

NEW YORK STATE DEPARTMENT
OF FINANCIAL SERVICES

In the Matter of

HABIB BANK LIMITED and
HABIB BANK LIMITED, NEW YORK BRANCH

**NOTICE OF HEARING AND
STATEMENT OF CHARGES**

Pursuant to the statutory powers vested in her by the People of the State of New York, Maria T. Vullo, Superintendent of the New York State Department of Financial Services (the “Department”) conducted an examination of the New York Branch of Habib Bank Limited (the “New York Branch” or the “Branch” and “Habib Bank” or the “Bank,” respectively; together, “Respondents” or “the Bank”), for the period closing March 31, 2016.

Additionally, the Department has been conducting an investigation concerning serious deficiencies identified in the New York Branch’s program devoted to complying with New York and Federal laws and regulations concerning anti-money laundering (“AML”) compliance, including the Bank Secrecy Act (“BSA”). This investigation has been undertaken pursuant to the December 15, 2015 Consent Order among the Department, the Bank and the Branch (the “2015 Order”), which had identified previous significant deficiencies in the Bank’s BSA/AML compliance.

The evidence presently before the Department demonstrates that compliance failures found at the New York Branch are serious, persistent and apparently affect the entire Habib banking enterprise. They indicate a fundamental lack of understanding of the need for a vigorous compliance infrastructure, and the dangerous absence of attention by Habib Bank’s senior management for the state of compliance at the New York Branch.

As detailed below, the Department has determined that the Bank's compliance function is dangerously weak. Head Office screening, which the Branch has repeatedly relied on as an excuse for its own lax attitude regarding BSA/AML safeguards, appears to be as weak as that of the Branch itself -- if not even more inadequate. For these reasons, the Department's most recent examination determined that the Branch should receive the lowest possible rating, a score of "5."

The Bank's recent misconduct has produced grave risks to itself, to banking institutions in New York State and the U.S., and to the financial system as a whole. Although the Bank has been given more than sufficient opportunity to rectify its deficiencies, it has utterly failed to do so -- demonstrating a sheer inability to accomplish remediation, a stubborn unwillingness to do so, or both. Indeed, presently the New York Branch is losing key compliance staff due to resignations, including its Chief Compliance Officer.

The Bank has committed violations of New York laws and regulations; has conducted its business in an unauthorized or unsafe manner; and has operated in an unsound or unsafe condition to transact its business, and the Department has determined that it should impose a penalty upon the Bank for these violations.

NOW THEREFORE TAKE NOTICE that, pursuant to the authority granted to her under New York Banking Law Section 44, the Superintendent of Financial Services hereby seeks to impose a civil monetary penalty upon Respondents in an amount up to and including Six Hundred Twenty-Nine Million Six Hundred Twenty-Five Thousand Dollars (\$629,625,000).

YOU ARE COMMANDED TO APPEAR before the New York State Department of Financial Services, One State Street, New York, NY 10004, at a Hearing Room to be designated, for a hearing on September 27th, 2017, at 10 a.m. and continued thereafter day to day as determined by the Department, before a Hearing Officer to be appointed by the Superintendent, to

wit: Cassandra Lentchner, at which time the Superintendent shall move for the above-stated penalty. A summary of the rules governing this proceeding is attached hereto.

FACTUAL BACKGROUND

The Bank

1. Habib Bank is a Pakistani Bank headquartered in Karachi. With \$1 billion in total revenues in 2016, and \$24 billion in total assets, Habib Bank is Pakistan's largest bank. Habib Bank is majority owned by the government of Pakistan.

2. The New York Branch has been licensed by the Department since 1978. Habib Bank established the Branch primarily to offer U.S. dollar clearing services, including funds transfer, check clearing, and collection, trade finance, overnight sweeps, and corporate term and employee loans. For the year ending December 31, 2015, the Branch processed correspondent banking transactions for a total of approximately \$287 billion. It is the Bank's only U.S. branch, and it has served as an important correspondent for the Home Office for a substantial period of time.

The New York Branch's Extremely Poor Compliance Function

3. **The Written Agreement.** In December 2006, Habib Bank and the New York Branch entered into a Written Agreement with the Department and the Federal Reserve Board of Governors (the "Board") arising out of significant deficiencies identified within the Bank's programs intended to maintain compliance with the economic sanctions laws overseen by the U.S. Office of Financial Assets Control ("OFAC") and with its BSA/AML compliance (the "Written Agreement").

4. Since 2006, the New York Branch has struggled to comply with the Written Agreement and the requirements of New York Banking laws and regulations. Repeated

breakdowns in the Bank's BSA/AML and OFAC compliance programs have plagued the Bank. Violations of the Written Agreement and/or New York Banking law have occurred every year since 2006 (with the exception of 2009).

