21/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/21/2005 | Panama | 1,094,056.56 |
| 100 | | 1/13/2006 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/13/2006 | Panama | 1,680,887.35 |
| 101 | | 3/11/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/11/2005 | British Virgin Islands | 1,173,375.30 |
| 102 | | 4/22/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/22/2005 | British Virgin Islands | 1,488,890.37 |
| 103 | | 7/27/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/27/2005 | British Virgin Islands | 6,289,057.03 |
| 104 | | 10/5/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/5/2005 | British Virgin Islands | 2,469,254.84 |
| 105 | | 6/23/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/23/2005 | British Virgin Islands | 1,358,131.15 |
| 106 | | 9/8/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/8/2005 | British Virgin Islands | 351,542.84 |
| 107 | | 11/16/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 11/16/2005 | Panama | 1,160,592.87 |
| 108 | | 3/17/2006 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/17/2006 | Panama | 6,610,345.72 |
| 109 | | 6/8/2006 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/8/2006 | Panama | 564,973.87 |
| 110 | | 6/8/2006 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/15/2006 | Panama | 1,089,325.08 |
| 111 | | 6/9/2006 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/9/2006 | British Virgin Islands | 4,937,593.88 |
| 112 | | 6/17/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/28/2005 | British Virgin Islands | 1,080,594.14 |
| 113 | | 4/8/1982 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/15/2003 | British Virgin Islands | 4,988,396.80 |
| 114 | | 3/4/1986 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/26/2004 | Panama | 3,960.00 |

**Redacted by the Permanent Subcommittee on Investigations**

**Redacted by the Permanent Subcommittee on Investigations**

| | A | C | D | G | H | I | J | L |
|---|---|---|---|---|---|---|---|---|
| 115 | | | 11/28/1986 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/6/2006 | British Virgin Islands | 6,634,924.13 |
| 116 | | | 11/23/1987 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 2/19/2004 | Panama | 19,931.26 |
| 117 | | | 5/18/1987 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/20/2005 | Panama | 862,235.03 |
| 118 | | | 11/4/1991 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/11/2007 | Panama | 5,739.18 |
| 119 | | | 7/15/1987 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/26/2004 | Panama | 179,513.96 |
| 120 | | | 10/23/1987 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/15/2003 | Panama | 20,636.37 |
| 121 | | | 10/23/1987 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/4/2003 | Panama | 460,745.82 |
| 122 | | | 12/6/1988 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/16/2006 | Panama | 8,424,078.55 |
| 123 | | | 10/26/1988 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/24/2006 | British Virgin Islands | 1,866,926.83 |
| 124 | | | 12/15/1988 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/1/2006 | Panama | 2,741,115.76 |
| 125 | | | 12/15/1988 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/25/2006 | Panama | 13,653.97 |
| 126 | | | 12/15/1988 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/1/2006 | Panama | 10,116.09 |
| 127 | | | 2/25/1991 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/15/2007 | Panama | 9,624.03 |
| 128 | | | 6/28/1989 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/17/2007 | British Virgin Islands | 1,830,114.10 |
| 129 | | | 2/22/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/27/2004 | Panama | 61,094.29 |
| 130 | | | 5/7/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/16/2007 | British Virgin Islands | 775,417.98 |
| 131 | | | 5/10/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/16/2007 | British Virgin Islands | 494,385.52 |
| 132 | | | 5/25/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/10/2006 | British Virgin Islands | 57,859.02 |
| 133 | | | 5/30/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 11/24/2003 | British Virgin Islands | 2,117,449.42 |
| 134 | | | 5/31/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 11/24/2003 | British Virgin Islands | 7,326,019.75 |
| 135 | | | 6/11/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/15/2006 | British Virgin Islands | 1,965,629.08 |
| 136 | | | 12/3/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 11/19/2003 | British Virgin Islands | 5,304.19 |
| 137 | | | 10/11/1991 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/11/2007 | Panama | 2,314,584.29 |
| 138 | | | 10/30/1991 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/29/2003 | British Virgin Islands | 5,386.42 |
| 139 | | | 11/6/1991 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 2/5/2004 | British Virgin Islands | 1,158,414.03 |
| 140 | | | 12/6/1991 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 11/8/2006 | British Virgin Islands | 1,135,792.31 |
| 141 | | | 2/28/1992 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/31/2006 | British Virgin Islands | 2,899,606.23 |
| 142 | | | 5/12/1992 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/11/2006 | British Virgin Islands | 26,344.53 |
| 143 | | | 8/17/1992 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 10/31/2003 | British Virgin Islands | 625,365.07 |
| 144 | | | 6/15/1992 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 2/6/2004 | Panama | 0 |
| 145 | | | 7/8/1992 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/10/2006 | British Virgin Islands | 42,573.87 |
| 146 | | | 11/17/1992 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/17/2007 | Panama | 120,305.50 |
| 147 | | | 7/12/1993 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/16/2004 | British Virgin Islands | 3,055,387.48 |
| 148 | | | 4/2/1993 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/30/2006 | Bahamas | 131,958.36 |
| 149 | | | 6/16/1993 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/1/2007 | British Virgin Islands | 13,298,429.32 |
| 150 | | | 6/2/1993 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/1/2006 | Panama | 753,027.96 |
| 151 | | | 7/2/1993 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/15/2006 | British Virgin Islands | 6,819,503.95 |
| 152 | | | 10/29/1993 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/28/2007 | British Virgin Islands | 2,766,548.24 |
| 153 | | | 12/16/1993 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/16/2004 | British Virgin Islands | 11,516.41 |
| 154 | | | 12/1/1993 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/12/2006 | British Virgin Islands | 479,843.13 |
| 155 | | | 3/14/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 7/25/2006 | Panama | 8,591.12 |
| 156 | | | 3/16/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/31/2003 | Panama | 0 |
| 157 | | | 7/1/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/30/2006 | British Virgin Islands | 1,800,123.79 |
| 158 | | | 7/20/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/22/2006 | Panama | 3,632,000.59 |
| 159 | | | 8/15/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/30/2006 | British Virgin Islands | 3,088,552.33 |
| 160 | | | 8/4/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/26/2004 | British Virgin Islands | 1,597,470.90 |
| 161 | | | 8/29/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/30/2006 | British Virgin Islands | 920,189.07 |
| 162 | | | 10/5/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 10/21/2003 | British Virgin Islands | 1,712,013.53 |
| 163 | | | 11/22/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 7/17/2003 | British Virgin Islands | 2,667,729.44 |
| 164 | | | 1/23/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/21/2006 | British Virgin Islands | 8,847,988.56 |
| 165 | | | 3/17/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/16/2006 | British Virgin Islands | 15,033.51 |
| 166 | | | 3/17/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/16/2006 | British Virgin Islands | 1,802,500.29 |
| 167 | | | 5/16/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/6/2005 | British Virgin Islands | 2,516,384.58 |
| 168 | | | 6/30/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/10/2007 | Panama | 1,320,554.62 |
| 169 | | | 11/20/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/15/2007 | British Virgin Islands | 4,014,893.82 |
| 170 | | | 9/8/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/20/2007 | British Virgin Islands | 1,593,310.19 |
| 171 | | | 10/2/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 6/20/2003 | Panama | 800,422.83 |
| 172 | | | 11/20/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/30/2006 | British Virgin Islands | 850,537.68 |
| 173 | | | 12/6/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/27/2004 | Panama | 106,494.08 |
| 174 | | | 4/11/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/6/2006 | British Virgin Islands | 416,547.83 |

**Redacted by the Permanent Subcommittee on Investigations**

**Redacted by the Permanent Subcommittee on Investigations**

| | A | D | G | H | I | J | L |
|---|---|---|---|---|---|---|---|
| 175 | | 4/23/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/28/2004 | Panama | 718,461.47 |
| 176 | | 6/14/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/27/2004 | Panama | 117,671.55 |
| 177 | | 6/24/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/10/2007 | British Virgin Islands | 4,154,360.05 |
| 178 | | 12/23/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/29/2007 | Panama | 8,402,746.41 |
| 179 | | 8/15/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/27/2004 | British Virgin Islands | 535,313.02 |
| 180 | | 11/6/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/3/2003 | Panama | 1,349,011.60 |
| 181 | | 11/18/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/2/2003 | Panama | 4,500.00 |
| 182 | | 2/18/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 11/25/2003 | Panama | 12,782.44 |
| 183 | | 12/10/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/9/2003 | British Virgin Islands | 451,774.87 |
| 184 | | 12/18/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/31/2007 | Netherlands Antilles | 91,766.04 |
| 185 | 10 | | | | | | |
| 186 | | | | | | | |
| | Officer | Customer | Document Description | Status (Current, Missing, ...) | Status Date | Country of Origin Desc | AUM Total |
| 187 | Group 2 | Open Date | | | | | |
| 188 | | 2/10/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/26/2006 | British Virgin Islands | 2,227,459.17 |
| 189 | | 2/23/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/6/2006 | British Virgin Islands | 327,849.83 |
| 190 | | 5/29/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/14/2006 | British Virgin Islands | 3,439,999.64 |
| 191 | | 3/5/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/13/2006 | British Virgin Islands | 3,913,952.25 |
| 192 | | 9/4/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/7/2006 | British Virgin Islands | 2,092,691.52 |
| 193 | | 7/17/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/12/2006 | British Virgin Islands | 7,495,017.40 |
| 194 | | 7/15/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/12/2006 | British Virgin Islands | 3,954,168.86 |
| 195 | | 11/19/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/1/2006 | British Virgin Islands | 1,308,571.00 |
| 196 | | 1/22/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/27/2006 | British Virgin Islands | 1,376,878.31 |
| 197 | | 5/13/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/2/2006 | British Virgin Islands | 3,960,125.82 |
| 198 | | 11/17/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/1/2006 | British Virgin Islands | 19,563.90 |
| 199 | | 3/6/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/16/2006 | British Virgin Islands | 5,611,750.87 |
| 200 | | 12/27/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/29/2006 | British Virgin Islands | 3,597,070.55 |
| 201 | | 12/22/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/2/2006 | British Virgin Islands | 9,625,049.52 |
| 202 | | 3/15/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/1/2006 | British Virgin Islands | 1,430,125.80 |
| 203 | | 2/16/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/30/2006 | British Virgin Islands | 1,180,450.39 |
| 204 | | 3/8/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/22/2006 | British Virgin Islands | 667,382.90 |
| 205 | | 4/6/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/2/2005 | Panama | 1,385,248.37 |
| 206 | | 6/28/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/24/2006 | British Virgin Islands | 10,137.28 |
| 207 | | 6/28/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/24/2006 | British Virgin Islands | 7,696.27 |
| 208 | | 12/20/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/7/2006 | British Virgin Islands | 125,836.13 |
| 209 | | 5/7/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/7/2006 | British Virgin Islands | 2,463,724.84 |
| 210 | | 6/15/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/6/2005 | British Virgin Islands | 1,168,702.48 |
| 211 | | 2/5/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/7/2006 | British Virgin Islands | 982,225.73 |
| 212 | | 11/23/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/28/2006 | British Virgin Islands | 1,049,128.16 |
| 213 | | 1/16/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/19/2007 | British Virgin Islands | 727,723.09 |
| 214 | | 4/29/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/3/2006 | British Virgin Islands | 164,926.96 |
| 215 | | 2/27/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/3/2006 | British Virgin Islands | 9,659.28 |
| 216 | | 3/27/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/13/2005 | British Virgin Islands | 2,561.29 |
| 217 | | 3/28/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/7/2006 | British Virgin Islands | 343,119.22 |
| 218 | | 3/29/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/8/2006 | Bahamas | 1,811,611.76 |
| 219 | | 6/11/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/31/2006 | Uruguay | 9,617,841.64 |
| 220 | | 5/31/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/13/2006 | British Virgin Islands | 1,489,741.52 |
| 221 | | 7/10/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/5/2007 | British Virgin Islands | 3,477,021.26 |
| 222 | | 9/10/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/7/2006 | Uruguay | 1,171,023.25 |
| 223 | | 4/25/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/13/2006 | Uruguay | 2,578,399.89 |
| 224 | | 1/25/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/10/2006 | Uruguay | 7,001.73 |
| 225 | | 12/13/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 5/10/2006 | British Virgin Islands | 10,299.21 |
| 226 | | 9/30/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/30/2003 | British Virgin Islands | 628,027.98 |
| 227 | | 3/31/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 7/25/2007 | Panama | 3,815,347.85 |
| 228 | | 4/29/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/29/2004 | Panama | 19,550.96 |
| 229 | | 5/26/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 4/27/2006 | British Virgin Islands | 493,555.18 |
| 230 | | 11/9/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/9/2006 | British Virgin Islands | 1,611,432.56 |
| 231 | | 7/7/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 7/7/2004 | Panama | 1,132,301.69 |

