

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

STATE OF CALIFORNIA  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
SACRAMENTO, CALIFORNIA

Written Agreement by and among

FIRST FINANCIAL HOLDING CO., LTD.  
Taipei, Taiwan

FIRST COMMERCIAL BANK, LTD.  
Taipei, Taiwan

FIRST COMMERCIAL BANK  
LOS ANGELES BRANCH  
Los Angeles, California

FEDERAL RESERVE BANK OF  
SAN FRANCISCO  
San Francisco, California

and

STATE OF CALIFORNIA  
DEPARTMENT OF FINANCIAL  
INSTITUTIONS  
Sacramento, California

Docket Nos. 11-019-WA/RB-FH  
11-019-WA/RB-FB  
11-019-WA/RB-FBR

WHEREAS, First Financial Holding Co., Ltd. (“FFHC”), Taipei, Taiwan, the holding company for First Commercial Bank, Ltd., Taipei, Taiwan (the “Bank”), a foreign bank as defined in section 1(b)(7) of the International Banking Act (12 U.S.C. § 3101(7)), and its Los Angeles branch (the “Los Angeles Branch”) (collectively, the “FFHC Organization”) are taking steps to address deficiencies in the Los Angeles Branch’s operational risk controls and compliance by the Los Angeles Branch with applicable federal laws, rules, and regulations

relating to anti-money laundering (“AML”), including the Bank Secrecy Act (“BSA”) (31 U.S.C. Title X); the rules and regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. Part 103); and the AML requirements of Regulation K of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. §§ 211.24(f) and 211.24(j));

WHEREAS, it is the common goal of the Board of Governors, the Federal Reserve Bank of San Francisco (the “Reserve Bank”), the State of California Department of Financial Institutions (the “Department”), and the FFHC Organization to ensure that the FFHC Organization fully addresses all deficiencies in the Los Angeles Branch’s operational risk controls and BSA/AML compliance; and

WHEREAS, on February 25, 2011, the boards of directors of FFHC and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing Jenn-Hwa Wang to enter into this Written Agreement (the “Agreement”) on behalf of FFHC, the Bank, and the Los Angeles Branch, and consenting to compliance with each and every applicable provision of this Agreement by FFHC, the Bank, the Los Angeles Branch, and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(4) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u) and 1818(b)(4)).

NOW, THEREFORE, the Reserve Bank and the Department (collectively, the “Supervisors”), and the FFHC Organization hereby agree as follows:

### **Board Oversight**

1. Within 90 days of this Agreement, the board of directors of the Bank shall submit to the Supervisors a written plan to strengthen board oversight of the management and operations of the Los Angeles Branch. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the board of directors will take to improve the Los Angeles Branch's condition and maintain effective control over, and supervision of, the branch's senior management and major operations and activities including, but not limited to, risk management, BSA/AML compliance, and internal audit;

(b) a description of the information and reports that will be regularly reviewed by the board of directors in its oversight of the operations and management of the Los Angeles Branch; and

(c) steps to strengthen the audit of the Los Angeles Branch's operations and the effectiveness of the Bank's Audit Committee in carrying out its oversight responsibilities.

### **Management Review**

2. Within 90 days of this Agreement, the board of directors of the Bank shall complete an assessment of the Los Angeles Branch's management and staffing needs and the qualifications and performance of each senior officer (the "Management Review"). The primary purpose of the review shall be to aid in the development of a suitable management structure commensurate with the size and complexity of the Los Angeles Branch that is adequately staffed by qualified personnel. The Management Review shall, at a minimum, address, consider, and include:

(a) The identification of the type and number of officers needed to manage and supervise properly the affairs of the Los Angeles Branch;

(b) an evaluation of each senior officer to determine whether the individual possesses the ability, experience, and other qualifications necessary to perform competently present and anticipated duties, including the ability to comply with applicable laws and regulations, adhere to the Los Angeles Branch's established policies and procedures, restore and

maintain the branch to a safe and sound condition, and comply with the requirements of this Agreement; and

(c) the identification of present and future management and staffing needs for each area of the Los Angeles Branch, particularly in the area of BSA/AML compliance.