5. After another examination conducted in 2015 by the Department and Board demonstrated that Habib Bank's compliance function had deteriorated even further, in December 2015, Habib Bank and the New York Branch entered into the 2015 Order with the Department (along with a Consent Cease and Desist Order with the Board). In the 2015 Order, Habib admitted to serious deficiencies in the Bank's compliance with BSA/AML requirements as well as OFAC regulations. The 2015 Order requires the Branch to undertake extensive remedial actions to comply with New York and federal law.

6. Additionally, because of Habib Bank's failure to properly screen and review U.S. dollar transactions conducted through the New York Branch, the 2015 Order required that Habib Bank engage an independent consultant to review all transactions for the time period October 1, 2014 through March 31, 2015.

7. **The 2016 Exam.** The Department and the Board jointly conducted another examination in 2016, reviewing information and financial data as of March 31, 2016 (the "2016 Exam"). The Department determined that the New York Branch continued to suffer from severe weaknesses in its risk management and compliance with BSA/AML and OFAC laws. The 2016 Exam noted that Habib Bank had been under either joint or separate enforcement actions by the Department and Board for 10 consecutive examination cycles.

8. The 2016 Exam identified significant weaknesses in the Branch's risk management capabilities. It also found that, despite the Department's repeated criticism of the Branch's performance, management had yet to implement effective controls to mitigate and manage

BSA/AML and OFAC risks at the Branch. Overall, serious deficiencies identified by the Department in the 2016 Exam include (without limitation):

- Insufficient BSA/AML compliance;
- Insufficient training;
- Insufficient customer risk ratings, including insufficient risk-based foreign correspondent due diligence;
- Insufficient documentation for enhanced due diligence customers;
- Insufficient senior management and head office governance, oversight, and documentation;
- Lack of evidence for adequate OFAC and sanctions screening;
- Weaknesses in BSA/AML independent testing and the Branch's audit program, including weaknesses in the internal audit program's rating methodology; and
- Weaknesses in data mapping and integrity.

9. The 2016 Exam further discovered 855 "batch-waived" transaction alerts that were cleared by Branch staff without review or rationale for the failure to review the alerts. "Batch waiver" results when a group of alerts are disposed of summarily, purportedly for a uniform reason. When questioned by the Department's examiners, the Bank's management was unable to provide written approval of the batch waive process by Head Office or local management.

10. The 2016 Exam also identified new issues with the OFAC compliance program that relate to the Branch's compliance with provisions within the 2015 Order, including a lack of evidence of sanctions screening for several financial products offered at the Branch, and new weaknesses related to the internal audit program's rating methodology.

The Risky Al Rajhi Bank Relationship

11. The Branch's deficiencies are all the more concerning given that one of its largest U.S. dollar clearing accounts has been Al Rajhi Bank ("Al Rajhi"). Al Rajhi is the largest private bank in Saudi Arabia.

12. For many years, Al Rajhi has been linked through negative media to Al Qaeda and terrorism financing. For example, a report released on July 17, 2012 by the U.S. Senate Permanent Subcommittee on Investigations, of the Committee on Homeland Security and Governmental Affairs (the “Senate Report”),¹ stated that,

After the 9/11 terrorist attack . . . evidence began to emerge that Al Rajhi Bank and some of its owners had links to organizations associated with financing terrorism, including that one of the bank’s founders was an early financial benefactor of al Qaeda.

(Senate Report at 189.) The Senate Report goes on to provide significant detail of, among other things, “[a]lleged Al Rajhi links to Terrorism.” (*Id.* at 194-203.)

13. As such, this Al Rajhi correspondent account presented Habib Bank with a significant risk of being used for terrorist financing and money laundering. Since [2014], Al Rajhi transactions represents approximately 24 percent of the total number of transactions conducted through the New York Branch.

14. The 2016 Exam identified a range of control deficiencies in the documentation and administration of the Bank’s customer due diligence program as a whole and, in particular, for existing foreign correspondent customers, including Al Rajhi. The customer due diligence file did not include sufficient information about Al Rajhi’s own customers, or a thorough review of Al Rajhi’s expected versus actual transactional activity. The Department’s examination concluded that the Al Rajhi account at the Habib Bank’s Head Office was engaging in downstream correspondent clearing activities for several of Al Rajhi’s own affiliates, particularly the Al Rajhi branches in Malaysia and Jordan. This type of “nesting” activity was unknown to management at

¹ See <https://www.hsgac.senate.gov/download/report-us-vulnerabilities-to-money-laundering-drugs-and-terrorist-financing-hsbc-case-history>.

the New York Branch, as it was not captured in the customer file, in any correspondence with the customer, nor was the activity triggered by the Branch's transaction monitoring systems.

15. Furthermore, the 2016 Exam determined that bi-weekly calls administered between Branch and Compliance senior management and Al Rajhi senior management for purposes of maintaining compliance were not meaningful. Examiners' review of the minutes and agenda for these calls indicate that they are primarily administrative and do not address current BSA/AML related risks or issues posed by the customer relationship.