**Redacted by the Permanent Subcommittee on Investigations**

**Redacted by the Permanent Subcommittee on Investigations**

| | A | D | G | H | I | J | L |
|---|---|---|---|---|---|---|---|
| 232 | | 5/26/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 5/26/2004 | Panama | 4,016,351.69 |
| 233 | | 10/4/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 11/3/2006 | British Virgin Islands | 1,552,915.86 |
| 234 | | 12/24/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 11/20/2006 | Panama | 404,133.83 |
| 235 | | 5/11/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/12/2005 | Panama | 6,294.98 |
| 236 | | 9/14/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/14/2005 | British Virgin Islands | 4,834,930.10 |
| 237 | | 11/10/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 11/10/2005 | Uruguay | 180,968.84 |
| 238 | | 11/23/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 11/23/2005 | British Virgin Islands | 1,516,642.90 |
| 239 | | 2/6/2006 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/6/2006 | Panama | 1,544,306.95 |
| 240 | | 1/20/2006 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/20/2006 | Bahamas | 10,848,231.49 |
| 241 | | 5/24/2006 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/24/2006 | Panama | 7,049,182.60 |
| 242 | | 2/24/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/29/2006 | British Virgin Islands | 1,591,532.41 |
| 243 | | 1/16/2007 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/16/2007 | British Virgin Islands | 7,559,628.13 |
| 244 | | 1/26/2007 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/26/2007 | British Virgin Islands | 11,539,580.88 |
| 245 | | 6/28/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/29/2007 | British Virgin Islands | 3,062,231.83 |
| 246 | | 7/17/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/29/2007 | British Virgin Islands | 1,832,153.34 |
| 247 | | 7/10/2007 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/10/2007 | British Virgin Islands | 14,571.59 |
| 248 | | 9/30/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/7/2006 | British Virgin Islands | 624,782.98 |
| 249 | | 8/30/1983 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/2/2007 | Panama | 3,834,708.96 |
| 250 | | 3/2/1987 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/11/2006 | Panama | 1,959,134.94 |
| 251 | | 3/2/1987 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/20/2006 | Panama | 714,742.93 |
| 252 | | 3/2/1987 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/20/2006 | Panama | 1,296,732.83 |
| 253 | | 3/2/1987 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/20/2006 | Panama | 1,088,807.69 |
| 254 | | 3/17/1987 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/20/2006 | Panama | 110,400.97 |
| 255 | | 10/19/1989 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/25/2007 | Panama | 1,309,810.03 |
| 256 | | 6/7/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/5/2007 | British Virgin Islands | 1,050,226.44 |
| 257 | | 7/23/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/2/2005 | British Virgin Islands | 9,414,128.43 |
| 258 | | 9/7/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 11/16/2005 | British Virgin Islands | 567,236.86 |
| 259 | | 3/26/1991 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/7/2006 | British Virgin Islands | 1,349,956.72 |
| 260 | | 6/21/1991 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/26/2006 | British Virgin Islands | 3,816,122.12 |
| 261 | | 10/3/1991 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/7/2006 | British Virgin Islands | 1,012,743.35 |
| 262 | | 6/23/1992 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/7/2006 | British Virgin Islands | 18,177,324.10 |
| 263 | | 9/8/1992 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/12/2006 | British Virgin Islands | 1,721,399.69 |
| 264 | | 4/1/1993 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/4/2006 | British Virgin Islands | 73,323.84 |
| 265 | | 7/19/1993 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/5/2006 | British Virgin Islands | 344,862.66 |
| 266 | | 1/28/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/1/2007 | British Virgin Islands | 868,090.01 |
| 267 | | 2/14/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/8/2006 | Cayman Islands | 20,779.07 |
| 268 | | 2/7/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/24/2006 | British Virgin Islands | 2,655,553.53 |
| 269 | | 1/11/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/7/2006 | British Virgin Islands | 96,092.02 |
| 270 | | 3/20/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/18/2007 | British Virgin Islands | 5,473,644.03 |
| 271 | | 2/7/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/30/2006 | British Virgin Islands | 226,415.29 |
| 272 | | 4/15/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/2/2005 | British Virgin Islands | 1,711,119.58 |
| 273 | | 9/12/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/13/2006 | British Virgin Islands | 1,194,061.97 |
| 274 | | | | | | | 238,133.41 |
| 275 | 2 | | | | | | |
| 276 | | | | | | | |
| | Officer Group | Customer Open Date | Document Description | Status (Current, Missing, ...) | Status Date | Country of Origin Desc | AUM Total |
| 277 | 3 | 4/22/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/13/2007 | Bahamas | 13,732.31 |
| 278 | | 5/4/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/27/2006 | British Virgin Islands | 1,159,998.29 |
| 279 | | 5/29/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 6/1/2004 | British Virgin Islands | 753,736.72 |
| 280 | | 12/22/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/11/2007 | British Virgin Islands | 4,470,742.40 |
| 281 | | 2/5/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 11/19/2003 | British Virgin Islands | 204,834.00 |
| 282 | | 6/22/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/25/2006 | Uruguay | 17,133.36 |
| 283 | | 3/29/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/30/2007 | Uruguay | 113,005.17 |
| 284 | | 5/11/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/30/2007 | Uruguay | 598,116.83 |
| 285 | | 6/10/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/17/2007 | British Virgin Islands | 1,840,004.33 |
| 286 | | 7/27/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/16/2006 | British Virgin Islands | 2,208,545.67 |
| 287 | | 7/2/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 7/12/2004 | British Virgin Islands | 277,868.22 |
| 288 | | | | | | | |

Redacted by the
Permanent Subcommittee on Investigations

Redacted by the
Permanent Subcommittee on Investigations

| | A | D | G | H | I | J | L |
|---|---|---|---|---|---|---|---|
| 289 | | 9/13/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/13/2007 | Uruguay | 20,505.91 |
| 290 | | 7/30/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/4/2007 | Uruguay | 2,651,780.96 |
| 291 | | 1/25/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/28/2006 | Bahamas | 36,403.06 |
| 292 | | 1/11/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/25/2006 | Panama | 114,615.59 |
| 293 | | 4/6/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/25/2006 | Panama | 628,943.87 |
| 294 | | 10/5/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/5/2007 | British Virgin Islands | 1,835,789.31 |
| 295 | | 12/16/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/29/2007 | British Virgin Islands | 176,771.96 |
| 296 | | 3/1/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/13/2006 | Panama | 152,231.63 |
| 297 | | 3/1/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/18/2005 | Panama | 190,729.91 |
| 298 | | 3/1/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/23/2007 | Panama | 6,820,625.44 |
| 299 | | 4/7/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/21/2007 | Uruguay | 1,623,235.54 |
| 300 | | 5/24/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/8/2007 | British Virgin Islands | 98,479.57 |
| 301 | | 5/15/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/14/2007 | British Virgin Islands | 1,268,180.80 |
| 302 | | 5/15/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/21/2007 | British Virgin Islands | 1,455,602.68 |
| 303 | | 4/7/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/17/2006 | British Virgin Islands | 1,995,922.07 |
| 304 | | 5/12/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/25/2006 | British Virgin Islands | 2,722,879.08 |
| 305 | | 7/27/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/10/2007 | British Virgin Islands | 3,450,594.21 |
| 306 | | 7/21/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/5/2007 | Netherlands Antilles | 8,304,273.83 |
| 307 | | 8/4/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/14/2006 | British Virgin Islands | 2,178,080.03 |
| 308 | | 7/6/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/21/2006 | British Virgin Islands | 2,812,078.05 |
| 309 | | 9/5/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 11/27/2006 | Panama | 7,698,558.63 |
| 310 | | 12/26/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/27/2007 | British Virgin Islands | 2,865,376.41 |
| 311 | | 8/31/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/26/2006 | British Virgin Islands | 297,382.24 |
| 312 | | 8/21/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/11/2005 | British Virgin Islands | 4,650,025.00 |
| 313 | | 10/10/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/4/2006 | British Virgin Islands | 2,182,543.35 |
| 314 | | 10/12/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 6/1/2004 | British Virgin Islands | 611,429.58 |
| 315 | | 10/27/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/22/2005 | British Virgin Islands | 20,711.39 |
| 316 | | 4/5/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/17/2007 | Panama | 865,433.45 |
| 317 | | 1/22/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/28/2006 | Belize | 5,041,953.20 |
| 318 | | 11/21/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/21/2007 | British Virgin Islands | 7,161.31 |
| 319 | | 3/6/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/23/2007 | Uruguay | 1,490,557.05 |
| 320 | | 1/16/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/9/2007 | British Virgin Islands | 1,274,854.19 |
| 321 | | 2/21/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/27/2007 | British Virgin Islands | 3,128,860.62 |
| 322 | | 2/28/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/4/2006 | British Virgin Islands | 85,003.11 |
| 323 | | 5/31/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/27/2007 | Panama | 10,490.99 |
| 324 | | 3/5/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/27/2007 | Panama | 6,145.00 |
| 325 | | 4/26/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 11/14/2003 | British Virgin Islands | 1,469,489.55 |
| 326 | | 4/17/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/30/2006 | British Virgin Islands | 16,648,673.35 |
| 327 | | 8/22/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/16/2005 | British Virgin Islands | 922,548.90 |
| 328 | | 7/27/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/20/2006 | Uruguay | 725,252.32 |
| 329 | | 6/6/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/6/2005 | British Virgin Islands | 3,176,918.31 |
| 330 | | 9/21/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/7/2007 | Uruguay | 1,313.01 |
| 331 | | 8/24/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/11/2007 | British Virgin Islands | 2,128,329.03 |
| 332 | | 10/18/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/19/2007 | Uruguay | 5,308,785.68 |
| 333 | | 2/11/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/19/2003 | British Virgin Islands | 641,588.28 |
| 334 | | 1/16/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/9/2005 | Uruguay | 146,315.86 |
| 335 | | 2/22/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/2/2007 | British Virgin Islands | 1,353,376.75 |
| 336 | | 12/27/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/27/2006 | British Virgin Islands | 6,185.00 |
| 337 | | 1/25/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/6/2004 | British Virgin Islands | 1,542,263.92 |
| 338 | | 2/19/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/10/2007 | Uruguay | 1,003,007.93 |
| 339 | | 3/8/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/1/2007 | British Virgin Islands | 5,000.33 |
| 340 | | 3/5/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/14/2006 | British Virgin Islands | 931,456.15 |
| 341 | | 3/26/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/6/2007 | Uruguay | 924,790.10 |
| 342 | | 3/27/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/18/2006 | British Virgin Islands | 724,549.42 |
| 343 | | 2/15/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/29/2005 | British Virgin Islands | 2,056,949.59 |
| 344 | | 6/11/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/17/2006 | Panama | 8,352,856.95 |
| 345 | | 6/27/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/15/2006 | British Virgin Islands | 1,138,774.37 |
| 346 | | 6/6/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/9/2006 | Uruguay | 1,021,538.71 |
| 347 | | 7/29/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/26/2006 | Uruguay | 3,196,663.10 |
| 348 | | | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/15/2007 | Uruguay | 310,765.45 |

