

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

Docket No. 16-019-WA/RB-SM

Written Agreement by and between

LIBERTY BANK
South San Francisco, California

and

FEDERAL RESERVE BANK OF SAN
FRANCISCO
San Francisco, California

WHEREAS, Liberty Bank, South San Francisco, California (the “Bank”) is a state-chartered bank that is a member of the Federal Reserve System;

WHEREAS, the most recent examination of the Bank conducted by the Federal Reserve Bank of San Francisco (the “Reserve Bank”) identified certain deficiencies relating to compliance with applicable laws, rules, and regulations related to anti-money laundering (“AML”), including compliance with the Bank Secrecy Act (“BSA”) (31 U.S.C. § 5311 *et seq.*); the rules and regulations issued thereunder by the U.S. Department of Treasury (31 C.F.R. Chapter X); and the AML requirements of Regulation H of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. § 208.62 *et seq.*) (collectively, “BSA/AML Requirements”);

WHEREAS, the Bank, the Board of Governors, and the Reserve Bank have the common goal that the Bank operate in compliance with all applicable BSA/AML Requirements; and

WHEREAS, on August 3, 2016, the board of directors of the Bank adopted a resolution authorizing and directing Bruce K. Farrell to enter into this Written Agreement (the “Agreement”) on behalf of the Bank and consenting to compliance with each and every provision of this Agreement by the Bank.

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

Board Oversight

1. Within 60 days of this Agreement, the board of directors of the Bank shall submit a written plan to strengthen board oversight of the Bank’s compliance with the BSA/AML Requirements acceptable to the Reserve Bank. The plan shall, at a minimum, address, consider, and include:

(a) actions the board of directors will take to maintain effective control over, and oversight of, the Bank management’s compliance with the BSA/AML Requirements;

(b) adequate resources to ensure the Bank’s compliance with this Agreement and the BSA/AML Requirements, including, but not limited to, sufficient staffing levels, and periodic re-evaluation of resources and staffing needs; and

(c) measures to improve information reported to the board of directors regarding compliance with BSA/AML Requirements.

BSA/AML Compliance Program

2. Within 60 days of this Agreement, the Bank shall submit an enhanced written BSA/AML compliance program acceptable to the Reserve Bank. At a minimum, the enhanced program shall provide for:

(a) a system of internal controls reasonably designed to ensure compliance by the Bank with applicable BSA/AML Requirements, including, but not limited to, applicable recordkeeping and reporting requirements;

(b) enhanced independent testing procedures to ensure that comprehensive and timely reviews of the Bank's BSA/AML compliance program are performed on a regular basis by qualified parties who are independent of the Bank's BSA/AML compliance function;

(c) a risk assessment that appropriately identifies and considers all products and services of the Bank, customer types, and geographic locations, as appropriate, in determining inherent and residual risks;

(d) identification of the management information systems used to achieve compliance with the BSA/AML Requirements and a timeline to review key systems to ensure they are configured to mitigate BSA/AML risks; and

(e) effective training for all personnel, including targeted training for personnel with compliance-related responsibilities, in all aspects of the BSA/AML Requirements and applicable internal policies and procedures.

Customer Due Diligence

3. Within 60 days of this Agreement, the Bank shall submit an enhanced written program for conducting appropriate levels of customer due diligence by the Bank acceptable to the Reserve Bank. At a minimum, the enhanced program shall include:

(a) policies, procedures, and controls to ensure that the Bank collects, analyzes, and retains complete and accurate customer information for all account holders, including, but not limited to:

- (i) documentation necessary to verify the identity, source of wealth, and business activity of the customer; and
- (ii) documentation necessary to understand the normal and expected transactions of the customer;
- (b) a methodology for assigning timely risk ratings to account holders that considers factors such as type of customer, type of product services, and geographic locations;
- (c) a risk-focused assessment of the customer base to:
 - (i) identify the categories of customers whose transactions and banking activities are routine and usual;
 - (ii) identify the categories of customers that pose a heightened risk of conducting potentially illicit activities at or through the Bank; and
 - (iii) determine the appropriate level of enhanced due diligence necessary for the categories of customers that pose a heightened risk; and
- (d) procedures to ensure that periodic reviews and evaluations are conducted and documented for all account holders.

Suspicious Activity Monitoring and Reporting

4. Within 60 days of this Agreement, the Bank shall submit a written program acceptable to the Reserve Bank reasonably designed to ensure the identification and timely, accurate, and complete reporting by the Bank of all known or suspected violations of law or suspicious transactions to law enforcement and supervisory authorities, as required by applicable suspicious activity reporting laws and regulations. At a minimum, the program shall include:

(a) 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;

(b) measures to ensure escalation to, and documented oversight by, senior management of significant matters;

(c) policies, procedures, and controls with respect to the review and analysis of suspicious activity, including the escalation and resolution of concerns, and maintenance of supporting documentation; and

(d) controls to ensure that transaction monitoring systems and associated processes are subject to periodic reviews and timely updates.

Compliance with the Agreement

5. Within 30 days after the end of each calendar quarter following the date of this Agreement, the Bank shall submit to the Reserve Bank, written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement, a timetable and schedule to implement specific remedial actions to be taken, and the results thereof.

Approval and Implementation of Plan and Programs

6. (a) The Bank shall submit the written plan and programs that are acceptable to the Reserve Bank within the applicable time periods set forth in paragraphs 1, 2, 3, and 4 of this Agreement. Each plan or program shall contain a timeline for full implementation of the plan or program with specific deadlines for the completion of each component of the plan or program.

(b) Within 10 days of approval by the Reserve Bank, the Bank shall adopt the approved plan and programs. Upon adoption, the Bank shall promptly implement the approved plan and programs, and thereafter fully comply with them.

(c) 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.

Communications

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

- (a) Ms. Mongkha Lu
Director, Community Institutions Group
Financial Institution Supervision and Credit
Federal Reserve Bank of San Francisco
950 S Grand Avenue
Los Angeles, California 90015
- (b) Mr. Bruce K. Farrell
President
Liberty Bank
500 Linden Avenue
South San Francisco, California 94080

Miscellaneous

8. 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.

9. The provisions of this Agreement shall be binding the Bank and each of its institution-affiliated parties, as defined in section 3(u) of the FDI Act (12 U.S.C. § 1813(u)) in their capacities as such, and their successors and assigns.

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

11. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, or any other federal or state agency from taking any other action affecting the Bank, any of its subsidiaries, or any of their current or former institution-affiliated parties and their successors and assigns.

12. 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 have caused this Agreement to be executed as of the 5th day of August, 2016.

LIBERTY BANK

FEDERAL RESERVE BANK OF SAN FRANCISCO

By: /s/ Bruce K. Farrell
Bruce K. Farrell
President

By: /s/ Mongkha Lu
Mongkha Lu
Director