16. The 2016 Exam concluded that, overall, Habib Bank and the Branch's management failed to establish an appropriate BSA/AML control environment to manage its high-risk client base, and that the Bank's management's risk appetite substantially exceeds the control measures in place at the Bank

Additional Findings of the Department's Investigation

17. The Department's Investigation has identified significant additional concerns relating to lapses in the Bank's BSA/AML and OFAC compliance. For example (and without limitation), the investigation has uncovered:

- More than 13,000 transactions with SWIFT payment messages that omitted essential information, such as the identities of the ultimate originator and beneficiary of each transaction; and
- Multiple instances where multiple SWIFT payment messages were improperly aggregated into a single message for processing through the Branch, thereby preventing the Branch from effectively screening these messages for suspicious or prohibited activity.

18. The Department's investigation also revealed that Head Office completely excluded screening of more than 4,000 transactions, apparently because the parties involved were listed on what is known as a so-called "good guy" list – a list of customers who purportedly have been screened and identified as very low risk. The Department's investigation determined that a

substantial number of parties were improperly included on the Habib Bank “good-guy” list, or that the transactions had other indicia that should have required them to be screened by the Bank.

19. The Department’s investigation determined that transactions went un-reviewed because of inclusion of transacting parties on the good-guy list, but where:

- 154 terms included in Habib Bank’s “good guy” list corresponded to identical entries that were included on the Specially Designated Nationals and Blocked Persons List (the “SDN List”), which is a list of parties prohibited from transactions by the U.S. Treasury Department; and
- terms on the “good-guy” list include prohibited persons and entities identified on the SDN List corresponding to:
 - a transaction that involved the leader of a Pakistani terrorist group;
 - a transaction that involved a known international arms dealer;
 - an individual on the Specially Designated Global Terrorist list;
 - the former Deputy Prime Minister of Iraq under Saddam Hussein; and
 - an Iranian oil tanker involved in a transaction.

20. To date, the Department’s investigation has determined that at least \$250 million in transactions have flowed through the New York Branch without any screening due to the apparent improper inclusion on the so-called “good guy” list.

21. The Department’s investigation has also identified breakdowns in the Branch’s transaction monitoring processes, including instances where the Branch’s screening terms are wholly insufficient to identify all of the activity the term is intended to identify. One example of this deficiency is the keyword “Embassy of Pakistan,” which failed to identify the payment messages containing the phrase “Pakistan Embassy.”

22. Additionally, the Department’s investigation has uncovered instances where alerts generated by the Branch’s transaction monitoring system were improperly cleared because, while certain factors suggested they might be false positives, other suspicious characteristics warranted escalation for further review by compliance staff, including instructions to withhold the name of a transaction’s beneficiary or other pertinent information, known as “wire-stripping.”

23. Identified instances of wire-stripping include a payment involving a Chinese weapons manufacturer that was subject to U.S. non-proliferation sanctions. The Department's investigation determined that the originals of certain trade finance documents had been altered to conceal that the goods shipped were explosives.

24. Another instance of wire stripping involved an instruction [from a customer of the Bank] to cancel a SWIFT payment message to an individual included on the SDN List in the amount of 11,226,796 Pakistani rupees (approximately \$107,000), so that the message could be re-sent by intentionally omitting the prohibited party's name.

25. The Department's investigation further uncovered several payments totaling more than \$27,000 that were sent to an account at the Bank's Head Office associated with an alleged cybercriminal wanted by the Federal Bureau of Investigations ("FBI"). The account holder was charged with wire fraud, identify theft and theft of \$50 million on June 29, 2012 in a warrant issued by the U.S. District Court for the District of New Jersey. The account holder was added to the FBI's Cyber Crimes Most Wanted List in 2012, and was arrested in Pakistan in February 2015. Nevertheless, these payments to the alleged cybercriminal were all cleared through the New York Branch between October 6 and November 28, 2014, despite the widespread availability of this negative information on the account holder.

26. Moreover, this same suspicious account holder opened four of his five accounts after being added to the FBI most wanted list in 2012, including a U.S. dollar account which was opened in April, 2014. The Bank failed to conduct sufficient due diligence in its Know Your Customer ("KYC") file. Subsequently, when a transaction monitoring alert was generated when one these transactions amounts exceeded a dollar threshold applied to the account, the New York Branch improperly cleared the alert, finding that the activity did not appear suspicious.

27. Furthermore, a review of Head Office data from Habib Bank found that the same activity involving the account holder was alerted at Head Office specifically because the account holder was on an AML blacklist, resulting from his placement on the FBI Cyber Crimes Most Wanted List in 2012. Nonetheless, this blacklist entry was not used in the course of the New York Branch's screening process. Moreover, despite the publicly-available nature of the information, a Head Office analyst improperly ruled the suspicious alert concerning this cybercriminal's transactions as a "false positive" and cleared the alert.