**Redacted by the Permanent Subcommittee on Investigations**

**Redacted by the Permanent Subcommittee on Investigations**

| | A | D | G | H | I | J | L |
|---|---|---|---|---|---|---|---|
| 349 | | 5/21/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/6/2006 | British Virgin Islands | 12,806,284.92 |
| 350 | | 4/23/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 11/2/2006 | Uruguay | 6,477,714.53 |
| 351 | | 11/26/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/13/2007 | Uruguay | 3,065.77 |
| 352 | | 8/22/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/21/2007 | Uruguay | 123,278.17 |
| 353 | | 3/10/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/20/2006 | Uruguay | 2,553,082.80 |
| 354 | | 8/7/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/22/2007 | Uruguay | 510,704.85 |
| 355 | | 11/25/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 9/26/2006 | Cayman Islands | 38,384.28 |
| 356 | | 2/20/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/20/2004 | Uruguay | 303,116.76 |
| 357 | | 3/27/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/7/2006 | British Virgin Islands | 33,283,142.19 |
| 358 | | 5/16/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/13/2007 | British Virgin Islands | 14,061.53 |
| 359 | | 5/22/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/13/2007 | British Virgin Islands | 2,700.15 |
| 360 | | 12/31/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/3/2007 | Uruguay | 138,390.97 |
| 361 | | 12/23/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/9/2007 | Panama | 1,361,086.69 |
| 362 | | 9/22/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/21/2007 | Panama | 1,883,348.49 |
| 363 | | 10/15/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 11/7/2006 | Uruguay | 1,068,584.18 |
| 364 | | 1/8/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/8/2007 | Panama | 1,164,169.26 |
| 365 | | 10/10/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/11/2006 | British Virgin Islands | 6,105,475.87 |
| 366 | | 10/16/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/11/2007 | British Virgin Islands | 18,221,169.47 |
| 367 | | 10/10/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/18/2006 | British Virgin Islands | 18,353,429.07 |
| 368 | | 10/10/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/11/2006 | Panama | 29,667.42 |
| 369 | | 11/12/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/10/2007 | Uruguay | 45,021.69 |
| 370 | | 4/2/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/21/2007 | Uruguay | 578,898.99 |
| 371 | | 1/20/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 4/2/2004 | British Virgin Islands | 1,263,683.86 |
| 372 | | 3/15/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/27/2007 | Panama | 8,128,604.76 |
| 373 | | 5/16/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/15/2005 | Uruguay | 120,797.90 |
| 374 | | 5/20/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/16/2005 | Uruguay | 442,002.24 |
| 375 | | 9/6/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/20/2006 | Panama | 2,153,855.21 |
| 376 | | 10/22/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/30/2006 | Panama | 678,779.03 |
| 377 | | 2/9/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/22/2004 | British Virgin Islands | 3,743,918.89 |
| 378 | | 5/4/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/9/2007 | Panama | 3,617,198.31 |
| 379 | | 4/23/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/25/2007 | Panama | 421,529.86 |
| 380 | | 6/4/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 6/5/2007 | British Virgin Islands | 1,158,715.22 |
| 381 | | 12/28/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/7/2004 | Panama | 1,858,451.30 |
| 382 | | 4/7/2006 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/28/2004 | Panama | 270,322.06 |
| 383 | | 12/2/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/7/2006 | Uruguay | 368,406.27 |
| 384 | | 1/6/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/2/2004 | Uruguay | 5,912.58 |
| 385 | | 1/11/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/6/2005 | British Virgin Islands | 5,295.00 |
| 386 | | 1/4/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/11/2005 | Panama | 2,881,977.60 |
| 387 | | 3/7/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/4/2005 | Uruguay | 929,512.22 |
| 388 | | 3/7/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/7/2005 | British Virgin Islands | 2,988,095.84 |
| 389 | | 6/27/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/7/2005 | British Virgin Islands | 8,608,323.01 |
| 390 | | 6/3/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/27/2005 | Uruguay | 273,068.00 |
| 391 | | 10/17/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/3/2005 | Uruguay | 5,000.00 |
| 392 | | 10/17/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/17/2005 | British Virgin Islands | 516,232.85 |
| 393 | | 8/12/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/17/2005 | British Virgin Islands | 22,550.00 |
| 394 | | 8/19/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/12/2005 | Uruguay | 920,458.14 |
| 395 | | 8/26/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/19/2005 | British Virgin Islands | 3,105,869.52 |
| 396 | | 12/29/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/26/2005 | Uruguay | 42,576.20 |
| 397 | | 12/30/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/29/2005 | Anguilla | 1,454,008.73 |
| 398 | | 12/30/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/30/2005 | Anguilla | 1,360,071.97 |
| 399 | | 12/29/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/30/2005 | Anguilla | 329,932.39 |
| 400 | | 3/10/2006 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/29/2005 | Anguilla | 278,763.03 |
| 401 | | 10/17/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/10/2006 | Panama | 18,992.77 |
| 402 | | 1/23/2006 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/17/2005 | Panama | 5,355.00 |
| 403 | | 4/10/2006 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/29/2007 | British Virgin Islands | 781,456.63 |
| 404 | | 9/29/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/10/2006 | Uruguay | 20,287.88 |
| 405 | | 5/22/2006 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/27/2005 | British Virgin Islands | 125,450.09 |
| 406 | | 1/26/2006 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/22/2006 | Uruguay | 308,433.05 |
| 407 | | | | | | | |
| 408 | | 6/27/2006 | | | | | |

Redacted by the
Permanent Subcommittee on Investigations

Redacted by the
ent Subcommittee on

| | A | D | G | H | I | J | L |
|---|---|---|---|---|---|---|---|
| 409 | | 1/9/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/17/2007 | British Virgin Islands | 1,462,414.58 |
| 410 | | 8/31/2006 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/31/2006 | Belize | 190,958.22 |
| 411 | | 3/6/2007 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/6/2007 | Panama | 2,562,998.25 |
| 412 | | 11/16/2006 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/2/2007 | Uruguay | 8,859,226.44 |
| 413 | | 11/21/2006 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/2/2007 | Uruguay | 38.7 |
| 414 | | 2/20/2007 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/27/2007 | British Virgin Islands | 92,861.51 |
| 415 | | 2/27/2007 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/27/2007 | Uruguay | 51,748.89 |
| 416 | | 2/14/2007 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/14/2007 | Panama | 4,145.80 |
| 417 | | 2/26/2007 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/26/2007 | Panama | 19,949.00 |
| 418 | | 6/19/2007 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/19/2007 | Uruguay | 0 |
| 419 | | 8/16/1983 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/27/2006 | Panama | 969,489.29 |
| 420 | | 7/23/1984 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/8/2007 | Panama | 7,498.51 |
| 421 | | 9/25/1984 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/13/2006 | Uruguay | 1,438,158.54 |
| 422 | | 10/16/1984 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/4/2007 | Uruguay | 2,981,981.85 |
| 423 | | 10/2/1987 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/22/2007 | Uruguay | 1,051,382.34 |
| 424 | | 8/18/1987 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/19/2006 | Uruguay | 1,710,899.29 |
| 425 | | 4/5/1988 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/26/2005 | British Virgin Islands | 5,390.76 |
| 426 | | 1/5/1989 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/7/2006 | British Virgin Islands | 89,273.04 |
| 427 | | 7/11/1988 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/12/2006 | Panama | 3,846.49 |
| 428 | | 9/13/1989 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/16/2007 | Panama | 6,768,667.62 |
| 429 | | 12/27/1989 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/10/2007 | Panama | 4,972.64 |
| 430 | | 8/17/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/16/2007 | Uruguay | 3,867,692.84 |
| 431 | | 2/10/1992 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/26/2007 | Uruguay | 1,105,335.17 |
| 432 | | 12/4/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 5/6/2004 | British Virgin Islands | 1,729,497.73 |
| 433 | | 11/2/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 7/6/2004 | British Virgin Islands | 929,363.42 |
| 434 | | 6/10/1991 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 7/6/2004 | British Virgin Islands | 1,114.94 |
| 435 | | 4/25/1991 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/30/2006 | British Virgin Islands | 698,748.61 |
| 436 | | 11/22/1991 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/18/2006 | British Virgin Islands | 1,305,070.12 |
| 437 | | 8/27/1991 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/19/2005 | British Virgin Islands | 12,913,330.25 |
| 438 | | 8/21/1991 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/23/2007 | British Virgin Islands | 1,396,492.01 |
| 439 | | 2/14/1992 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/21/2007 | British Virgin Islands | 895,066.10 |
| 440 | | 3/23/1992 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/18/2005 | British Virgin Islands | 1,745,342.14 |
| 441 | | 4/9/1992 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/30/2006 | British Virgin Islands | 3,385,511.68 |
| 442 | | 6/23/1992 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 11/14/2003 | British Virgin Islands | 23,403,641.75 |
| 443 | | 9/24/1992 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/6/2007 | British Virgin Islands | 5,697.28 |
| 444 | | 9/29/1992 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/30/2006 | British Virgin Islands | 12,209,771.28 |
| 445 | | 1/8/1993 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/3/2006 | British Virgin Islands | 657,533.33 |
| 446 | | 7/16/1993 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 9/2/2003 | Panama | 458,517.01 |
| 447 | | 5/18/1993 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/10/2006 | British Virgin Islands | 17,431.49 |
| 448 | | 8/3/1993 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/30/2007 | Uruguay | 1,431,509.77 |
| 449 | | 10/26/1993 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/11/2007 | British Virgin Islands | 1,913,716.72 |
| 450 | | 1/18/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/20/2006 | Panama | 17,718,335.77 |
| 451 | | 7/25/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 9/26/2003 | British Virgin Islands | 131,754.37 |
| 452 | | 6/29/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/24/2006 | British Virgin Islands | 301,131.64 |
| 453 | | 9/12/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/17/2006 | British Virgin Islands | 5,242,570.98 |
| 454 | | 10/25/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/5/2005 | British Virgin Islands | 26,658.06 |
| 455 | | 5/25/1993 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/27/2006 | British Virgin Islands | 5,197,648.62 |
| 456 | | 11/18/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 11/24/2003 | British Virgin Islands | 1,138,268.18 |
| 457 | | 6/9/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 11/24/2003 | British Virgin Islands | 3,343,574.48 |
| 458 | | 6/1/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/29/2005 | British Virgin Islands | 337,332.15 |
| 459 | | 6/1/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/7/2006 | British Virgin Islands | 2,158,562.53 |
| 460 | | 8/22/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/7/2006 | British Virgin Islands | 1,887,292.18 |
| 461 | | 8/22/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/5/2007 | British Virgin Islands | 1,844,838.77 |
| 462 | | 9/15/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/22/2005 | British Virgin Islands | 12,716,837.84 |
| 463 | | 9/27/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/6/2004 | Uruguay | 1,493,272.62 |
| 464 | | 1/17/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/16/2005 | British Virgin Islands | 1,137,412.53 |
| 465 | | 2/14/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/11/2007 | British Virgin Islands | 411,124.04 |
| 466 | | 10/13/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/30/2006 | British Virgin Islands | 875,486.29 |
| 467 | | 1/3/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/3/2007 | British Virgin Islands | 1,036,611.20 |
| 468 | | 5/28/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | | | 620,678.20 |

