

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

_____	)
Written Agreement By and Between	)
	)
BANCO POPULAR DE PUERTO RICO	)
Hato Rey, Puerto Rico	)
	)
and	)
	)
FEDERAL RESERVE BANK OF NEW YORK	)
New York, New York	)
_____	)

WHEREAS, in recognition of the common goals of the Federal Reserve Bank of New York (the "Reserve Bank") and Banco Popular de Puerto Rico, Hato Rey, Puerto Rico (the "Bank") to ensure compliance with all applicable laws, rules and regulations, the Bank has agreed to enter into this Written Agreement (the "Agreement") with the Reserve Bank.

WHEREAS, the Bank is taking steps: (1) to enhance and improve the Bank's anti-money laundering policies and procedures, customer due diligence practices and internal control environment; and (2) to ensure full compliance with all applicable anti-money laundering laws and regulations, including, but not limited to, the Currency and Foreign Transactions Reporting Act (31 U.S.C. 5311 *et seq.*) and the accompanying regulations issued by the U.S. Department of the Treasury (31 C.F.R. 103.11 *et seq.*) (collectively referred to as the "Bank Secrecy Act" or the "BSA"), and the suspicious activity reporting and BSA compliance requirements of the Board of Governors of the Federal Reserve System (the "Board of Governors") (12 C.F.R. 208.62 and 208.63).

WHEREAS, this Agreement is being executed in order to ensure continued full compliance by the Bank with all applicable anti-money laundering laws and regulations.

WHEREAS, on March 9, 2000, the Board of Directors of the Bank adopted a resolution:

(1) authorizing and directing Richard L. Carrion, Chairman of the Board of Directors, Chief Executive Officer, and President of the Bank, to enter into this Agreement on behalf of the Bank and consenting to compliance by the Board of Directors of the Bank, and the Bank's institution-affiliated parties, as defined in section 3(u) of the Federal Deposit Insurance Act, as amended (the "FDI Act") (12 U.S.C. 1813(u)), with each and every provision of this Agreement; and

(2) waiving any and all rights that the Bank may have pursuant to 12 U.S.C. 1818: to a hearing for the purpose of taking evidence on any matters set forth in this Agreement; to judicial review of this Agreement; and to challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Agreement or any provision hereof.

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

**Bank Secrecy Act Compliance**

1. (a) The Bank, and any institution-affiliated party thereof, shall not, directly or indirectly, violate the Bank Secrecy Act.
- (b) For the purposes of this Agreement, the term "violate" shall include any action (alone or with another or others) for or toward causing, bringing about, participating in, counseling or aiding or abetting a violation.
- (c) Within 45 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan designed to ensure compliance with:
  - (1) The recordkeeping and reporting requirements for currency transactions of over \$10,000 (31 C.F.R. 103.22);
  - (2) the identification requirements related to the recordkeeping and reporting requirements for currency transactions of over \$10,000 (31 C.F.R. 103.28);
  - (3) the Bank Secrecy Act's exemption procedures (31 C.F.R. 103.22);
  - (4) recordkeeping requirements for the purchase of bank checks and drafts, cashier's checks, money orders and traveler's checks (31 C.F.R. 103.29); and
  - (5) the requirements related to the nature of records to be maintained and the retention period of such records (31 C.F.R. 103.38).

2. Within 45 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable enhanced customer due diligence program. The program shall be designed to reasonably ensure the identification and timely, accurate and complete reporting of known or suspected criminal activity against or involving the Bank to law enforcement and supervisory authorities as required by the suspicious activity reporting provisions of Regulation H (12 C.F.R. 208.62 and 208.63) of the Board of Governors. The enhanced customer due diligence program shall provide:

- (a) For a risk focused assessment of the customer base of the Bank to:
  - (1) identify the categories of customers whose transactions do not require monitoring because of the routine and usual nature of their banking activities; and
  - (2) 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.
- (b) For those customers whose transactions require enhanced due diligence, procedures to:
  - (1) determine the appropriate documentation necessary to confirm the identity and business activities of the customer;
  - (2) understand the normal and expected transactions of the customer; and
  - (3) report suspicious activities in compliance with existing reporting requirements set forth in the regulations of the Board of Governors.
- (c) Appropriate procedures to reasonably ensure that all new products involving the receipt or transfer of funds comply with applicable laws and regulations related to anti-money laundering compliance and suspicious activity reporting.

3. Within 45 days of this Agreement, the Bank shall submit to the Reserve Bank an internal compliance program, designed to, among other things, ensure and maintain compliance by the Bank with the Bank Secrecy Act. The program shall:

- (a) Provide the means and sufficient staff to detect and monitor all currency and other transactions occurring at the Bank to ensure that

the Bank complies fully with all applicable anti-money laundering and suspicious activity reporting and recordkeeping requirements;

- (b) provide effective training to all appropriate personnel at the Bank (including, but not limited to, tellers, customer service representatives, lending officers, and all other customer contact personnel) in all aspects of regulatory and internal policies and procedures related to the Bank Secrecy Act and the identification and reporting of suspicious transactions and to update the training on a regular basis to ensure that all personnel have the most current and up to date information;
- (c) provide for independent testing of compliance with all applicable rules and regulations related to the Bank Secrecy Act and the reporting of suspicious transactions; and
- (d) provide the means to ensure compliance with the regulations of the Office of Foreign Asset Control of the U.S. Department of the Treasury.