28. Moreover, the Department's investigation has identified nearly 200 additional instances of suspicious activity that were never identified or reported by the Branch. These transactions include a variety of suspicious characteristics, such as (i) payments lacking economic purpose (e.g., a payment to a technology company for leather goods); (ii) instances of structuring; (iii) shell company activity; and (iv) politically exposed person activity. These additional cases sometimes revealed negative media associated with the parties and/or their beneficial owners, including allegations of terrorist financing, black market trading, drug trafficking, smuggling and fraud.

APPLICABLE LAWS AND REGULATIONS

The following laws and regulations are applicable to Respondents at the instant proceeding:

29. **Section 40(1)(i) of the Banking Law provides**, that if the Superintendent shall find that any of the reasons for taking possession of the business and property in this State of a foreign banking corporation, enumerated in Section 606(1) of the Banking Law, shall exist, she may revoke such license, such reason(s), provided in relevant part and without limitation, include:

- a. violation of any law. *Id.* § 606(1)(a);
- b. conducting business in an unauthorized or unsafe manner. *Id.* § 606(1)(b);

- c. conducting operations in an unsound or unsafe condition to transact its business. *Id.* § 606(1)(c);
- d. cannot with safety and expediency continue business. *Id.* § 606(1)(d);
or
- e. neglect or refusal to comply with the terms of a duly issued order of the Superintendent. § 606(1)(d).

30. **Section 40(1)(ii) of the Banking Law provides**, that if the Superintendent shall find any fact or condition exists which would be grounds for denial of a license issued to a foreign banking corporation, she may revoke such license.

31. **Part 116 of the General Regulations of the Banking Board (3 N.Y.C.R.R. Part 116 et. seq) provides**, that every Banking Organization and every Foreign Banking Corporation, in order to guard against money laundering through their institutions, are required to establish and maintain an anti-money laundering program that complies with applicable federal anti-money laundering laws, including the obligation to file Suspicious Activity Reports (“SARs”) and a customer identification program, and regulations promulgated by the United States Department of Treasury, and, as appropriate, regulations of the Board of Governors of the Federal Reserve Board. Respondents also must comply with applicable regulations issued by the Office of Foreign Assets Control of the United States Department of the Treasury (“OFAC”). The required anti-money laundering program must, at a minimum:

- a. provide for a system of internal controls to assure ongoing compliance. 3 N.Y.C.R.R. Pt. 116.2(a)(1);
- b. provide for independent testing for compliance to be conducted by bank personnel or by an outside party. *Id.* Pt. 116.2(a)(2);
- c. designate an individual or individuals responsible for coordinating and monitoring day-to-day compliance. *Id.* Pt. 116.2(a)(3);

- d. provide training for appropriate personnel. *Id.* Pt. 116.2(a)(4);
- e. provide an anti-money laundering program in writing, approved by the board of directors or equivalent body, and such approval shall be noted in the minutes of the board of directors or equivalent body. *Id.* Pt. 116.2(b);
- f. demonstrate, as part of its anti-money laundering programs, a customer information program (“CIP”) that complies with the applicable federal anti-money laundering laws and regulations. *Id.* Pt. 116.2(c);
- g. have in place risk-based policies, procedures and practices to ensure, to the maximum extent practicable, that its transactions will comply with OFAC requirements; *Id.* Pt. 116.2(d); and
- h. file SARs in accordance with applicable federal law and regulations. *Id.* Pt. 116.2(e).

32. **Sections 44(2)(a) through 44(3)(b) of the Banking Law provide**, that the Superintendent may require that a foreign banking corporation licensed by the Superintendent to maintain a branch in this State pay to the People of this State a penalty for any violation of: (i) Article II of the Banking Law; (ii) any regulation; (iii) any final or temporary Order issued pursuant to Section 39 of the Banking Law; (iv) any condition imposed in writing by the Superintendent in connection with the grant of any application or request, and (v) any written agreement entered into with the Superintendent, with the penalty for each violation not to exceed Twenty-Five Thousand U.S. Dollars (\$25,000.00) for each day during which each such violation or practice continues, upon a determination by the Superintendent that the foreign bank licensee has committed any of the above enumerated violations, or has recklessly engaged in any unsafe and unsound practice, and that such violation or practice is part of a pattern of misconduct, results or is likely to result in more than minimal loss, or results in pecuniary gain or other benefit, to the banking organization, bank holding company or foreign bank licensee.

**CHARGED VIOLATIONS OF LAW,
REGULATIONS, ORDERS AND AGREEMENTS**

First: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch conducted operation of the Branch without sufficient policies, procedures, practices or systems to assure effective transaction monitoring and transaction filtering, in violation of 3 N.Y.C.R.R. § 116.2.

Second: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch conducted operation of the Branch without effective BSA/AML policies, procedures and controls, in violation of 3 N.Y.C.R.R. § 116.2.

Third: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch conducted operation of the Branch without independent testing sufficient to ensure compliance with BSA/AML and OFAC regulations, in violation of 3 N.Y.C.R.R. § 116.2.

