

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

NEW YORK STATE BANKING DEPARTMENT
NEW YORK, NEW YORK

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Written Agreement by and among)	
)	
HABIB BANK LIMITED)	Docket Nos. 06-027-WA/RB-FB
Karachi, Pakistan)	06-027-WA/RB-FBR
)	
HABIB BANK LIMITED)	
NEW YORK BRANCH)	
New York, New York)	
)	
FEDERAL RESERVE BANK OF NEW YORK)	
New York, New York)	
)	
and)	
)	
NEW YORK STATE BANKING DEPARTMENT)	
New York, New York)	
_____)	

WHEREAS, Habib Bank Limited, Karachi, Pakistan (the "Bank"), a foreign bank as defined in section 1(b)(7) of the International Banking Act (12 U.S.C. § 3101(7)), and the New York, New York branch of the Bank (the "New York Branch") are taking steps to address deficiencies relating to the New York Branch's compliance with applicable federal and state laws, rules, and regulations relating to anti-money laundering ("AML") policies and procedures, including the Bank Secrecy Act (the "BSA") (31 U.S.C. § 5311 *et seq.*); the rules and regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. Part 103); 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)); and those of the New York State Banking Department (the “Department”) (3 N.Y.C.R.R. Part 300);

WHEREAS, the New York Branch provides correspondent banking services to its respondent banks, including non-U.S. banks and the Bank’s non-U.S. branches and affiliates, and also conducts U.S. dollar funds transfer clearing, and examiners have identified compliance and risk management deficiencies at the New York Branch in these operational areas;

WHEREAS, it is the common goal of the Board of Governors, the Federal Reserve Bank of New York, the Department, the Bank, and the New York Branch to ensure that the Bank and the New York Branch fully address all deficiencies in the New York Branch’s AML policies and procedures, customer due diligence practices, risk management processes, and internal control environment; and

WHEREAS, on December 7, 2006, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Nauman K. Dar and Faiq Sadiq, respectively, to enter into this Written Agreement (the “Agreement”) on behalf of the Bank and the New York Branch, and consenting to compliance by the Bank, the New York Branch, and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(4) of the Federal Deposit Insurance Act, as amended (12 U.S.C. §§ 1813(u) and 1818(b)(4)), with each and every provision of this Agreement.

NOW, THEREFORE, the Reserve Bank, the Department (collectively, the “Supervisors”), the Bank, and the New York Branch hereby agree as follows:

Primary Contact

1. Within 10 days of this Agreement, the Bank and the New York Branch shall designate an officer to be responsible for coordinating and submitting to the Supervisors the written programs, plans, procedures, and engagement letter required under the terms and conditions of this Agreement.

Anti-Money Laundering Compliance

2. Within 60 days of this Agreement, the Bank and the New York Branch shall jointly submit to the Supervisors an acceptable written BSA/AML compliance program for the New York Branch that is designed to improve the New York Branch's internal controls to ensure compliance with all applicable provisions of the BSA and the rules and regulations issued thereunder, including the requirements of Regulation K of the Board of Governors (12 C.F.R. § 211.24(j)). 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 New York Branch's system of internal controls for correspondent banking and funds transfer clearing activities, including controls to ensure compliance with all recordkeeping and reporting requirements;
- (b) policies and procedures designed to ensure identification and verification of the identity of account holders and transactors in accordance with applicable regulations;
- (c) 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);

(d) an assessment of legal and reputational risks associated with the New York Branch's correspondent banking and funds transfer clearing activities; and

(e) 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.

Suspicious Activity Reporting and Customer Due Diligence

3. Within 60 days of this Agreement, the Bank and the New York Branch shall jointly 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 New York Branch and suspicious transactions at the New York 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 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;

(b) a 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;

(c) 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;

(d) 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);

(e) 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), 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; and

(f) establishment of 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 Suspicious Activity Reports (“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.

Independent Testing

4. Within 60 days of this Agreement, the Bank and the New York Branch shall jointly submit to the Supervisors an acceptable written plan for independent testing of the New York Branch’s compliance with all applicable BSA/AML requirements. At a minimum, the plan shall include:

- (a) 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;

(b) 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, provided, however, that the first independent test of the New York Branch's BSA/AML compliance shall be conducted by a qualified independent firm acceptable to the Supervisors;

(c) 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;

(d) procedures to ensure that senior Bank and New York Branch management institute and complete appropriate actions in response to the independent testing results; and

(e) procedures to ensure that independent testing results are communicated to the Supervisors on a regular basis and retained for subsequent supervisory review.

Training

5. Within 60 days of this Agreement, the Bank and the New York Branch shall jointly submit to the Supervisors an acceptable written plan to improve the training of 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. The training should extend to all aspects of regulatory and internal policies and procedures related to the BSA and the identification and reporting of suspicious transactions and be updated 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.

