

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

Written Agreement by and among	:	
	:	
HSBC BANK USA	:	Docket No. 03-012-WA/RB-SM
Buffalo, New York	:	
	:	
FEDERAL RESERVE BANK OF NEW YORK	:	
New York, New York	:	
	:	
and	:	
	:	
NEW YORK STATE BANKING DEPARTMENT	:	
New York, New York	:	
	:	

WHEREAS, HSBC Bank USA, Buffalo, New York (the "Bank"), a state chartered bank that is a member of the Federal Reserve System, is taking steps to enhance its compliance with all applicable federal and state laws, rules, and regulations relating to anti-money laundering policies and procedures, including (1) the Currency and Foreign Transactions Reporting Act, 31 U.S.C. 5311 *et seq.* (the Bank Secrecy Act (the "BSA")) and the rules and regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. Part 103); (2) the suspicious activity reporting and BSA compliance requirements of Regulation H of the Board of Governors of the Federal Reserve System (the "Board of Governors") (12 C.F.R. 208.62 and 208.63); and (3) Part 300 of the Official Compilation of Codes, Rules and Regulations of the State of New York, 3 N.Y.C.R.R. Part 300;

WHEREAS, it is the common goal of the Bank, the Federal Reserve Bank of New York (the "Reserve Bank"), and the New York State Banking Department (the "Department") to

ensure that the Bank fully addresses all deficiencies in the Bank's anti-money laundering policies and procedures, customer due diligence practices, and internal control environment; and

WHEREAS, on April 24, 2003, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Youssef Nasr, President and Chief Executive Officer, to enter into this Written Agreement (the "Agreement") on behalf of the Bank and consenting to compliance by the Bank and its institution-affiliated parties, as defined in section 3(u) of the Federal Deposit Insurance Act, as amended, (12 U.S.C. 1813(u)) with each and every provision of this Written Agreement.

NOW, THEREFORE, the Bank, the Reserve Bank, and the Department hereby agree as follows:

Anti-Money Laundering Compliance

1. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written program designed to upgrade and improve the Bank's system of internal controls to ensure compliance with all applicable provisions of the BSA and the rules and regulations issued thereunder, as required by section 208.63 of Regulation H of the Board of Governors (12 C.F.R. 208.63) and 3 N.Y.C.R.R. Part 300. The program shall include provisions for updates on an ongoing basis as necessary to incorporate amendments to the BSA and the rules and regulations thereunder.

(a) The program shall, at a minimum, upgrade and improve the Bank's system of internal controls to ensure compliance with the BSA and the rules and regulations thereunder, including but not limited to:

- (i) effective monitoring of incoming and outgoing funds transfers by both account holders and non-account holders for suspicious or unusual activities;
- (ii) effective monitoring of purchases of monetary instruments by both account holders and non-account holders for suspicious or unusual activities;
- (iii) an effective system that is designed to ensure compliance with the recordkeeping and reporting requirements for currency transactions over \$10,000 (31 C.F.R. 103.22) and that is capable of aggregating multiple cash transactions for any one business day, or other appropriate business period, from all branches by account number, by name(s) of the account holder(s), and by transactor(s), and identifying any cash transactions that may have been structured to avoid currency transaction reporting requirements; and
- (iv) identification and verification of identity of account holders and transactors as required for recordkeeping and reporting of currency transactions over \$10,000 (31 C.F.R. 103.28).

(b) The program shall provide for an independent review of compliance with the BSA and the rules and regulations thereunder, the anti-money laundering provisions of Regulation H of the Board of Governors, and 3 N.Y.C.R.R. Part 300. The review of compliance shall cover all substantive requirements and compliance processes, including, but not limited to, reporting lines for following up on compliance findings and procedures to ensure that compliance issues are addressed.

Suspicious Activity Reporting and Customer Due Diligence

2. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written customer due diligence program designed to reasonably ensure the identification and timely, accurate, and complete reporting of all known or suspected violations of law against or involving the Bank to law enforcement and supervisory authorities as required by the suspicious activity reporting provisions of Regulation H of the Board of Governors (12 C.F.R. 208.62) and 3 N.Y.C.R.R. Part 300. At a minimum, the program shall include:

- (a) An effective system to ensure that all known or suspected violations of law are properly identified and reported;
 - (b) a risk focused assessment of the Bank's customer base to:
 - (i) identify the categories of customers whose transactions and banking activities are routine and usual; and
 - (ii) determine the appropriate level of enhanced due diligence necessary for those categories of customers that the Bank has reason to believe pose a heightened risk of illicit activities at or through the Bank; and
 - (c) for those customers whose transactions require enhanced due diligence, additional procedures to:
 - (i) determine the appropriate documentation necessary to confirm the identity and business activities of the customer;
 - (ii) understand the normal and expected transactions of the customer;
- and

(iii) report suspicious activities in compliance with the reporting requirements set forth in Regulation H of the Board of Governors (12 C.F.R. 208.62) and 3 N.Y.C.R.R. Part 300.