Fourth: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch conducted operation of the Branch without a system of internal controls to assure ongoing compliance with applicable laws and regulations, in violation of 3 N.Y.C.R.R. § 116.2.

Fifth: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch conducted operation of the Branch without sufficient training appropriate for its personnel, in violation of 3 N.Y.C.R.R. § 116.2.

Sixth: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch conducted operation of the Branch without a sufficient Know Your Customer/Customer Identification Program, in violation of 3 N.Y.C.R.R. § 116.2.

Seventh: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch conducted operation of the Branch without adequately filing Suspicious Activity Reports, in violation of 3 N.Y.C.R.R. § 116.2.

Eighth: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch conducted operation of the Branch without adequate senior management and home office governance and oversight, in violation of 3 N.Y.C.R.R. § 116.2.

Ninth: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch conducted operation of the Branch without having in place risk-based policies, procedures and practices to ensure, to the maximum extent practicable, that its transactions comply with OFAC requirements, , in violation of 3 N.Y.C.R.R. § 116.2.

Tenth: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank's and the New York Branch's officers, directors, employee and agents made false entries in Habib Bank's books, reports and statements and willfully omitted to make true entries of material pertaining to the U.S. dollar clearing business at the New York Branch, with the intent to deceive the Superintendent and examiners, supervisor and attorneys of the Department and representatives of other U.S. regulatory agencies who were lawfully appointed to examine Habib Bank's condition and affairs at its New York Branch, in violation of New York Banking Law § 672.1.

Eleventh: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch failed to maintain and make available at its New York Branch true and accurate books, accounts and records reflecting all transactions and actions, in violation of New York Banking Law § 200-c.

Twelfth: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch failed to submit a report to the Superintendent immediately

upon the discovery of fraud, dishonesty, making of false entries and omission of true entries, and other misconduct, whether or not a criminal offense, in which a Habib Bank or New York Branch director, trustee, partner, officer, employee or agent was involved, in violation of 3 N.Y.C.R.R. § 300.1.

Thirteenth: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch have conducted their banking business in an unsafe and unsound manner, in violation of New York Banking Law §§ 44, 44-a.

Fourteenth: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch violated the Written Agreement by failing to maintain a system of internal controls for correspondent banking and funds clearing activities, including (but not limited to) controls to ensure compliance with all recordkeeping and reporting requirements.

Fifteenth: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch violated the Written Agreement by failing to have adequate policies and procedures designed to ensure identification and verification of the identity of account holders and transactions in accordance with applicable regulations.

Sixteenth: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch violated the Written Agreement by failing to have adequate controls designed to ensure compliance with all requirements relating to correspondent accounts for non-U.S. persons, including but not limited to, the prohibition on correspondent accounts for foreign shell banks (31 C.F.R. § 103.177) and special due diligence requirements for certain correspondent accounts (31 C.F.R. § 103.176).

Seventeenth: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch violated the Written Agreement by failing to adequately

assess legal and reputational risks associated with the New York Branch's correspondent banking and funds transfer clearing activities.

Eighteenth: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch violated the Written Agreement by failing to provide adequate resources for the BSA compliance officer, including sufficient staff levels, to implement and maintain an effective program for compliance with all applicable BSA/AML requirements and the institution's internal policies and procedures.

Nineteenth: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch violated the Written Agreement by failing to implement an adequate methodology for assigning risk levels to the New York Branch's customer base, including correspondent account holders, that considers factors such as type of customer, type of product or service and geographic location.

Twentieth: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch violated the Written Agreement by failing to implement an adequate risk-focused assessment of the New York Branch's customer base that (i) identifies the categories of customers, transactions, and banking activities that are routine and usual; and (ii) determines the appropriate level of enhanced due diligence necessary for those categories of customers that pose a heightened risk of conducting potentially illicit activities at or through the New York Branch.

Twenty-first: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch violated the Written Agreement by failing, for each customer whose transactions require enhanced due diligence, to adopt adequate procedures to (i)

determine the appropriate documentation necessary to verify the identity and business activities of the customer; and (ii) understand the normal and expected transactions of the customer.

Twenty-second: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch violated the Written Agreement by failing to implement adequate enhancements to the customer identification program to ensure compliance with the requirements of 31 C.F.R. §103.121 and 12 C.F.R. § 211.24(j)(2).

Twenty-third: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch violated the Written Agreement by, for correspondent accounts established, maintained, administered, or managed in the United States for a non-U.S. financial institution (including any non-U.S. branch or affiliate of the Bank), failing to implement adequate procedures that are designed to ensure compliance with applicable due diligence and other requirements (including the provisions of 31 C.F.R. §§ 103.176 and 103.177), and that, at minimum, provide for (i) obtaining and maintaining appropriate information about the respondent, its business operations, markets served, customer base, and its AML procedures, particularly with regard to its customer relationships that may present a heightened risk of money laundering or other concerns; and (ii) ensuring that correspondent banking services provided by the New York Branch are reviewed and approved by appropriate levels of management, and are subject to appropriate ongoing review.