Redacted by the
Permanent Subcommittee on Investigations

Redacted by the
manent Subcommittee on Investigations

| | A | D | G | H | I | J | L |
|---|---|---|---|---|---|---|---|
| 469 | | 3/13/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/7/2006 | British Virgin Islands | 1,564,980.66 |
| 470 | | 5/14/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/27/2006 | British Virgin Islands | 3,439,693.29 |
| 471 | | 7/9/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/5/2007 | British Virgin Islands | 5,185.56 |
| 472 | | 7/25/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/27/2006 | British Virgin Islands | 1,827,827.79 |
| 473 | | 10/21/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 8/26/2003 | British Virgin Islands | 3,536,861.79 |
| 474 | | 8/29/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/7/2006 | Panama | 206,234.92 |
| 475 | | 12/5/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/29/2005 | British Virgin Islands | 30,997.34 |
| 476 | | 12/19/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/13/2005 | British Virgin Islands | 1,460,759.96 |
| 477 | | 10/10/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/27/2007 | British Virgin Islands | 52,205.59 |
| 478 | | 4/11/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/18/2006 | British Virgin Islands | 3,045,148.58 |
| 479 | | 4/11/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/13/2006 | British Virgin Islands | 6,177,970.71 |
| 480 | | 2/25/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 11/26/2005 | British Virgin Islands | 3,356,601.52 |
| 481 | | 2/25/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 11/25/2005 | British Virgin Islands | 2,494,684.91 |
| 482 | | 3/10/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/12/2006 | British Virgin Islands | 3,778,725.20 |
| 483 | | 5/14/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/21/2007 | British Virgin Islands | 1,822,894.16 |
| 484 | | 5/5/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 11/26/2003 | British Virgin Islands | 3,374,535.92 |
| 485 | | 6/23/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 6/11/2007 | Uruguay | 1,307,441.20 |
| 486 | | 6/6/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/27/2006 | British Virgin Islands | 272,954.45 |
| 487 | | 6/6/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/27/2006 | British Virgin Islands | 1,106,955.35 |
| 488 | | 10/16/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/27/2006 | British Virgin Islands | 235,589.91 |
| 489 | | 8/1/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/5/2005 | British Virgin Islands | 151,813.90 |
| 490 | | 1/12/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/6/2007 | British Virgin Islands | 1,297,308.83 |
| 491 | | 8/3/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/31/2005 | British Virgin Islands | 638,808.42 |
| 492 | | 9/18/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/21/2007 | Bahamas | 1,972,323.61 |
| 493 | | 1/15/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/17/2006 | Panama | 5,859,379.28 |
| 494 | | 1/9/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/11/2007 | British Virgin Islands | 20,385.16 |
| 495 | | | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/22/2005 | British Virgin Islands | 13,975.08 |
| 496 | 3 | | | | | | |
| 497 | | | | | | | |
| 498 | Officer Group | Customer Open Date | Document Description | Status (Current, Missing, ...) | Status Date | Country of Origin Desc | AUM Total |
| 499 | 4 | 4/16/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/5/2007 | Netherlands Antilles | 69,807.62 |
| 500 | | 9/16/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/13/2006 | British Virgin Islands | 429,474.15 |
| 501 | | 7/2/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/5/2007 | Netherlands Antilles | 5,295.51 |
| 502 | | 11/23/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/6/2006 | British Virgin Islands | 496,449.74 |
| 503 | | 2/11/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/26/2007 | British Virgin Islands | 930,670.29 |
| 504 | | 6/11/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/12/2007 | British Virgin Islands | 1,452,505.17 |
| 505 | | 7/14/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/27/2004 | British Virgin Islands | 43,812.83 |
| 506 | | 10/18/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/11/2007 | British Virgin Islands | 695,611.96 |
| 507 | | 1/24/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/21/2007 | British Virgin Islands | 772,077.85 |
| 508 | | 2/1/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/26/2007 | British Virgin Islands | 244,420.38 |
| 509 | | 6/27/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/2/2006 | British Virgin Islands | 2,253,147.87 |
| 510 | | 10/31/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/5/2007 | Panama | 30,916.18 |
| 511 | | 3/20/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/18/2006 | British Virgin Islands | 11,184.31 |
| 512 | | 6/6/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/30/2006 | British Virgin Islands | 10,000.00 |
| 513 | | 11/19/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/22/2006 | British Virgin Islands | 6,408,558.08 |
| 514 | | 7/31/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 2/25/2004 | British Virgin Islands | 1,163.42 |
| 515 | | 7/5/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/27/2006 | British Virgin Islands | 3,182,402.84 |
| 516 | | 5/15/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/11/2006 | British Virgin Islands | 840,104.01 |
| 517 | | 1/4/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/13/2007 | British Virgin Islands | 5,064.51 |
| 518 | | 3/18/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 3/9/2004 | Marshall Island | 399,672.63 |
| 519 | | 10/2/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/16/2006 | British Virgin Islands | 565,099.91 |
| 520 | | 12/24/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/7/2006 | British Virgin Islands | 519,386.61 |
| 521 | | 7/22/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/16/2006 | British Virgin Islands | 771,108.71 |
| 522 | | 12/29/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/22/2007 | British Virgin Islands | 1,346,466.81 |
| 523 | | 2/27/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/10/2007 | British Virgin Islands | 79,871.47 |
| 524 | | 7/30/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/5/2007 | Panama | 69,450,987.77 |
| 525 | | | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 7/30/2004 | British Virgin Islands | 266,433.16 |

Redacted by the
Permanent Subcommittee on Investigations

Redacted by the
Permanent Subcommittee on Investigations

| | A | D | G | H | I | J | L |
|---|---|---|---|---|---|---|---|
| 526 | | 5/26/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/26/2005 | Uruguay | 21,115.66 |
| 527 | | 7/25/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/26/2005 | Panama | 1,851,843.99 |
| 528 | | 7/25/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/26/2005 | Panama | 444,293.98 |
| 529 | | 8/17/2005 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/17/2005 | Panama | 25,163.63 |
| 530 | | 3/25/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/26/2007 | British Virgin Islands | 1,160,467.12 |
| 531 | | 10/6/2006 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/6/2006 | Panama | 1,102,400.58 |
| 532 | | 10/1/2002 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/4/2006 | British Virgin Islands | 316,014.48 |
| 533 | | 6/6/2007 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/6/2007 | British Virgin Islands | 4,933,772.87 |
| 534 | | 7/26/2007 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/26/2007 | British Virgin Islands | 100,739.38 |
| 535 | | 7/16/2007 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/16/2007 | Panama | 506,953.53 |
| 536 | | 7/30/2007 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/30/2007 | British Virgin Islands | 0 |
| 537 | | 8/3/2007 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/3/2007 | British Virgin Islands | 3,159,798.64 |
| 538 | | 12/31/1981 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/23/2007 | Panama | 1,886,189.23 |
| 539 | | 12/5/1986 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/2/2007 | Panama | 8,506,832.76 |
| 540 | | 11/16/1987 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/5/2007 | British Virgin Islands | 7,764.94 |
| 541 | | 11/3/1988 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/5/2007 | British Virgin Islands | 129,526.89 |
| 542 | | 6/28/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/2/2007 | British Virgin Islands | 823,839.93 |
| 543 | | 3/30/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/15/2007 | British Virgin Islands | 210,462.05 |
| 544 | | 3/15/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/13/2006 | British Virgin Islands | 1,266,782.20 |
| 545 | | 9/30/1991 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/17/2007 | British Virgin Islands | 604,539.08 |
| 546 | | 6/22/1992 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 11/1/2006 | British Virgin Islands | 15,891,998.55 |
| 547 | | 6/21/1993 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/26/2006 | British Virgin Islands | 372,958.96 |
| 548 | | 10/22/1993 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/15/2005 | Panama | 823,839.93 |
| 549 | | 4/7/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/7/2005 | British Virgin Islands | 3,372,018.84 |
| 550 | | 4/29/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/6/2007 | British Virgin Islands | 1,550,237.55 |
| 551 | | 11/18/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/9/2006 | British Virgin Islands | 680,544.20 |
| 552 | | 10/24/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 11/22/2005 | British Virgin Islands | 2,029,149.56 |
| 553 | | 2/13/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/5/2007 | Panama | 16,176.95 |
| 554 | | 11/28/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 11/14/2006 | British Virgin Islands | 1,074,794.08 |
| 555 | | 9/8/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/1/2004 | British Virgin Islands | 8,014,676.26 |
| 556 | | 9/25/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/7/2007 | British Virgin Islands | 390,913.20 |
| 557 | | 12/23/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 1/25/2006 | British Virgin Islands | 1,133,000.02 |
| 558 | | 12/24/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/21/2006 | British Virgin Islands | 462,546.53 |
| 559 | | 12/16/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 8/16/2006 | British Virgin Islands | 104,643.33 |
| 560 | | 12/17/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/26/2002 | British Virgin Islands | 1,209,039.63 |
| 561 | | 11/27/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/3/2007 | Panama | 12,096,625.96 |
| 562 | | 4/8/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/20/2006 | Bahamas | 518,514.79 |
| 563 | | 12/30/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/27/2004 | British Virgin Islands | 2,522,316.96 |
| 564 | | 2/27/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/26/2007 | Panama | 367,063.14 |
| 565 | | 6/16/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/6/2007 | British Virgin Islands | 23,005.65 |
| 566 | | 9/25/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/20/2006 | Bahamas | 2,941,710.99 |
| 567 | | 7/25/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/23/2007 | British Virgin Islands | 37,615.62 |
| 568 | | 9/1/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 11/1/2006 | Panama | 22,035.77 |
| 569 | | 9/1/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 11/1/2006 | Panama | 6,738.84 |
| 570 | | 10/21/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/1/2007 | British Virgin Islands | 3,009,059.73 |
| 571 | | 12/19/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/21/2007 | British Virgin Islands | 5,048,995.57 |
| 572 | | 11/26/1997 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/27/2006 | British Virgin Islands | 2,383,890.82 |
| 573 | | 1/14/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/21/2007 | British Virgin Islands | 3,097,907.36 |
| 574 | | 2/6/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/9/2005 | British Virgin Islands | 433,853.54 |
| 575 | 4 | | | | | | |
| 576 | | | | | | | |
| | Officer | Customer | Document Description | Status (Current, Missing, ...) | Status Date | Country of Origin Desc | AUM Total |
| 577 | Group | Open Date | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/28/2005 | British Virgin Islands | 60,425.35 |
| 578 | 44 | 11/23/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 8/2/2002 | Cayman Islands | 1,681.24 |
| 579 | | 7/22/2002 | | | | | |
| 580 | 44 | | | | | | |
| 581 | | | | | | | |