3. Within 30 days of completion of the Management Review, the board of directors shall submit a written management plan to the Supervisors that includes the findings and conclusions of the Management Review and describes the specific actions that the board of directors will take to strengthen the Los Angeles Branch's management and to hire, as necessary, additional or replacement personnel.

#### **Segregation of Duties**

4. Within 60 days of this Agreement, the Bank and the Los Angeles Branch shall take all necessary actions to ensure the proper segregation of duties and responsibilities among staff, including, but not limited to, staff responsible for compliance and operations functions.

#### **Internal Audit**

5. Within 60 days of this Agreement, the Bank and the Los Angeles Branch shall submit to the Supervisors an acceptable written enhanced internal audit program that is appropriate for the size and complexity of the Los Angeles Branch. The program shall, at a minimum, address, consider, and include testing to ensure that the Los Angeles Branch's fraud risk identification process relating to lending activities is effective.

#### **BSA/AML COMPLIANCE**

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

6. (a) Within 10 days of this Agreement, the Bank and the Los Angeles Branch shall retain an independent consultant acceptable to the Supervisors (the "Compliance Review

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

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

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

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

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

7. Within 60 days of the submission of the BSA/AML Compliance Report, the Bank and the Los Angeles Branch shall submit to the Supervisors an acceptable written BSA/AML

compliance program for the Los Angeles Branch that incorporates the findings and recommendations of the BSA/AML Review and is designed to improve the Los Angeles Branch's internal controls to ensure compliance with all applicable provisions of the BSA and the rules and regulations issued thereunder, and the requirements of Regulation K of the Board of Governors. The program shall include provisions for updates on an ongoing basis as necessary to incorporate amendments to the BSA and the rules and regulations issued thereunder. At a minimum, the program shall include:

(a) Improvements to the Los Angeles Branch's system of internal controls to ensure compliance with all recordkeeping and reporting requirements;

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

(c) training for all appropriate branch personnel in all aspects of BSA/AML regulatory requirements and internal policies and procedures, and updating of training on a regular basis to reasonably ensure that personnel are trained in the most current legal requirements, and internal policies and procedures.

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

8. Within 60 days of the submission of the BSA/AML Compliance Report, the Bank and the Los Angeles Branch shall submit to the Supervisors an acceptable written customer due diligence program designed to reasonably ensure the identification and timely, accurate, and complete reporting of all known or suspected violations of law against or involving the Los Angeles Branch and suspicious transactions at the Los Angeles Branch to law enforcement and

supervisory authorities as required by applicable suspicious activity reporting laws and regulations. At a minimum, the program shall include:

(a) A risk-focused assessment of the Los Angeles Branch's customer base that:

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

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

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

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

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

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

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

(i) effective monitoring of customer accounts and transactions;

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

- (iii) adequate referral and escalation of information about potentially suspicious activity through appropriate levels of management;
- (iv) adequate procedures to ensure the timely and complete preparation and filing of Suspicious Activity Reports; and
- (v) maintenance of sufficient documentation with respect to the investigation and analysis of potentially suspicious activity, including the escalation and resolution of concerns.

### **Conflicts of Interest**

9. Within 60 days of this Agreement, the Bank and the Los Angeles Branch shall submit to the Supervisors a written code of ethics and conflicts of interest policy that applies to all employees of the branch. The code of ethics and conflicts of interest policy shall address, at a minimum, the fiduciary duties of all officers and employees of the Los Angeles Branch and the avoidance of conflicts of interest, in particular, any transaction from which any such individual may derive personal benefit.