Twenty-fourth: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch violated the Written Agreement by failing to implement procedures and appropriate monitoring criteria to ensure proper detection and reporting of all known or suspected violations of law and suspicious or unusual transactions, including, but not limited to (i) effective monitoring of customer accounts and transactions, including

transactions conducted through correspondent accounts; (ii) appropriate participation by New York Branch senior management in the process of identifying, reviewing, and reporting potentially suspicious activity; (iii) adequate referral of information about potentially suspicious activity through appropriate levels of management, including a policy for determining action to be taken in the event of multiple filings of SARs on the same customer or where a customer fails to provide due diligence information; (iv) adequate procedures to ensure the timely and complete preparation and filing of SARs and Currency Transaction Reports; and (v) maintenance of sufficient documentation with respect to the investigation and analysis of suspicious activity, including the resolution and escalation of concerns.

Twenty-fifth: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch violated the Written Agreement by failing to adequately implement procedures to evaluate the adequacy and effectiveness of the New York Branch's compliance with the BSA, the rules and regulations issued thereunder, and all other applicable AML requirements, including monitoring of customer activity to ensure reporting of suspicious activity.

Twenty-sixth: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch violated the Written Agreement by failing to adequately implement provisions for independent testing to be performed on a regular basis by qualified parties (which may include internal audit) who are independent of the Bank's and the New York Branch's business lines and compliance function.

Twenty-seventh: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch violated the Written Agreement by failing to adequately implement procedures for the review of independent testing results by senior Bank and

New York Branch management and escalation to the board of directors of the Bank in appropriate circumstances.

Twenty-eighth: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch violated the Written Agreement by failing to adequately implement procedures to ensure that senior Bank and New York Branch management institute and complete appropriate actions in response to the independent testing results.

Twenty-ninth: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch violated the Written Agreement by failing to procedures to ensure that independent testing results are communicated to the Supervisors on a regular basis and retained for subsequent supervisory review.

Thirtieth: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch violated the Written Agreement by failing to adequately train all appropriate personnel at the New York Branch including, but not limited to, correspondent account relationship personnel, employees involved in the funds transfer clearing operations, and customer contact personnel, including, without limitation, by failing to adequately train regarding all aspects of regulatory and internal policies and procedures related to the BSA and the identification and reporting of suspicious transactions, and failing to update such personnel on a regular basis to reasonably ensure that all personnel are trained in the most current legal requirements and the New York Branch's risk management processes.

Thirty-first: On multiple occasions during the time period January 1, 2007 to the present, Habib Bank and the New York Branch violated the Written Agreement by failing to adequately implement policies and procedures for the monitoring of customer accounts and transactions that

are designed to effectively manage legal and reputational risks and ensure compliance with regulatory requirements.

Thirty-second: On multiple occasions during the time period January 1, 2016 to the present, Habib Bank and the New York Branch violated the Consent Order due to the failure of the Bank's board of directors and Branch management to take actions to maintain effective control over, and oversight of, the Branch management's compliance with the BSA/AML requirements, state laws and regulations, and OFAC Regulations.

Thirty-third: On multiple occasions during the time period January 1, 2016 to the present, Habib Bank and the New York Branch violated the Consent Order due to the failure of the Bank's board of directors and Branch management to take adequate measures to improve the management information systems reporting of the Branch's compliance with the BSA/AML requirements, state laws and regulations, and OFAC Regulations, to senior management of the Bank and the Branch.

Thirty-fourth: On multiple occasions during the time period January 1, 2016 to the present, Habib Bank and the New York Branch violated the Consent Order due to the failure of the Bank's board of directors and Branch management to take adequate measures to implement clearly defined roles, responsibilities, and accountability regarding compliance with the BSA/AML requirements, state laws and regulations, and OFAC Regulations, for the Bank's and the Branch's respective management, compliance personnel and internal audit staff.

Thirty-fifth: On multiple occasions during the time period January 1, 2016 to the present, Habib Bank and the New York Branch violated the Consent Order due to the failure of the Bank's board of directors and Branch management's failure to take adequate measures to ensure BSA/AML issues are appropriately tracked, escalated, and reviewed by the Branch's senior management.

Thirty-sixth: On multiple occasions during the time period January 1, 2016 to the present, Habib Bank and the New York Branch violated the Consent Order due to the failure of the Bank's board of directors and Branch management to take adequate measures to ensure that the person or groups at the Bank and the Branch charged with the responsibility of overseeing the Branch's compliance with the BSA/AML Requirements, state Laws and regulations, and OFAC Regulations, possess appropriate subject matter expertise and are actively involved in carrying out such responsibilities.