Redacted by the
Permanent Subcommittee on Investigations

Redacted by the
Permanent Subcommittee on Investigations

| | A | D | G | H | I | J | L |
|---|---|---|---|---|---|---|---|
| | Officer Group | Customer Open Date | Document Description | Status (Current, Missing, ...) | Status Date | Country of Origin Desc | AUM Total |
| 582 | 5 | 4/22/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/15/2006 | British Virgin Islands | 964,637.07 |
| 583 | | 4/23/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/11/2006 | British Virgin Islands | 3,649,031.82 |
| 584 | | 5/4/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/15/2006 | British Virgin Islands | 2,999,381.63 |
| 585 | | 10/22/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/5/2003 | Uruguay | 3,954,666.36 |
| 586 | | 12/18/1998 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/29/2003 | British Virgin Islands | 992,569.11 |
| 587 | | 7/16/1999 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/5/2007 | British Virgin Islands | 297,119.55 |
| 588 | | 3/24/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/4/2007 | British Virgin Islands | 551,281.93 |
| 589 | | 4/28/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 10/29/2003 | British Virgin Islands | 686,752.99 |
| 590 | | 10/16/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/2/2004 | Bahamas | 1,844,584.76 |
| 591 | | 9/22/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/27/2004 | Bahamas | 7,137.63 |
| 592 | | 10/19/2000 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/31/2007 | British Virgin Islands | 6,408.35 |
| 593 | | 2/22/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/26/2007 | Netherlands Antilles | 4,222.07 |
| 594 | | 3/1/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/13/2007 | British Virgin Islands | 1,027,599.54 |
| 595 | | 4/11/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/24/2006 | British Virgin Islands | 2,987,027.67 |
| 596 | | 6/11/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/29/2003 | British Virgin Islands | 156,489.09 |
| 597 | | 11/21/2001 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 9/19/2003 | British Virgin Islands | 657,225.52 |
| 598 | | 2/5/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 2/6/2003 | British Virgin Islands | 455,115.93 |
| 599 | | 2/5/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 2/6/2003 | British Virgin Islands | 457,899.82 |
| 600 | | 5/16/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/13/2007 | British Virgin Islands | 8,062,013.35 |
| 601 | | 6/13/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 6/16/2003 | Panama | 35,087.47 |
| 602 | | 9/24/2003 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/16/2006 | Panama | 3,532,833.49 |
| 603 | | 7/30/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/7/2006 | Panama | 9,938,199.64 |
| 604 | | 6/22/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 6/22/2004 | Panama | 4,817,430.33 |
| 605 | | 9/28/2004 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/28/2004 | Panama | 1,956,409.22 |
| 606 | | 2/2/2006 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/2/2006 | Panama | 5,861,065.01 |
| 607 | | 2/2/2006 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/2/2006 | Panama | 2,269,870.52 |
| 608 | | 10/2/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/2/2003 | British Virgin Islands | 1,638,251.44 |
| 609 | | 3/22/2007 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/22/2007 | British Virgin Islands | 516,595.75 |
| 610 | | 3/22/2007 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 3/22/2007 | British Virgin Islands | 538,898.98 |
| 611 | | 6/1/2007 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/1/2007 | British Virgin Islands | 697,030.71 |
| 612 | | 7/19/2007 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/19/2007 | Panama | 4,031,314.13 |
| 613 | | 8/8/2007 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 8/8/2007 | Cayman Islands | 0 |
| 614 | | 11/29/1991 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/18/2006 | British Virgin Islands | 1,431,820.26 |
| 615 | | 2/28/1991 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/10/2003 | British Virgin Islands | 264,160.68 |
| 616 | | 5/24/1989 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 2/12/2004 | British Virgin Islands | 3,141,534.56 |
| 617 | | 5/31/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 2/12/2004 | British Virgin Islands | 90,216.19 |
| 618 | | 6/21/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/19/2006 | British Virgin Islands | 1,372,270.59 |
| 619 | | 6/29/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/17/2003 | British Virgin Islands | 1,180,630.66 |
| 620 | | 6/21/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 11/20/2003 | British Virgin Islands | 1,302,121.24 |
| 621 | | 9/17/1990 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/31/2007 | British Virgin Islands | 196,414.14 |
| 622 | | 7/11/1991 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/25/2006 | British Virgin Islands | 5,396,142.99 |
| 623 | | 1/22/1992 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 2/28/2003 | British Virgin Islands | 2,602,365.31 |
| 624 | | 7/15/1991 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 10/21/2005 | British Virgin Islands | 8,163,198.19 |
| 625 | | 9/10/1991 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/27/2006 | British Virgin Islands | 203,007.67 |
| 626 | | 11/18/1992 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/4/2006 | British Virgin Islands | 3,977,347.09 |
| 627 | | 1/5/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/24/2006 | British Virgin Islands | 442,795.85 |
| 628 | | 12/23/1993 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 9/15/2004 | Panama | 7,107,650.76 |
| 629 | | 6/17/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/10/2004 | Bahamas | 2,329,838.66 |
| 630 | | 6/23/1994 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 10/17/2006 | Turks and Caicos Island | 822,576.78 |
| 631 | | 3/3/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/12/2004 | British Virgin Islands | 534,443.02 |
| 632 | | 4/25/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 2/15/2006 | British Virgin Islands | 1,616,726.36 |
| 633 | | 8/3/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 12/12/2003 | British Virgin Islands | 5,715,561.22 |
| 634 | | 12/28/1995 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/13/2007 | British Virgin Islands | 6,619.93 |
| 635 | | 1/12/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 5/19/2006 | British Virgin Islands | 49,966.46 |
| 636 | | 7/24/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/12/2007 | British Virgin Islands | 4,140,154.87 |
| 637 | | 7/1/1996 | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 9/21/2005 | British Virgin Islands | 1,214,701.42 |
| 638 | | | | | | | |

Redacted by the
Permanent Subcommittee on Investigations

Redacted by the
Permanent Subcommittee on Investigations

| | A |
|---|---|
| 639 | |
| 640 | |
| 641 | |
| 642 | |
| 643 | |
| 644 | |
| 645 | |
| 646 | |
| 647 | |
| 648 | |
| 649 | |
| 650 | |
| 651 | |
| 652 | |
| 653 | |
| 654 | |
| 655 | 5 |
| 656 | |
| 657 | Officer Group 7 |
| 658 | |
| 659 | 7 |
| 660 | |
| 661 | Count All: |

| | D |
|---|---|
| | 8/2/1996 |
| | 10/4/1996 |
| | 8/16/1996 |
| | 9/17/1996 |
| | 10/24/1996 |
| | 11/6/1996 |
| | 11/26/1996 |
| | 12/23/1996 |
| | 2/10/1997 |
| | 4/22/1998 |
| | 2/28/1997 |
| | 6/2/1997 |
| | 12/5/1997 |
| | 9/17/1997 |
| | 11/7/1997 |
| | 12/11/1997 |
| | |
| | |
| | |
| | Customer Open Date |
| | 3/30/2006 |
| | |
| | |
| | |

**Redacted by the Permanent Subcommittee on Investigations**

| | G | H | I | J | L |
|---|---|---|---|---|---|
| | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 11/24/2003 | British Virgin Islands | 3,420,824.47 |
| | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/15/2006 | British Virgin Islands | 354,087.47 |
| | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 4/21/2003 | Panama | 5,860,646.79 |
| | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/24/2006 | British Virgin Islands | 2,418,316.81 |
| | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/15/2003 | British Virgin Islands | 3,102,304.43 |
| | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 2/16/2006 | British Virgin Islands | 1,120,077.12 |
| | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 6/12/2007 | British Virgin Islands | 812,929.87 |
| | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/12/2003 | British Virgin Islands | 1,042,558.63 |
| | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 7/20/2007 | British Virgin Islands | 972,292.68 |
| | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 12/15/2003 | British Virgin Islands | 2,528,016.57 |
| | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 4/17/2007 | British Virgin Islands | 428,083.86 |
| | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 11/18/2005 | British Virgin Islands | 2,786,349.80 |
| | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 1/16/2004 | British Virgin Islands | 658,249.15 |
| | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 2/12/2004 | British Virgin Islands | 0.12 |
| | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 11/29/2005 | British Virgin Islands | 16,027,627.63 |
| | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Update Required | 11/21/2003 | British Virgin Islands | 2,225,261.13 |
| | | | | | |
| | | | | | |
| | | | | | |
| | Document Description | Status (Current, Missing, ...) | Status Date | Country of Origin Desc | AUM Total |
| | [001] BENEFICIAL OWNERSHIP LETTER - Bearer Share | Current | 11/21/2006 | British Virgin Islands | 4,384,353.45 |
| | | | | | |
| | | | | | |
| | | | | | |