10. Within 60 days of this Agreement, the Bank and the Los Angeles Branch shall submit to the Supervisors an acceptable written plan to ensure compliance with the code of ethics and conflicts of interest policy by all officers and employees of the branch. The plan shall provide, at a minimum, for:

- (a) Policies and procedures to require the written disclosure to the Overseas Business Administration Division of the Bank, as appropriate, of any actual or potential conflict of interest of any Los Angeles Branch officer or employee;



(b) internal controls that monitor compliance with the code of ethics and conflicts of interest policy and report any noncompliance or exceptions to the approved policy to the Overseas Business Administration Division of the Bank; and

(c) training for all officers and employees of the Los Angeles Branch provided on a regular basis regarding the code of ethics and conflicts of interest policy of the branch.

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

11. (a) The Bank and the Los Angeles Branch shall submit written programs, a plan, and an engagement letter that are acceptable to the Supervisors within the applicable time periods set forth in paragraphs 5, 6(b), 7, 8, and 10 of this Agreement. An independent consultant acceptable to the Supervisors shall be retained by the Bank and the Los Angeles Branch within the period set forth in paragraph 6(a) of this Agreement.

(b) Within 10 days of approval by the Supervisors, the Bank and the Los Angeles Branch shall adopt the approved programs, plan, and engagement letter. Upon adoption, the Bank and the Los Angeles Branch shall implement the approved programs, and thereafter fully comply with them.

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

12. Within 10 days after the end of each month following the date of this Agreement, the FFHC Organization shall submit to the Supervisors written progress reports detailing the form and manner of all actions taken to secure compliance with the provisions of this Agreement and the results thereof. Management responses to any audit reports covering BSA/AML matters

prepared by internal and external auditors shall be included with the progress reports. The Supervisors may, in writing, discontinue the requirement for progress reports or modify the reporting schedule.

## Notices

13. All communications regarding this Agreement shall be sent to:
  - (a) Mr. Richard J. Shershenovich, Jr.  
Director – Regional and Foreign Institutions Group  
Federal Reserve Bank of San Francisco  
Los Angeles Branch  
950 South Grand Avenue  
Los Angeles, California 90015
  - (b) Mr. John T. Ross  
Deputy Commissioner  
State of California, Department of Financial Institutions  
300 South Spring Street, Suite 15513  
Los Angeles, California 90013
  - (c) Mr. Ching-Nain Tsai  
Chairman  
First Financial Holding Co., Ltd.  
30 Chung King South Road, Section 1  
Taipei, Taiwan, R.O.C.
  - (d) Mr. Tzuoo-Yau Lin  
President  
First Commercial Bank, Ltd.  
30 Chung King South Road, Section 1  
Taipei, Taiwan R.O.C.
  - (e) Mr. Bill Jenn-Hwa Wang  
General Manager  
First Commercial Bank, Los Angeles Branch  
600 Wilshire Boulevard, Suite 800  
Los Angeles, California 90017

## **Miscellaneous**

14. The provisions of this Agreement shall be binding on FFHC, the Bank, the Los Angeles Branch, and each of their institution-affiliated parties in their capacities as such, and their successors and assigns.

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

16. Notwithstanding any provision of this Agreement, the Supervisors may, in their sole discretion, grant written extensions of time to FFHC, the Bank, and the Los Angeles Branch to comply with any provision of this Agreement.

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

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

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of this 28<sup>th</sup> day of March, 2011.

FIRST FINANCIAL HOLDING  
CO., LTD.

FEDERAL RESERVE BANK OF  
SAN FRANCISCO

By: /s/ Jenn-Hwa Wang  
Jenn-Hwa Wang  
Vice President and  
General Manager

By: /s/ Richard J. Shershenovich, Jr.  
Richard J. Shershenovich, Jr.  
Director

FIRST COMMERCIAL BANK , LTD

STATE OF CALIFORNIA  
DEPARTMENT OF FINANCIAL  
INSTITUTIONS

By: /s/ Jenn-Hwa Wang  
Jenn-Hwa Wang  
Vice President and  
General Manager

By: /s/ Scott D. Cameron  
Scott D. Cameron  
Chief Examiner

FIRST COMMERCIAL BANK  
LOS ANGELES BRANCH

By: /s/ Jenn-Hwa Wang  
Jenn-Hwa Wang  
Vice President and  
General Manager