Thirty-seventh: On multiple occasions during the time period January 1, 2016 to the present, Habib Bank and the New York Branch violated the Consent Order due to the failure of the Bank's board of directors and Branch management to provide adequate resources to ensure the Branch's compliance with the Consent Order, BSA/AML requirements, state laws and regulations, and OFAC Regulations.

Thirty-eighth: On multiple occasions during the time period January 1, 2016 to the present, Habib Bank and the New York Branch violated the Consent Order by failing to implement a system of internal controls designed to ensure compliance with the BSA/AML requirements and state laws and regulations.

Thirty-ninth: On multiple occasions during the time period January 1, 2016 to the present, Habib Bank and the New York Branch violated the Consent Order by failing to provide for controls designed to ensure compliance with all requirements relating to correspondent accounts for foreign financial institutions.

Fortieth: On multiple occasions during the time period January 1, 2016 to the present, Habib Bank and the New York Branch violated the Consent Order by failing to provide for a comprehensive BSA/ AML risk assessment that identifies and considers all products and services

of the Branch, customer types, geographic locations, and transaction volumes, as appropriate, in determining inherent and residual risks.

Forty-first: On multiple occasions during the time period January 1, 2016 to the present, Habib Bank and the New York Branch violated the Consent Order by failing to provide for management of the Branch's BSA/AML compliance program by a qualified compliance officer, who is given full autonomy, independence, and responsibility for implementing and maintaining an effective BSA/ AML compliance program that is commensurate with the Branch's size and risk profile, and is supported by adequate staffing levels and resources.

Forty-second: On multiple occasions during the time period January 1, 2016 to the present, Habib Bank and the New York Branch violated the Consent Order by failing to ensure management information systems used to achieve compliance with the BSA/ AML requirements and state laws and regulations are configured to mitigate BSA/ AML risks.

Forty-third: On multiple occasions during the time period January 1, 2016 to the present, Habib Bank and the New York Branch violated the Consent Order by failing to provide for comprehensive and timely independent testing for the Branch's compliance with applicable BSA/AML requirements and state laws and regulations.

Forty-fourth: On multiple occasions during the time period January 1, 2016 to the present, Habib Bank and the New York Branch violated the Consent Order by failing to provide for effective training for all appropriate Branch personnel and appropriate personnel of affiliates that perform BSA/AML compliance-related functions for the Branch in all aspects of the BSA/AML Requirements, state laws and regulations, and internal policies and procedures.

Forty-fifth: On multiple occasions during the time period January 1, 2016 to the present, Habib Bank and the New York Branch violated the Consent Order by failing to provide for

adequate policies, procedures, and controls to ensure that the Branch collects, analyzes, and retains complete and accurate customer information for all account holders, including, but not limited to, affiliates.

Forty-sixth: On multiple occasions during the time period January 1, 2016 to the present, Habib Bank and the New York Branch violated the Consent Order by failing to implement a plan to adequately remediate deficient due diligence for existing customers accounts.

Forty-seventh: On multiple occasions during the time period January 1, 2016 to the present, Habib Bank and the New York Branch violated the Consent Order by failing to implement a revised methodology that adequately assigns risk ratings to account holders that considers factors such as type of customer, type of products and services, geographic locations, and transaction volume.

Forty-eighth: On multiple occasions during the time period January 1, 2016 to the present, Habib Bank and the New York Branch violated the Consent Order by failing, for each customer whose transactions require enhanced due diligence, procedures, to (i) determine the appropriate documentation necessary to verify the identity and business activities of the customer; and (ii) understand the normal and expected transactions of the customer.

Forty-ninth: On multiple occasions during the time period January 1, 2016 to the present, Habib Bank and the New York Branch violated the Consent Order by failing to implement policies, procedures, and controls to ensure that foreign correspondent accounts are accorded the appropriate due diligence and, where necessary, enhanced due diligence.

Fiftieth: On multiple occasions during the time period January 1, 2016 to the present, Habib Bank and the New York Branch violated the Consent Order by failing to adequately conduct periodic reviews and evaluations of customer and account information for the entire customer base

to ensure that information is current, complete, and that the risk rating reflects the current information, and if applicable, documenting rationales for any revisions made to the customer risk rating.

Fifty-first: On multiple occasions during the time period January 1, 2016 to the present, Habib Bank and the New York Branch violated the Consent Order by failing to implement a program that includes a well-documented methodology for establishing monitoring rules and thresholds appropriate for the Branch's profile which considers factors such as type of customer, type of product or service, geographic location, and foreign correspondent banking activities, including U.S. dollar clearing activities.

Fifty-second: On multiple occasions during the time period January 1, 2016 to the present, Habib Bank and the New York Branch violated the Consent Order by failing to adequately implement a program that includes policies and procedures for analyzing, testing, and documenting changes to monitoring rules and thresholds.