**Redacted by the Permanent Subcommittee on Investigations**

Occ-Psi-00226652

From: JEFF CLOUS/HBUS/HSBC
Sent: 12/11/2007 4:13:08 PM
To: PAUL J O'SULLIVAN/HBUS/HSBC@HSBC02
CC: ALAN P WILLIAMSON/HBUS/HSBC@HSBC;MANUEL DIAZ/HBUS/HSBC@HSBC;TERRY WESTREN;LOUIS MARINO/HBUS/HSBC
Subject: Re: Fw: Bearer Share Corporation Policy

Paul, attached are my comments on the draft Bearer Share Policy that I had previously sent to Alan in September.
As you know, IPB Miami has ceased accepting Bearer Share company accounts so draft requirements for establishing new bearer share accounts are not relevant. IPB Miami maintains existing 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.

| # Bearer Share | PUM Bearer Share | | Est. Margin | Estimated Rev |
|---|---|---|---|---|
| 1679 | 2,626,134,512 | 1.00% | 26,261,345 | |

I believe there would be a significant impact to the IPB business if we enacted the draft policy of requiring all existing bearer shares to be held in custody by the end of next year.
I would question why the draft policy would require BOTH holding bearer shares in custody and re-certifying the beneficial ownership letter every three years. That seems to go beyond the expectation of the regulators. As I pointed out below, the interagency examination manual has clearly stated that periodic re-certification of the beneficial ownership of bearer share accounts is acceptable for well known established customers. (The average age of the Miami bearer share relationships is 13 years.)
I would also question the timing of the draft policy, which requires existing Bearer Share companies to convert to registered shares or be held in custody by the end of 2008, a year ahead of the BVI regulations requiring the same steps at the end of 2009. This would take a major effort on our part to accomplish and would disadvantage long standing HSBC clients many of which HSBC has assisted in establishing their company.
Is there any room to revise this policy or obtain a dispensation for IPB?
Regards,
Jeff Clous, SVP
IPB Operations
1441 Brickell Avenue, 16th floor, Miami, Florida 33131
(305) 539-4810 (Phone) (305) 374 6466 (Fax)

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.



Permanent Subcommittee on Investigations
EXHIBIT #94

EXAMINERS MANUAL 2006/7 - BEARER SHARE
If ownership is held in bearer share form, banks should assess the risks these relationships pose and determine the appropriate controls. For example, banks may choose to maintain (or have an independent third party maintain) bearer shares for new clients, or those without well established relationships with the institution.

For well-known, established customers, banks may find that periodically recertifying beneficial ownership is effective.

Regards,
Jeff Clous, SVP
IPB Operations
1441 Brickell Avenue, 16th floor, Miami, Florida 33131
(305) 539-4810 (Phone) (716) 626 6922 (Fax)

Paul J O'Sullivan/HBUS/HSBC@HSBC02
12/10/2007 06:36 PM

To
Terry Westren/HBUS/HSBC@HSBC, Mason C Salit/HBUS/HSBC@HSBC02, Teresa Garcia/HBUS/HSBC@HSBC02, Antonio Suarez-Obregon/HBUS/HSBC@HSBC, Jeff Clous/HBUS/HSBC@HSBC, Manuel Diaz/HBUS/HSBC@HSBC, Clara Hurtado/HBUS/HSBC@HSBC, Patrick M Campion/HBUS/HSBC@HSBC, Steven J Rockefeller/HBUS/HSBC@HSBC, Dennis J Duggan/HBUS/HSBC@HSBC
cc
Marlon Young/HBUS/HSBC@HSBC, Louis Marino/HBUS/HSBC@HSBC, Alan P Williamson/HBUS/HSBC@HSBC
Subject
Fw: Bearer Share Corporation Policy

All,

Attached is the final draft of proposed policy covering Bearer Share Company clients. There is a little more flexibility than was originally planned and we will be able to maintain bearer share company accounts once the requirements of the policy are met.

I will follow up with each group individually (DPB, IPB NY, and IPB Miami) to discuss implementation steps.

regards,
Paul
----- Forwarded by Paul J O'Sullivan/HBUS/HSBC on 12/10/2007 06:21 PM -----

Ali S Kazmy/HBUS/HSBC@HSBC
12/10/2007 04:38 PM

To
Paul J O'Sullivan/HBUS/HSBC@HSBC02
cc

Subject
Bearer Share Corporation Policy

Attached is the aforementioned document for implementation purposes. Please note that we will be announcing the policy by the end of the week.

[attachment "Bearer Share Corporation Account Policy Guidance (Final Draft 082907).doc.zip" deleted by Jeff Clous/HBUS/HSBC]

In case of any questions, please let me know.

Regards,

Attachment: All Bearer Share Accounts.pdf.zip

Mr. Cohen: Hello

Claude: Yes, Mr. Cohen, you're sure that Gregoire told you that?

Mr. Cohen: Why? Yes.

Claude: He told you that he'll set up a Panamanian company for you [again]?

Mr. Cohen: A Panamanian, he gave me names and everything.

Claude: He gave you names too?

Mr. Cohen: Yes, Panamanian companies.

Claude: Because it's... sooner or later you are going to register Mr. Cohen, it's better to have registered shares.

Mr. Cohen: I don't want registered shares. If I place relatives as assignees, I don't want these assignees one day saying that the money is theirs.

Claude: [sighs]

Mr. Cohen: Eh yes, do you understand?

Claude: Yes, I see, but because sooner or later, it's going to be registered, do you understand Mr. Cohen? That's why, why you will pay money, now you will pay money all over again.

Mr. Cohen: So what do you want? That I close the account with you and that I go to Gregoire?

Claude: I didn't say that, but I didn't say that you should close the account...

Mr. Cohen: I can't do that.

Claude: ...close the account.

Mr. Cohen: Neither Safra nor Gregoire told me that. It's just you telling me that.

Claude: That what?

Mr. Cohen: Maybe in Geneva it can't exist...

Claude: ...but Mr. Cohen, I am honestly telling you that if it isn't today, its tomorrow, or the day after, it's going to be...

Permanent Subcommittee on Investigations
**EXHIBIT #95**

Mr. Cohen: Maybe in the United States, but not New York… in Geneva.

Claude: Alright, do you want to speak with Evelyne and have her better explain it to you?

Mr. Cohen: No, I do not want to speak with her [laughs]. Why?

Claude: OK, listen, I will verify with compliance and compliance will verify with Geneva if it's OK to open Panamanians and that's it.

Mr. Cohen: Check, and check if the laws in Switzerland are different than American laws.

Claude: The laws in Switzerland are different than those in the United States, we are going to verify that Mr. Cohen. Believe me, I'm doing the best for you, that's why I am going to ask.

Mr. Cohen: And older companies, no.

Claude: Older companies what.

Mr. Cohen: They don't need to register.

Claude: No, no, no, older companies no, but now new companies are asked to, all of them are going to be registered, all.

Mr. Cohen: But older companies, no.

Claude: No.

Mr. Cohen: So, I still have the old ones.

Claude: Yes, but this has nothing to do with the old ones. Now you want to open for…

Mr. Cohen: …no I can give you an old one.

Claude: Panamanian?

Mr. Cohen: Yes, there are old Panamanians.

Claude: I'll ask …

Mr. Cohen: I have old ones that are ten and fifteen years old.

Claude: Ten and fifteen years old, but there always needs to be a new tarificator, good standing, a new this, a new that, a new this, what do we...If it's ten years old, there is a new certificate of good standing.

Mr. Cohen: Yes.

Claude: There is a new...some new, the...new secretaries. (Inaudible) you know that the directors, bosses, have changed? Of the...of that company.

Mr. Cohen: Yeah, so?

Claude: And so it would need a new director, the list of new directors, the list of new ones...so it's the same thing. You need to open a new one...there needs to be a new one.

Mr. Cohen: There needs to be shareholders.

Claude: Yes.

Mr. Cohen: I'll give you the beneficial owner, but I do not want the shares to be in the name of the beneficial owner.

Claude: No, you can... you can diversify the shares.

Mr. Cohen: And so?

Claude: That means that the hundred, [inaudible] you can give all of the names, that one, that one, that one, that one.

Mr. Cohen: And so?

Claude: It's easier than giving it to just one.

Mr. Cohen: Wait, wait a minute, but the shares, you have to, you want shares?

Claude: No, you will have the originals, but you can put for example X – M. Leon – 40; Sonia – 50...

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.

Claude: Yes, I see, I see what you want...

Mr. Cohen: I can't do that because we, I'm a resident here.

Claude: Yes.

Mr. Cohen: Why do you think I put Habib…

Claude: Yes, right, right.

Mr. Cohen: …my brother-in-law, he's…he agrees with me. It's not like I'm doing it without…

Claude: OK, OK, alright, I understand, I understand.

Mr. Cohen: He gives me his passport, he gives me everything.

Claude: OK so you… you absolutely want to change to Panamanian. OK, I'll ask, I'll ask compliance and we'll see, alright and I will call you back.

Mr. Cohen: Keep me posted because [inaudible]… Geneva is free.

Claude: OK, I will keep you posted. He gave you names too?

Mr. Cohen: He gave me names; he's going to make them companies.

Claude: Alright, OK, I will ask and I will call you back.

Mr. Cohen: OK.

Claude: Bye bye.

Mr. Cohen: Talk to you soon.

TRANSPERFECT

ALBANY
AMSTERDAM
ATLANTA
AUSTIN
BARCELONA
BERLIN
BOSTON
BRUSSELS
CHARLOTTE
CHICAGO
DALLAS
DENVER
DUBAI
DUBLIN
FRANKFURT
GENEVA
HONG KONG
HOUSTON
IRVINE
LONDON
LOS ANGELES
MIAMI
MILAN
MINNEAPOLIS
MONTREAL
MUNICH
NEW YORK
PARIS
PHILADELPHIA
PHOENIX
PORTLAND
PRAGUE
RESEARCH TRIANGLE PARK
SAN DIEGO
SAN FRANCISCO
SAN JOSE
SEATTLE
SINGAPORE
STOCKHOLM
STUTTGART
SYDNEY
TOKYO
TORONTO
VANCOUVER
WASHINGTON, DC

City of New York, State of New York, County of New York

I, Anne Lutz, hereby certify that the document "C. Mandel 04/25/2007 11:32:53 AM (43452433_C. Mandel 4_15_07 to 5_5_07 XV_2DD.wav.zip)" is, to the best of my knowledge and belief, a true and accurate translation from French to English.

