

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

In the Matter of

HUA NAN COMMERCIAL BANK LIMITED
Taipei City, Taiwan

and

HUA NAN COMMERCIAL BANK LIMITED
NEW YORK AGENCY
New York, New York

Docket Nos. 18-012-B-FB
18-012-B-FBR

Cease and Desist Order Issued
Upon Consent Pursuant to the
Federal Deposit Insurance Act,
as Amended

WHEREAS, Hua Nan Commercial Bank Limited, Taipei City, Taiwan (the “Bank”) is a foreign bank as defined in section 1(b)(7) of the International Banking Act (12 U.S.C. § 3101(7));

WHEREAS, the Bank conducts operations in the United States through an agency in New York, New York (the “Agency”);

WHEREAS, the Board of Governors of the Federal Reserve System (the “Board of Governors”) is the appropriate federal supervisor for the Bank and the Agency;

WHEREAS, the most recent examination of the Agency conducted by the Federal Reserve Bank of New York (the “Reserve Bank”) and the New York State Department of Financial Services, which concluded on June 30, 2017, identified significant deficiencies in the Agency’s risk management and compliance with applicable federal laws, rules, and regulations relating to anti-money laundering (“AML”) compliance, including the Bank Secrecy Act (“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. Chapter X); and the requirements of Regulation K of the Board of Governors to report suspicious activity and maintain an adequate BSA/AML compliance program (12 C.F.R. §§ 211.24(f) and 211.24(j)) (collectively, the “BSA/AML Requirements”);

WHEREAS, it is the common goal of the Board of Governors, the Reserve Bank, the Bank, and the Agency that the Agency operates in compliance with all applicable federal laws, rules, and regulations;

WHEREAS, the Bank has taken steps to mitigate its BSA/AML risk and to continue to implement improvements in the oversight of and compliance program for activities involving the Agency;

WHEREAS, the Bank, the Agency, and the Board of Governors have mutually agreed to enter into this consent Cease and Desist Order (the “Order”); and

WHEREAS, on April 19, 2018, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Tang-Chieh Wu and I-Chin Fang to enter into this Order on behalf of the Bank and the Agency, respectively, and consenting to compliance with each and every provision of this Order by the Bank and the Agency, and waiving all rights that the Bank and the Agency may have pursuant to section 8 of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. § 1818), including, but not limited to (i) the issuance of a notice of charges on any and all matters set forth in this Order; (ii) a hearing for the purpose of taking evidence on any matters set forth in this Order; (iii) judicial review of this Order; and (iv) challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Order or any provision hereof.

NOW, THEREFORE, it is hereby ordered that, before the filing of any notices, or taking of any testimony or adjudication of or finding on any issues of fact or law herein, and solely for the purpose of settling this matter without a formal proceeding being filed and without the necessity for protracted or extended hearings or testimony, pursuant to sections 8(b)(1) and (4) of the FDI Act (12 U.S.C. §§ 1818(b)(1) and 1818(b)(4)), the Bank and the Agency shall cease and desist and take affirmative action as follows:

Corporate Governance and Management Oversight

1. Within 60 days of this Order, the Bank's board of directors and the Agency's management shall jointly submit a written plan to strengthen the board of directors' and management's oversight of the Agency's compliance with the BSA/AML Requirements and the regulations issued by the Office of Foreign Assets Control of the United States Department of the Treasury ("OFAC") (31 C.F.R. Chapter V) (the "OFAC Regulations") acceptable to the Reserve Bank. The plan shall provide for a sustainable governance framework that, at a minimum, addresses, considers, and includes:

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

(b) measures to improve the reporting of the Agency's compliance with the BSA/AML Requirements and the OFAC Regulations to senior management of the Bank and the Agency;

(c) clearly defined roles, responsibilities, and accountability regarding compliance with the BSA/AML Requirements and the OFAC Regulations for the Bank's and the Agency's respective management, compliance personnel, and internal audit staff;

(d) measures to ensure BSA/AML issues are appropriately tracked, escalated, and reviewed by the Agency's senior management;

(e) measures to ensure that the persons or groups at the Bank and the Agency charged with the responsibility of overseeing the Agency's compliance with the BSA/AML Requirements and the OFAC Regulations possess appropriate subject matter expertise and are actively involved in carrying out such responsibilities; and

(f) allocation of adequate resources to ensure the Agency's compliance with this Order and the BSA/AML Requirements and the OFAC Regulations.

BSA/AML Compliance Program

2. Within 60 days of this Order, the Bank and the Agency shall jointly submit a written revised BSA/AML compliance program for the Agency acceptable to the Reserve Bank.

The revised program, at a minimum, shall provide for:

(a) a system of internal controls reasonably designed to ensure compliance with the BSA/AML Requirements;

(b) a comprehensive BSA/AML risk assessment that identifies and considers all products and services of the Agency, customer types, and geographic locations, as appropriate, in determining inherent and residual risks;

(c) management of the Agency's BSA/AML compliance program by a qualified compliance officer, who is supported by adequate staffing levels and resources, and is responsible for implementing and maintaining an effective BSA/AML compliance program that is commensurate with the Agency's size and risk profile, and periodic re-evaluation of resources and staffing needs;

(d) comprehensive and timely independent testing for the Agency's

compliance with applicable BSA/AML Requirements by parties with appropriate expertise; and

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

Customer Due Diligence

3. Within 60 days of this Order, the Bank and the Agency shall jointly submit a written revised customer due diligence program for the Agency acceptable to the Reserve Bank. At a minimum, the program shall include policies, procedures, and processes to ensure that the Agency collects, analyzes and retains complete, accurate and current customer information for all account holders and that the risk profile reflects the current information, and if applicable, documenting rationales for any revisions made to the customer risk rating.