Fifty-third: On multiple occasions during the time period January 1, 2016 to the present, Habib Bank and the New York Branch violated the Consent Order by failing to implement a program that includes enhanced monitoring and investigation criteria and procedures to ensure the timely detection, investigation, and reporting of all known or suspected violations of law and suspicious transactions, including, but not limited to (i) effective monitoring of customer accounts and transactions, including but not limited to, transactions conducted through foreign correspondent accounts; (ii) appropriate allocation of resources to manage alert and case inventory; (iii) adequate escalation of information about potentially suspicious activity through appropriate levels of management; (iv) maintenance of sufficient documentation with respect to the investigation and analysis of potentially suspicious activity, including the resolution and escalation

of concerns; and (v) maintenance of accurate and comprehensive customer and transactional data and ensuring that it is utilized by the Branch's compliance program.

WHEREAS, the Superintendent hereby finds that, by the foregoing facts, pursuant to the authority granted to her under New York Banking Law Section 44, the Superintendent seeks to impose a civil monetary penalty upon Respondents in an amount up to Six Hundred Twenty-Nine Million Six Hundred Twenty-Five Thousand Dollars (\$629,625,000).

Witness, my hand and official seal of the Department of Financial Services, this 21st day of August, 2017

New York, New York

By: 
MARIA T. VULLO
Superintendent of Financial Services



APPENDIX

of the underlying facts supporting the findings.

111.11 Precedent file. When an adjudicatory proceeding and any challenge thereto shall have been finalized, the Superintendent shall maintain the determination with respect thereto in a file which shall be available for inspection subject to such limitations and conditions as may be provided in the Freedom of Information Law.

APPENDIX 1 TO SUPERVISORY PROCEDURE G-111

SUMMARY OF RULES GOVERNING ADJUDICATORY PROCEEDINGS

The New York State Banking Division of the Department of Financial Services is about to conduct an adjudicatory proceeding, i.e., a hearing, of which you will be the subject. This proceeding is conducted by statutory authority of the State Administrative Procedure Act section 301 and Supervisory Procedure G-111 of the New York State [Banking] Department of Financial Services' Regulations.

The presiding officer of the hearing is chosen by the Superintendent [of Banks] from either (a) a group of persons who are not employees of the Banking Division of the Department of Financial Services or from the ranks of the Superintendent's assistants and special assistants who are not involved in prosecutions or adversarial presentations of agency positions, all of whom are experienced in conducting adjudicatory proceedings. The hearing officer will not have previously dealt in any way with the subject matter of the hearing, and shall endeavor to conduct the hearing in a fair and impartial manner and in accordance with principles of ethics. In cases where the only issue to be determined is whether a licensee has paid a fee required under law or submitted a report required under law, i.e., a case without a complex issue, an attorney taken from the [Banking] Department's Legal Division may be designated to hear your case.

The hearing shall be conducted in accordance with standards of procedural due process. You are entitled to reasonable notice of the proceeding and an opportunity to be heard on the issues.

Reasonable notice of this hearing shall be in the form of written notice mailed to your last known address on the records of the [Banking] Department. Said notice is to be mailed at least 10 days prior to the hearing date and shall specify the time, place and nature of the hearing, the legal authority and jurisdiction under which the hearing is to be held, shall refer to particular statutes, regulations and rules involved, shall contain a short and accurate statement of matter to be decided, and shall identify the designated hearing officer.

You have the right to, but are not required to, file a written answer to the notice by delivering the same to the [Banking] Department of Financial Services within three days of the hearing.

You have the right to be represented by counsel at the hearing. You shall have the opportunity to present oral and written argument on issues of law, and fact, as well as supporting evidence.

Subpoenas may be issued by the Superintendent in his or her discretion at the request of you or any other party to the proceeding and may be used as a discovery device, i.e., to ascertain any documents or other evidence helpful to establish a party's case. If the proceeding concerns license revocation, each party is entitled to disclosure of the opposing party's evidence.

If you wish to postpone the proceeding, you may make written application to the Superintendent. In the discretion of the Superintendent, at the request of any party, the hearing may be postponed or adjourned for good cause including but not limited to illness of a party, temporary absence or illness of witness, opportunity to obtain attorney, illness

of attorney, and actual engagement of attorney in a court proceeding. At the discretion of the hearing officer, there may also be an adjournment on consent of all the parties.

Even if you fail to appear or be represented at the hearing without having obtained a postponement or adjournment, a record of the hearing will be made and a decision will be rendered.

If you fail to appear, you may make a written application to re-open the adjudicatory proceeding. You must convince the hearing officer that there were valid reasons for your absence at the hearing. Your application must be made within four months from the effective date of the opinion and decision.

There shall be a record made of the adjudicatory proceeding which shall include all notices, pleadings, motions and rulings, a stenographic transcript of the entire proceeding, any documentary evidence offered or admitted, and any decision, determination or order rendered.

All final decisions, determinations or orders in an adjudicatory proceeding shall either be in writing or stated on the record and shall include findings of fact and conclusions of law on which the decision, determination or order is based.