Transaction Monitoring System

6. (a) Within 45 days of this Agreement, the Bank and the New York Branch shall jointly submit to the Supervisors an acceptable written plan, including a timetable, for the full testing and activation of the New York Branch's proposed new transaction monitoring system. The plan shall also include a methodology and target date for determining that the transaction monitoring system is effective.

(b) Within 60 days of this Agreement, the Bank and the New York Branch shall jointly submit to the Supervisors acceptable written 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. The acceptable policies and procedures shall take effect upon the determination by a competent independent outside consultant acceptable to the Supervisors that the new transaction monitoring system is fully effective. Documentation to support the determination that the new transaction monitoring system is fully effective shall be retained for subsequent supervisory review.

Transaction Review

7. (a) Within 30 days of this Agreement, the Bank and the New York Branch shall jointly engage a qualified independent firm (the "Independent Firm") acceptable to the Supervisors to conduct a review of account and transaction activity for the time period from January 1, 2005 to December 31, 2005 to determine whether suspicious activity involving accounts or transactions at, by, or through the New York Branch was properly identified and reported in accordance with applicable suspicious activity reporting regulations (the "Transaction Review"). The Transaction Review shall encompass all transaction activity including, but not

limited to, funds transfers, cash letters, and international drafts for both customers and non-customers of the New York Branch.

(b) Based on the Supervisors' evaluation of the results of the Transaction Review, the Supervisors may direct the New York Branch to engage the Independent Firm to conduct an additional review for the time period from January 1, 2006 to the date of this Agreement, with the scope and methodology for that time period to be determined in the same manner as described in paragraph 8.

8. Within 10 days of the engagement of the Independent Firm, but prior to the commencement of the Transaction Review, the Bank and the New York Branch shall jointly submit to the Supervisors for approval an engagement letter that sets forth:

- (a) The scope of the Transaction Review, including the types of accounts and transactions to be reviewed;
- (b) the methodology for conducting the Transaction Review, including any sampling procedures to be followed;
- (c) the expertise and resources to be dedicated to the Transaction Review;
- (d) the anticipated date of completion of the Transaction Review; and
- (e) a commitment that any interim reports, drafts, workpapers, or other materials associated with the Transaction Review will be made available to the Supervisors upon request.

9. Upon completion of the Transaction Review, the Bank and the New York Branch shall provide to the Supervisors a copy of the Independent Firm's report detailing the findings of the Transaction Review at the same time that the report is provided to the Bank and the New York Branch.

10. Throughout the Transaction Review, the Bank and the New York Branch shall ensure that all matters or transactions required to be reported that have not previously been reported are reported in accordance with applicable rules and regulations.

Approval, Implementation, and Progress Reports

11. (a) The Bank and the New York Branch shall jointly submit written programs, plans, policies, procedures, and an engagement letter that are acceptable to the Supervisors within the applicable time periods set forth in paragraphs 2, 3, 4, 5, 6, and 8 of this Agreement. An Independent Firm acceptable to the Supervisors shall be retained by the Bank and the New York Branch within the period set forth in paragraph 7(a) of this Agreement.

(b) Within 10 days of approval by the Supervisors, the Bank and the New York Branch shall adopt the approved programs, plans, policies, procedures, and engagement letter. Upon adoption, the Bank and the New York Branch shall implement the approved programs, plans, policies, and procedures and thereafter fully comply with them.

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

12. Within 20 days after the end of each month following the date of this Agreement, the Bank and the New York Branch shall jointly 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. Daniel Muccia
Senior Vice President
Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045
- (b) Mr. David S. Fredsall
Deputy Superintendent
New York State Banking Department
One State Street
New York, New York 10004
- (c) Mr. Nauman K. Dar
Group Executive
International Banking Group
Habib Bank UK
63 Mark Lane
London EC3R7NQ, England
- (d) Mr. Faiq Sadiq
Senior Vice President and Country Manager
Habib Bank Limited
New York Branch
60 East 42nd Street
New York, New York 10165

Miscellaneous

14. The provisions of this Agreement shall be binding on the Bank, the New York 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 the Bank and the New York 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 the Bank, the New York Branch, or any of their current or former institution-affiliated parties or their successors or assigns.

18. 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 Federal Deposit Insurance Act and by the Department 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 19th day of December, 2006.

HABIB BANK LIMITED

FEDERAL RESERVE BANK OF
NEW YORK

By: (signed)
Mr. Nauman K. Dar
Group Executive

By: (signed)
Mr. Daniel Muccia
Senior Vice President

HABIB BANK LIMITED
New York Branch

NEW YORK STATE BANKING
DEPARTMENT

By: (signed)
Mr. Faiq Sadiq
Senior Vice President
And Country Manager

By: (signed)
Mr. David S. Fredsall
Deputy Superintendent