Anne Lutz

Sworn to before me this
November 23, 2009

Signature, Notary Public

KRISTIN MILORO
Notary Public - State of New York
No. 01MI6212799
Qualified in New York County
Commission Expires Oct 19, 2013

Stamp, Notary Public

THREE PARK AVENUE, 39TH FLOOR, NEW YORK, NY 10016 T 212.689.5555 F 212.689.1059 WWW.TRANSPERFECT.COM

From: TERESA GARCIA/HBUS/HSBC
Sent: 6/20/2007 4:05:47 PM
To: ALAN P WILLIAMSON/HBUS/HSBC@HSBC
CC:
Subject: Re: Waiver Request

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Alan,

That's where my problem comes in.

The policy reads:

For new Relationships: Bearer Share corporations will only be accepted if:
- CEO - NY IPB and AML LCO approval is received; and,
- Client commits to registering the shares or the shares are held in custody with an approved non-US resident third party custodian, who is authorized to advise HSBC of any changes in ownership. (see Procedures)

In this case, the client does not want to commit to either option. That's why Manuel suggested if we can give them a waiver to the above. We are talking about a potential client with an estimated net worth is in excess of [redacted] million in liquid assets.

Would having a conference call with Manuel, the RM and the two of us help?

We always try to work with the business, but sometimes we just can't.

Thanks

Teresa Garcia
Senior Manager Specialized Compliance
HSBC Private Bank New York
452 Fifth Ave., T6, NY, NY 10018
(PH)212-525-6014 (F) 212-525-8255

Alan P Williamson/HBUS/HSBC
06/20/2007 04:43 PM

To
Teresa Garcia/HBUS/HSBC@HSBC
cc

Subject
Re: Waiver Request

---

Teresa

Thanks. Is there a procedure for waiving bearer shares - i.e. do Manuel & I have the authority?

Alan

Teresa Garcia/HBUS/HSBC
06/20/2007 01:44 PM

Permanent Subcommittee on Investigations
EXHIBIT #96a

To
Alan P Williamson/HBUS/HSBC@HSBC
cc

Subject
Re: Waiver Request

Following are the RM responses:

The name of the accounts are:
- Urigeler International S.A. - Holding Company
- Birmingham Merchant S.A. - Holding Company

These two are companies that were established several years ago in Panama, which establishes companies with bearer shares.

Thanks

Teresa Garcia
Senior Manager Specialized Compliance
HSBC Private Bank New York
452 Fifth Ave., T6, NY, NY 10018
(PH)212-525-6014 (F) 212-525-8255

Alan P Williamson/HBUS/HSBC
06/20/2007 11:15 AM

To
Teresa Garcia/HBUS/HSBC@HSBC
cc

Subject
Re: Waiver Request

Teresa

Thanks for the info. What are the bs companies and why are they bs?

---

Alan

From: Teresa Garcia
Sent: 06/20/2007 09:58 AM EDT
To: Alan P Williamson
Subject: Fw: Waiver Request

Alan,

I would like to discuss with you. The RM is anxious for an answer since he is

traveling to meet the client next week.

Thanks.

Teresa Garcia
Senior Manager Specialized Compliance
HSBC Private Bank New York
452 Fifth Ave., T6, NY, NY 10018
(PH)212-525-6014 (F) 212-525-8255
----- Forwarded by Teresa Garcia/HBUS/HSBC on 06/20/2007 09:57 AM -----

Teresa Garcia/HBUS/HSBC
06/14/2007 03:14 PM

To
Susan Hoggarth/HBUS/HSBC
cc

Subject
Waiver Request

Sue,

Jaime Carvallo is looking to open a relationship for [redacted]. The two accounts are bearer shares. The client does not want neither to register nor custodize the shares, and they do not want to sign the BOL.

Jaime and I have discussed this issue with Manuel Diaz. Manuel is willing to sign a waiver in order to open the two accounts, as he is very familiar with the family and interested in establishing a relationship with them. I also know the family very well since I worked for [redacted] for 19 years. I have personally met [redacted] Here is a brief summary of [redacted]

The Permanent Subcommittee on Investigations

[redacted] = Redacted by the Permanent Subcommittee on Investigations

[redacted]

Please let me know what your thoughts are.

Thank you.

Teresa Garcia
Senior Manager Specialized Compliance
HSBC Private Bank New York
452 Fifth Ave., T6, NY, NY 10018
(PH)212-525-6014 (F) 212-525-8255

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: ALAN P WILLIAMSON/HBUS/HSBC
Sent: 6/20/2007 5:48:38 PM
To: MANUEL DIAZ/HBUS/HSBC@HSBC
CC:
Subject: Re: Fw: Waiver Request

I thought so. I would do it without going to Geneva but audit wrote up DPB on a similar situation.

Alan

Manuel Diaz/HBUS/HSBC
06/20/2007 06:32 PM

To
Alan P Williamson/HBUS/HSBC@HSBC
cc

Subject
Re: Fw: Waiver Request

I FULLY SUPPORT THIS WAIVER

---

Manuel L. Diaz
President & Managing Director
HSBC Private Bank International
1441 Brickell Ave. 17th Floor
Miami, FL 33131
(305) 539-4747 Telephone

Alan P Williamson/HBUS/HSBC
06/20/2007 06:28 PM

To
Manuel Diaz/HBUS/HSBC@HSBC, Marlon Young/HBUS/HSBC@HSBC
cc
Teresa Garcia/HBUS/HSBC@HSBC, Susan Hoggarth/HBUS/HSBC@HSBC
Subject
Fw: Waiver Request

---

Manuel, Marlon

I have no objection to this request, however I believe the requirement to register bearer shares is a group mandate. I understand the process to be that if you want an exception we will have to go to Geneva. I am willing to pass on



Permanent Subcommittee on Investigations
EXHIBIT #96b

the request if that is what you want.

Thanks

Alan
----- Forwarded by Alan P Williamson/HBUS/HSBC on 06/20/2007 06:24 PM -----

Teresa Garcia/HBUS/HSBC
06/20/2007 05:29 PM

To
Alan P Williamson/HBUS/HSBC@HSBC
cc

Subject
Re: Waiver Request

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Alan,

Because they wish to maintain confidentiality, and they have never been asked by our competitors with whom they bank to do this. The [redacted] is the most visible and influential family[redacted]

Teresa

Alan P Williamson/HBUS/HSBC
06/20/2007 05:21 PM

To
Teresa Garcia/HBUS/HSBC@HSBC
cc

Subject
Re: Waiver Request

Teresa

Why do they not want to register or deposit the shares?

Alan

Teresa Garcia/HBUS/HSBC
06/20/2007 01:44 PM

To
Alan P Williamson/HBUS/HSBC@HSBC
cc

[redacted] = Redacted by the Permanent Subcommittee on Investigations



From: ALAN P WILLIAMSON/HBUS/HSBC
Sent: 6/26/2007 4:24:22 PM
To: JAIME CARVALLO/HBUS/HSBC@HSBC;MARLON YOUNG/HBUS/HSBC@HSBC;"MANUEL DIAZ" <MANUEL.DIAZ@HSBCPB.COM>;
"TERESA GARCIA" <TERESA.GARCIA@HSBCPB.COM>;"SUSAN HOGGARTH" <SUSAN.HOGGARTH@US.HSBC.COM>
Subject: Re: [redacted]

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: [redacted]

Marlon,

I forgot to mention again that this family's liquid net worth is estimated in excess of [redacted] and total net worth in the [redacted]$ area.

I hope this can be done.

Thank you again for your help.

Waem regards

Jaime

From: Marlon Young
Sent: 06/25/2007 06:33 PM EDT
To: Jaime Carvallo
Cc: Teresa Garcia; Thomas Flory; Ana Da Silva; Alan P Williamson
Subject: Re: [redacted]

I have discussed w Terry and Alan Williamson and will give my support to this exception. Sorry, I was in a rush to leave friday, I forgot to send my approval.
Regards,
Marlon

From: Jaime Carvallo
Sent: 06/25/2007 01:48 PM EDT
To: Marlon Young
Cc: Teresa Garcia; Thomas Flory; Ana Da Silva

Permanent Subcommittee on Investigations
EXHIBIT #97a

[redacted] = Redacted by the Permanent Subcommittee on Investigations



Subject: [redacted]

Marlon,

Teresa Garcia must have given you heads up on the [redacted] 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 [redacted] for us not to want to do business with, and one that has taken a lot of my time and effort to convince to start a relationship with us. Joao Luiz has met members of the family as well. I would appreciate your involvement at this point, as this has become extremely sensitive.

Thank you and regards,

Jaime

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: TERESA GARCIA/HBUS/HSBC
Sent: 7/5/2007 11:33:35 AM
To: ALAN P WILLIAMSON/HBUS/HSBC@HSBC
CC: SUSAN HOGGARTH/HBUS/HSBC@HSBC
Subject: Re: Fw: Fw: Fw: [redacted]

Alan;

Not quite resolved yet, but there is nothing else for us to do. The RM and the Group Head are not seeing eye to eye on this one. Therefore, it is now between them.

I'll keep you posted.

Teresa Garcia
Senior Manager Specialized Compliance
HSBC Private Bank New York
452 Fifth Ave., T6, NY, NY 10018
(PH)212-525-6014 (F) 212-525-8255

Alan P Williamson/HBUS/HSBC
07/03/2007 04:30 PM

To
Marlon Young/HBUS/HSBC@HSBC, Jaime Carvallo/HBUS/HSBC@HSBC, Manuel Diaz/HBUS/HSBC@HSBC, Thomas Flory/HBUS/HSBC@HSBC
cc
Teresa Garcia/HBUS/HSBC@HSBC, Susan Hoggarth/HBUS/HSBC@HSBC
Subject
Re: Fw: Fw: Fw: [redacted]

All

Just checking to see if this is going well or if there is anything more you need us to do.

Have a good holiday

Alan

Marlon Young/HBUS/HSBC
06/29/2007 05:33 AM

To
Jaime Carvallo/HBUS/HSBC@HSBC; Teresa Garcia/HBUS/HSBC@HSBC
cc
Manuel Diaz/HBUS/HSBC, Alan P Williamson/HBUS/HSBC@HSBC, Thomas Flory/HBUS/HSBC@HSBC
Subject
Fw: Fw: Fw: [redacted]



Permanent Subcommittee on Investigations
EXHIBIT #97b

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Jaime and Terry,
See if you can work within the MLPP policy on bearer shares.

Regards,
Marlon

From: David Ford
Sent: 06/29/2007 10:17 AM CEDT
To: Alan P Williamson
Cc: Marlon Young; Manuel Diaz
Subject: Re: Fw: Fw: [redacted]

Alan,

Attached is the relevant MLPP policy which allows either BO declaration or holding the shares by HSBC or third party banks. The MLPP provides significant flexibility since the shares can also be held by other banks acceptable to HSBC. As long as US requirements are not more stringent than our GPB KYC policy, suggest that USPB offer the client the choice of the various options under the policy.