4. Within 45 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable plan for conducting a review of all customers exempted from the recordkeeping and reporting requirements of the Bank Secrecy Act for currency transactions of over \$10,000 (31 C.F.R. 103.22) to determine whether such customers have been appropriately exempted from such recordkeeping and reporting requirements.

5. Within 45 days of this Agreement, the Bank shall take such actions as are necessary to ensure that the BSA compliance program at the Bank is managed by a qualified officer, acceptable to the Reserve Bank, who shall have responsibility for all BSA compliance and related matters, including, without limitation, the identification and timely, accurate and complete reporting to law enforcement and supervisory authorities of suspicious activity or known or suspected criminal activity perpetrated against or involving the Bank.

#### **Audit**

6. Within 45 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable plan for a long-term strategy for strengthening and maintaining an internal audit function that tests for BSA compliance in an effective manner by, among other things, expanding audit scopes, greater audit frequency, and improved auditor training.

**Plans and Programs**

7. The written plans and programs required by paragraphs 1(c), 2, 3, and 6 hereof shall be submitted to the Reserve Bank for review and approval. Acceptable plans and programs shall be submitted within the time periods set forth in this Agreement. The Bank shall adopt the approved plans and programs within 10 days of approval by the Reserve Bank and then shall fully comply with them. During the term of this Agreement, the approved plans and programs shall not be amended or rescinded without the prior written approval of the Reserve Bank.

**Periodic Reports**

8. Within 10 days after the end of each calendar quarter (March 31, June 30, September 30, and December 31) following the date of this Agreement, the Bank shall furnish a written progress report to the Reserve Bank detailing the form and manner of all actions taken to secure compliance with this Agreement, and the results thereof, as well as management's responses to the audit reports on Bank Secrecy Act compliance prepared by internal or external auditors during the quarter.

**Miscellaneous**

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

- (a) Mr. William L. Rutledge  
Executive Vice President  
Federal Reserve Bank of New York  
33 Liberty Street  
New York, NY 10045
- (b) Mr. Richard L. Carrion  
Chairman of the Board of Directors,  
CEO and President  
Banco Popular de Puerto Rico  
209 Munoz Rivera Avenue  
Hato Rey, Puerto Rico 00918

10. 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.

11. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended by the Reserve Bank.

12. Notwithstanding any provision of this Agreement to the contrary, the Reserve Bank may, in its sole discretion, grant written extensions of time to the Bank to comply with any provision of this Agreement.

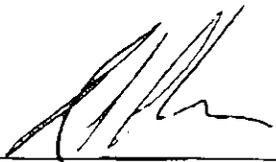
13. The provisions of this Agreement shall not bar, estop or otherwise prevent the Board of Governors or any federal or state agency or department from taking any other action affecting the Bank or any of its current or former institution-affiliated parties.

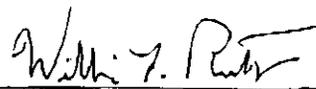
14. This Agreement is a "written agreement" for the purposes of, and is enforceable by the Board of Governors as an order issued under, section 8 of the FDI Act.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of this 9<sup>th</sup> day of March, 2000.

BANCO POPULAR DE PUERTO RICO

FEDERAL RESERVE BANK  
OF NEW YORK

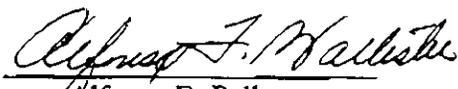
By:   
Mr. Richard L. Carrión  
Chairman and President

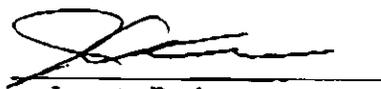
By:   
Mr. William L. Rutledge  
Executive Vice President

Each of the undersigned directors acknowledges having read the foregoing Agreement and approves of the consent thereof by the Bank.

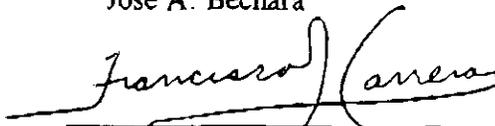
  
Juan A. Albors

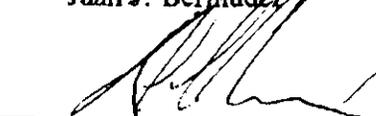
  
Salustiano Alvarez

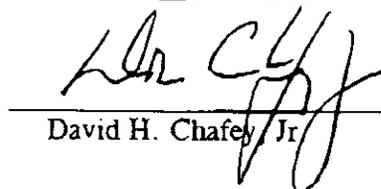
  
Alfonso F. Ballester

  
Jose A. Bechara

  
Juan J. Bermudez

  
Francisco J. Carreras

  
Richard L. Carrión

  
David H. Chafey, Jr.

*A. Luis Ferre*

Antonio L. Ferre

*Hector R. Gonzalez*

Hector R. Gonzalez

*Jorge A. Junquera*

Jorge A. Junquera

*Manuel Morales, Jr.*

Manuel Morales, Jr.

*Alberto M. Paracchini*

Alberto M. Paracchini

*Francisco M. Rexach, Jr.*

Francisco M. Rexach, Jr.

*J. Adalberto Roig, Jr.*

J. Adalberto Roig, Jr.

*Felix J. Serralles, Jr.*

Felix J. Serralles, Jr.

*Julio E. Vizcarrondo, Jr.*

Julio E. Vizcarrondo, Jr.