Suspicious Activity Monitoring and Reporting Program

4. Within 60 days of the Order, the Bank and the Agency shall jointly submit a written revised program, including appropriate policies and procedures, acceptable to the Reserve Bank reasonably designed to ensure the identification and timely, accurate, and complete reporting by the Agency 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 revised program shall address, consider and include:

(a) a well-documented methodology for establishing monitoring rules and thresholds appropriate for the Agency's risk profile, products, services, customer base, and geographic locations;

(b) effective monitoring of customer accounts and transactions;

(c) adequate escalation of information about potentially suspicious activity through appropriate levels of management;

(d) the maintenance of sufficient documentation with respect to the investigation and analysis of potentially suspicious activity, including the resolution and escalation of concerns; and

(f) a timetable to implement improvements to the suspicious activity monitoring systems and processes.

Transaction Review

5. (a) Within 30 days of this Order, the Bank and the Agency shall engage an independent third party acceptable to the Reserve Bank to conduct a review of the Agency's wire transfer transaction activity from January 1, 2016 to June 30, 2016 to determine whether suspicious activity involving high risk customers or transactions at, by, or through the Agency was properly identified and reported in accordance with applicable suspicious activity reporting regulations (the "Transaction Review") and to prepare a written report detailing the independent third party's findings (the "Transaction Review Report").

(b) Based on the Reserve Bank's evaluation of the results of the Transaction Review, the Reserve Bank may direct the Bank and the Agency to engage the independent third party to conduct a review of the types of transactions described in paragraph 5(a) for additional time periods.

6. Within 10 days of the engagement of the independent third party, but prior to the commencement of the Transaction Review, the Bank and the Agency shall jointly submit to the Reserve Bank for approval an engagement letter that sets forth:

(a) the scope of the Transaction Review;

- (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 the Transaction Review Report;
- (e) a commitment that the Transaction Review Report and any drafts thereof will be provided to the Reserve Bank at the same time that the report or draft is provided to the Bank and the Agency; and
- (f) a commitment that any and all interim reports, drafts, workpapers, or other supporting materials associated with the final Transaction Review and the Transaction Review Report will be made available to the Reserve Bank upon request.

7. The Bank and the Agency shall provide to the Reserve Bank a copy of the Transaction Review Report and any drafts thereof at the same time that the report is provided to the Bank and the Agency.

8. Throughout the Transaction Review, the Bank and the Agency 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.

Office of Foreign Assets Control Compliance

9. Within 60 days of this Order, the Bank and the Agency shall jointly submit a written plan to enhance the Bank's compliance with the OFAC Regulations acceptable to the Reserve Bank, including, but not limited to, documentation of alert review and disposition, an improved methodology for assessing OFAC risks, and enhanced policies and procedures to ensure compliance with the OFAC Regulations.

Internal Audit

10. Within 60 days of this Order, the Bank and the Agency shall jointly submit a written revised internal audit program for the Agency acceptable to the Reserve Bank that shall, at a minimum, provide for:

- (a) completion, at least annually, of a written, board of directors approved, risk-based audit plan that encompasses all appropriate areas of audit coverage;
- (b) timely escalation and resolution of audit findings and follow-up reviews to ensure completion of corrective measures; and
- (c) comprehensive tracking and reporting of the status and resolution of audit and examination findings to the Bank's board of directors.

Primary Contact

11. Within 10 days of this Order, the Bank and the Agency shall designate an officer to be responsible for coordinating and submitting to the Reserve Bank the written plan and programs required under the terms of this Order.

Approval, Implementation, and Progress Reports

12. (a) The Bank and the Agency shall jointly 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, 4, 9 and 10 of this Order. 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. An independent third party acceptable to the Reserve Bank shall be retained in accordance with the Reserve Bank's requirements by the Bank and the Agency within the time period set forth in paragraph 5(a) of this Order. The engagement letter

shall be submitted to the Reserve Bank within the time period set forth in paragraph 6 of this Order.

(b) Within 10 days of acceptance by the Reserve Bank, the Bank and the Agency shall adopt the plans and programs. Upon adoption, the Bank and the Agency shall implement the plans and programs and thereafter fully comply with them.

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

13. Within 30 days after the end of each calendar quarter following the date of this Order, the Bank and the Agency shall submit to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with the provisions of this Order and the results thereof. The Reserve Bank may, in writing, discontinue the requirement for progress reports or modify the reporting schedule.

Notices

14. All communications regarding this Order shall be sent to:

- (a) Ms. Bettyann Griffith
Senior Vice President
Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045
- (b) Ms. Donna Balcer
Senior Manager
Federal Reserve Bank of San Francisco
Los Angeles Branch
950 South Grand Avenue
Los Angeles, California 90015

(c) Mr. Yao-Ching Li
Executive Vice President
Hua Nan Commercial Bank, Ltd
No. 123, Songren Road, Xinyi District
Taipei City 110, Taiwan

(d) Mr. John M. O'Connell
Chief Compliance Officer
Hua Nan Commercial Bank, Ltd.
New York Agency
330 Madison Avenue, 38th Floor
New York, New York 10017

Miscellaneous

15. Notwithstanding any provision of this Order to the contrary, the Reserve Bank may, in its sole discretion, grant written extensions of time to the Bank and the Agency to comply with any provision of this Order.

16. The provisions of this Order shall be binding on the Bank and the Agency and each of 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)) in their capacities as such, and their successors and assigns.

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

18. The provisions of this Order 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, the Agency, any of their subsidiaries, or any of their current or former institution-affiliated parties and their successors and assigns.