3. The program required by paragraph 2 hereof shall be subject to comprehensive independent testing (a) three months after the approval of the program and its adoption by the Bank pursuant to the provisions of this Agreement (the "Initial Testing"); and (b) 15 months after the Initial Testing. Prior to the implementation of the independent testing, the Bank shall submit to the Reserve Bank and the Department its audit scope and methodology for review and approval. The Bank shall make all work papers, work product, drafts and interim reports available as requested by the Reserve Bank and the Department.

Transaction Review

4. The Bank shall conduct a multi-stage review (the "Review") of cash transactions, sales of monetary instruments, and funds transfer activity in the retail operations of the Bank. The Review shall be designed to determine whether suspicious activity involving accounts or transactions at, by, or through the Bank was properly identified and reported by the Bank in accordance with applicable suspicious activity reporting regulations, and to evaluate compliance with the currency transaction reporting requirements of the BSA and the rules and regulations thereunder.

(a) Within 10 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written plan for the first stage of the Review, which shall cover all transactions during the period May 1, 2002 through the date of this Agreement. The plan shall set forth the proposed methodology for the first stage of the Review; the types of accounts, transactions, and banking activities to be reviewed; the proposed resources to be

dedicated to the first stage of the Review; the scope of the written report covering the first stage of the Review; and the expected date of completion of the first stage of the Review, not to exceed 120 days from the date of this Agreement.

(b) Within 30 days after completion of each stage of the Review, the Bank shall submit to the Reserve Bank and the Department:

(i) a written report setting forth the findings, conclusions, and recommendations of that stage of the Review;

(ii) an acceptable written plan setting forth the actions the Bank will take to respond to the findings, conclusions, and recommendations; and

(iii) an acceptable written plan for the next stage of the Review, setting forth the time period to be covered (to include time periods since May 2000), the methodology and the types of accounts, transactions, and banking activities to be reviewed; the proposed resources to be dedicated; the scope of the written report; and the expected date of completion.

(c) Upon completion of each stage of the Review, the Bank shall ensure that all transactions previously required to be reported have been reported in accordance with applicable regulations and guidelines.

(d) The Bank shall make all work papers, work product, drafts and interim reports relating to the Review available to the Reserve Bank and the Department upon request.

Approval and Progress Reports

5. The programs, plans, and audit scope and methodology required by paragraphs 1, 2, 3, and 4 of this Agreement shall be submitted to the Reserve Bank and the Department for review and approval. Acceptable programs, plans, and an acceptable audit scope and methodology shall be submitted to the Reserve Bank and the Department within the time periods

set forth in this Agreement. The Bank shall adopt the approved programs, plans, and audit scope and methodology within 10 days of approval by the Reserve Bank and the Department and then shall fully comply with them. During the term of this Agreement, the approved programs, plans, and audit scope and methodology shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Department.

6. Within 10 days after the end of each month following the date of this Agreement, the Bank shall submit to the Reserve Bank and the Department written progress reports detailing the form and manner of all actions taken to secure compliance with the provisions of this Agreement, and the results thereof. Management's responses to the audit reports on BSA prepared by internal and external auditors shall be included with the progress report. The Reserve Bank and the Department may, in writing, discontinue the requirement for progress reports or modify the reporting schedule.

Notices

7. All communications regarding this Agreement shall be sent to:

- (a) Ms. Sarah Dahlgren
Senior Vice President
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045
- (b) Mr. P. Vincent Conlon
Deputy Superintendent of Banks
New York State Banking Department
One State Street
New York, NY 10004
- (c) Mr. Philip S. Toohey
Senior Executive Vice President and General Counsel
HSBC Bank USA
One HSBC Center
27th Floor
Buffalo, NY 14203

Miscellaneous

8. The provisions of this Agreement shall be binding on the Bank, and each of its institution-affiliated parties in their capacities as such, and their successors and assigns.
9. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated or suspended in writing by the Reserve Bank and the Department.
10. Notwithstanding any provision of this Agreement, the Reserve Bank and the Department may, in their sole discretion, grant written extensions of time to the Bank to comply with any provision of this Agreement.
11. The provisions of this Agreement shall not bar, estop or otherwise prevent the Board of Governors, the Reserve Bank, the Department or any federal or state agency from taking any further or other action affecting the Bank, or any of its current or former institution-affiliated parties or their successors or assigns.

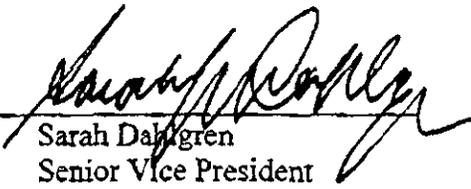
12. This Agreement is a "written agreement" for the purposes of, and is enforceable by the Board of Governors as order issued under, section 8 of the Federal Deposit Insurance Act and pursuant to Section 39 of the New York State Banking Law.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of this 30th day of April, 2003.

HSBC BANK USA

By: 
Youssef Nasr
President & Chief Executive Officer

FEDERAL RESERVE BANK OF NEW YORK

By: 
Sarah Dahlgren
Senior Vice President

NEW YORK STATE BANKING DEPARTMENT

By: 
Barbara Kent
Acting Superintendent of Banks