Regards,

David

[attachment "MLPP-Bearer share.doc" deleted by Alan P Williamson/HBUS/HSBC]

F. David Ford
Global Money Laundering Control Officer
HSBC Private Banking Holdings (Suisse) SA
Rue de Lausanne 18-20
Geneva, Switzerland 1211
Tel: 41-58-705-5284

Alan P Williamson/HBUS/HSBC
28.06.2007 19:18

To
"David Ford" <david.ford@hsbcpb.com>
cc

Subject
Fw: Fw: [redacted]

---

David

Does the suggestion referred to in Jaime's email below seem viable? Sorry to keep bothering you, I didn't realise we might have so many issues.

Alan

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Manuel Diaz
Sent: 06/28/2007 11:49 AM EDT
To: Marlon Young
Cc: Alan P Williamson; Jaime Carvallo
Subject: Re: Fw: [redacted]

THANK YOU MARLON FOR YOUR INTEREST .....ENJOY YOUR VACATION !!!!!

---

Manuel L. Diaz
President & Managing Director
HSBC Private Bank International
1441 Brickell Ave. 17th Floor
Miami, FL 33131
(305) 539-4747 Telephone

Marlon Young/HBUS/HSBC
06/28/2007 09:58 AM

To
Jaime Carvallo/HBUS/HSBC@HSBC
cc
Manuel Diaz/HBUS/HSBC@HSBC, Alan P Williamson/HBUS/HSBC@HSBC
Subject
Re: Fw: [redacted]

Jaime,
This could be a good compromise and could resolve our problem.
Marlon

From: Jaime Carvallo
Sent: 06/28/2007 09:47 AM EDT
To: Marlon Young
Cc: Manuel Diaz
Subject: Re: Fw: [redacted]

Marlon,

I have asked Teresa for a draft of a letter that client could sign in lieu of the BOL, as have few clients in the past. While the letter states similar information to that in the BOL is kept separately from account opening docs and may be a viable option. I am just waiting for her draft before trying anything else.

Thank you for your follow up!

Jaime

From: Marlon Young

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Sent: 06/28/2007 03:39 AM EDT
To: Jaime Carvallo
Cc: Manuel Diaz
Subject: Fw: Fw: [redacted]

Jaime -
Below is a response I receive from Mike Finnamore who works for me in DPB. He used to be a senior AML specialist at Citigroup Private Bank. He is very familiar w KYC policies there and the policy on bearer shares.

Would any of the options suggested below work for the client? Would client alow us to keep bearer shares in safekeeping or execute a confidentiality agreement as suggested by Mike?

Regards,
Marlon

From: Michael G Finamore
Sent: 06/27/2007 10:38 PM EDT
To: Marlon Young
Subject: Re: Fw: [redacted]y

Hi Marlon,

In this day, it is not likely that any US based Private Bank would allow an account to be opened without knowing all the owners unless an exception/dispensation was granted. Citi Private Bank would open an account for an entity whose shares were issued in bearer form for a client with an existing 2+ year relationship, but I never saw an exception requested because the client did not want to sign the Beneficial Ownership Letter.

Would this client feel more comfortable if we open the account for his bearer share entity without a BOL but he would allow us to hold the certificates in safekeeping? In that situation, we could make a very reasonable argument for dispensation.

Or would the client provide the BOL if we provide him a confidentiality agreement? There is an 'approved version' that we have used in the USPB, but I am certain Legal can tweak it to make the client feel more comfortable.

Hope this helps.

Thanks and regards,
Michael Finamore, VP, CAMS
Business Risk Officer
HSBC PBUS
Tower / 26th fl.
NYC, NY. USA
tel: 212-525-8451

---

Marlon Young/HBUS/HSBC
06/27/2007 08:19 PM

To
Michael G Finamore/HBUS/HSBC@HSBC
cc

Subject
Fw: [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Here are more info regarding why the family will only provide bearer shares.
Marlon

From: Jaime Carvallo
Sent: 06/26/2007 01:47 PM EDT
To: Marlon Young
Cc: Teresa Garcia; Thomas Flory; Ana Da Silva; Alan P Williamson
Subject: Re: [redacted]

Marlon,

I met with the prospect today. While they understand our policy, he reiterated the family is extremely concerned about confidentiality and they are afraid this kind of information could put them at risk. He added that neither Citi nor JPMorgan (banks they have relationships with) have asked for them to sign a BOL. He does understand that eventually they will have to register the shares, but will only do it when absolutely necessary.

I wanted to add that another piece of business that is on the table, for which we only have one other bank competing, and which we have a good chance of winning since we were the first to approach them on, is to help them reorganize the family businesses, and facilitate the succession not only of their financial assets but also their opeating companies. This could be a very significant piece of bussiness. Not opening accounts will eliminate us from this business that is very strategic for the family and a way to deepen a relationship with them over time, and needless to say, very profitable.

Thank you for your help with this!

Regards,

Jaime

From: Alan P Williamson
Sent: 06/25/2007 06:54 PM EDT
To: Marlon Young; Jaime Carvallo
Cc: Teresa Garcia; Thomas Flory; Ana Da Silva
Subject: Re: [redacted]

Marlon

I apologise but I thought I forwarded you David Ford's response last week - I will again. Basically he wants us to get an exception from group. Since I happen to be with the head of group aml I will ask her tom'w.

Alan

From: Marlon Young
Sent: 06/25/2007 06:33 PM EDT
To: Jaime Carvallo
Cc: Teresa Garcia; Thomas Flory; Ana Da Silva; Alan P Williamson
Subject: Re: [redacted]

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

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Jaime Carvallo
Sent: 06/25/2007 01:48 PM EDT
To: Marlon Young
Cc: Teresa Garcia; Thomas Flory; Ana Da Silva
Subject: [redacted]

Marlon,

Teresa Garcia must have given you heads up on the [redacted] 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 [redacted] 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

From: JANET L BURAK/HBUS/HSBC
Sent: 2/24/2010 9:52:24 PM
To: BRENDAN MCDONAGH/HBUS/HSBC@HSBC02;IRENE M DORNER/HBUS/HSBC@HSBC02
Subject: Re: OCC Meeting

The backlog issue is an indisputable problem, and resulted from a number of factors--increase in transaction volumes, increase in alerts due to system changes, law changes and protocol changes (such as MT202COV, which effectively eliminated cover payments) and a failure to increase resources early enough to deal with this. Some of the volume and alert activity should have been anticipated, some could not. The biggest issue for me is that our KRIs did not result in escalation of the problem at an early enough stage so that management could address the issues--the KRIs are being revised, and I do not expect this problem to occur again, but it is taking an enormous effort to eliminate the backlog. You may recall that in December you authorized the hiring of significant temporary staff to work the backlog, and hiring and work began in January.

----- Original Message -----
From: Brendan McDonagh
Sent: 02/24/2010 08:22 PM CST
To: Janet Burak; Irene M DORNER
Subject: Re: OCC Meeting

Let's discuss Monday in NYC when you are back from overseas. I will be in DC on the 16/17/18 March and can see the OCC then.

One fair question is how did the alert backlog buildup?

----- Original Message -----
From: Janet L Burak
Sent: 02/24/2010 08:39 PM EST
To: Brendan McDonagh; Irene M DORNER
Subject: OCC Meeting

I met with the OCC today. In light of the extent of our alert backlogs, Sally indicated that they will shortly be issuing a Supervisory Letter finding violations of the requirements to file a SAR in certain defined circumstances, and generally within 30 days of detection of facts that may constitute a basis for filing a SAR. We make a determination of whether or not to file a SAR after an alert is reviewed, and, as you are aware, there are a significant number of aged alerts. While the OCC is unable to point to specific situations where they believe that SARs should have been filed, but were not, they have concluded that, in light of the size of the backlogs, these situations must exist. The letter will reflect the fact that we self-identified the backlog issue, and that are taking actions to address it.

Sally also indicated that they are considering downgrading their assessment of Compliance Risk Management to "weak" from "satisfactory", although Sally indicated that if they make that decision it will not impact the Bank's composite CAMELS rating, which would remain a "2" (satisfactory), and would not likely impact the Management rating component (also a "2"). For Irene's benefit, national banks are rated on a number of component categories--Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk--and those components determine the composite rating of the institution. This is a quite surprising development, since Compliance as a function was deemed effective in the OCC's July 2009 report of examination, and the OCC's July 2009 separate Compliance Management examination also concluded that Compliance management was satisfactory. While the latter report indicated that Compliance leadership needed to be strengthened in the BSA/AML area, and recommended the hiring of a dedicated and qualified BSA/AML Officer, it also noted that a search was then underway at the time to fill this position. Sally indicated that the reason for their reconsidering their assessment



Permanent Subcommittee on Investigations
EXHIBIT #98

Confidential - FOIA Treatment Req ings, Inc. HSB03790957
Confidential - FOIA Treatment Req HSBC OCC 3405315

relates to the issues they have identified coming out of the "expanded banknotes examination" as well as the fact that there is an ongoing third party investigation of our BSA/AML compliance (I assume a reference to the DOJ). While we are finalizing our review of the examples they provided us 10 days ago, Wyn has told me that we are not finding anything which points to a systemic problem rather than one-offs (if that). As such, I am inclined to believe this may be more about an OCC concern that if the DOJ investigation actually results in a negative finding, the OCC will be criticized for not having identified and acted on those issues earlier. We intend to provide the OCC with a response next week to the issues they identified, and I am hopeful that the response will positively influence their view on Compliance Risk Management. If that appears to not be the case, I think that we will need to take this to DC (Grace Dailey), as this is becoming an untenable situation.

Please let me know if you have any questions.

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



Confidential - FOIA Treatment Requested by HSBC N. America Holdings, Inc. HSB03790958
Confidential - FOIA Treatment Requested by HSBC Bank, USA, N.A. HSBC OCC 3405316

From: David W J BAGLEY
Sent: Tue Jun 09 14:07:42 2009
To: Emilson ALONSO
Cc: Catherine BUSSERY; Matthew J W KING; Michael F GEOGHEGAN
Subject: Re: GMO Business reviews - LATAM
Importance: Normal

Emilson,

I fully acknowledge the level of priority and focus that you and the team have given to these issues and the progress that has been made particularly in Mexico and have taken all of this into account. Catherine has kept us fully updated and I am also aware of the fact that CNBV has expressed their satisfaction with the progress made. It is important to note that this rating does not signify that we take the view that there has been an inadequate response. For example US has been rated red on some categories of risk in the GAC risk map because of inherent risk.

The basis for the rating is however:

The inherent AML risk in Mexico is still very high and I there are not many other parts of the Group that have what is effectively a drugs war being conducted on the streets and also have the risk posed by potential sting and other operations by the US authorities. We have of course remediated our high risk accounts, but the historic weak account opening processes mean that we have overall lower levels of KYC across the customer base as a whole.
There are other countries within CA where we have ongoing remediation projects including Panama and Costa Rica where again there is a raised AML risk where it is not yet clear to me that we have completed the remediation of high risk accounts.

Happy to discuss further.

Regards



Permanent Subcommittee on Investigations
EXHIBIT #99