

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

_____)	
In the Matter of)	
)	
FIRSTBANK OF PUERTO RICO)	ORDER TO CEASE AND DESIST
SANTURCE, PUERTO RICO)	
)	FDIC-06-146b
(INSURED STATE NONMEMBER BANK))	
_____)	

Firstbank of Puerto Rico, Santurce, Puerto Rico ("Insured Institution"), having been advised of its right to a Notice of Charges and of Hearing detailing the unsafe or unsound banking practices and violations of law, regulation and written condition imposed by an order granting an application alleged to have been committed by the Insured Institution and of its right to a hearing on the alleged charges under section 8(b)(1) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b)(1), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with counsel for the Federal Deposit Insurance Corporation ("FDIC"), dated August 22, 2006, whereby solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices and violations of law, regulation and written condition imposed by an order granting an application, the Insured Institution consented

to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC.

The FDIC considered the matter and determined that it had reason to believe that the Insured Institution had engaged in unsafe or unsound banking practices and had committed violations of law, regulation and/or written condition imposed by an order granting an application. The FDIC, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED that the Insured Institution, its directors, officers, employees, agents and other institution-affiliated parties (as that term is defined in Section 3(u) of the Act, 12 U.S.C. § 1813(u)), and its successors and assigns cease and desist from engaging in the unsafe or unsound banking practices and committing the violations of law, regulation and written condition imposed by an order granting an application order specified below:

(a) operating with inadequate management supervision and oversight by the Insured Institution's board of directors ("Board") to prevent unsafe or unsound practices and violations of the Bank Secrecy Act, 31 U.S.C. § 5311 *et seq.*, 12 U.S.C.

§ 1829b and 12 U.S.C. §§ 1951-1959, and its implementing regulations, 31 C.F.R. Part 103 and 12 C.F.R. Part 353, and 12 U.S.C. § 1818(s) and its implementing regulation, 12 C.F.R. § 326.8 (collectively referred to as "BSA");

(b) operating with inadequate management supervision and oversight by the Board to ensure compliance with a written condition imposed by the FDIC in its September 27, 2002 order approving the Insured Institution's application to establish a branch in the British Virgin Islands which required the Insured Institution to develop and maintain an enhanced due diligence program designed to identify and monitor customers and transactions posing a heightened risk to the Insured Institution;

(c) operating with an inadequate BSA/Anti-Money Laundering Compliance Program ("BSA/AML Compliance Program") to monitor and assure compliance with the BSA; and

(d) operating with ineffective policies, procedures and processes to adequately screen, monitor and verify account transactions to ensure compliance with the regulations promulgated by the United States Department of Treasury's Office of Foreign Assets Control ("OFAC"), 31 C.F.R. Part 500, as well as all statutes, regulations, rules and/or guidelines issued or administered by OFAC ("OFAC Provisions").

IT IS FURTHER ORDERED that the Insured Institution, its institution-affiliated parties, and its successors and assigns, shall take affirmative action as follows:

CORRECTION AND PREVENTION

1. Beginning on the effective date of this Order, the Insured Institution shall take all steps necessary, consistent with other provisions of the ORDER and sound banking practices, to correct and prevent the unsafe or unsound banking practices and violations of law, regulation and written condition imposed by an order granting an application identified in the FDIC's January 9, 2006 Report of Examination ("ROE"), address each deficiency identified in the ROE and ensure the Insured Institution is operated with adequate management supervision and Board oversight to prevent any future unsafe or unsound banking practices, violations of law, regulation and/or written condition imposed by an order granting an application.

SYSTEM OF BSA INTERNAL CONTROLS

2. Within 120 days from the effective date of this ORDER, the Insured Institution shall develop, adopt, and implement a system of internal controls designed to ensure full compliance with the BSA ("BSA Internal Controls") taking into consideration its size and risk profile. At a minimum, such system of BSA Internal Controls shall include policies, procedures and processes addressing the following areas:

(a) Risk Assessment: The Insured Institution shall conduct an initial BSA/AML risk assessment of the Insured

Institution's operations ("Risk Assessment") taking into consideration its customers, their geographic locations, the types of accounts, products and services offered and the geographic areas in which these accounts, products and services are offered to enable it to stratify its customers, products, services and geographies by risk category and determine the Insured Institution's overall risk profile. The Insured Institution shall establish written policies, procedures and processes to conduct periodic Risk Assessments and to adjust its stratifications and risk profile as appropriate, but in no event less frequently than every twelve to eighteen months;

(b) Customer Due Diligence: The Insured Institution shall develop, adopt and implement written policies, procedures and processes to operate in conjunction with the customer identification program required by subparagraph (g) below for:

- (i) establishing customer profiles based upon the business activity, ownership structure, anticipated or actual volume and types of transactions (including those transactions involving high-risk jurisdictions) of that customer and determining whether the customer should be subject to the Insured Institution's enhanced due diligence policies,

procedures and processes required by subparagraph (c) below;

- (ii) assigning risk ratings to each customer based upon their profile and the results of the Risk Assessment required by subparagraph (a) above;
- (iii) maintaining and periodically updating customer profiles and risk ratings; and
- (iv) resolving issues when insufficient or inaccurate information is obtained to appropriately establish a customer profile and risk rating;

(c) Enhanced Due Diligence: The Insured Institution shall develop, adopt and implement policies, procedures and processes to operate in conjunction with the due diligence policies, procedures and processes required by subparagraph (b) above and the customer identification program required by subparagraph (g) below with respect to high-risk customers to:

- (i) determine whether additional information, such as the purpose of the account, source of funds and wealth, the beneficial owners of the account, customer's occupation or type of business, financial statements, banking references, domicile of the

customer's business, proximity of customer's residence, place of employment or place of business to the Insured Institution, description of primary trade area of customer or beneficial owner and whether international transactions are expected to be routine, description of the business operations, the anticipated volume of currency and total sales and a list of major customers and suppliers and explanations for changes in account activity should be required and collected for that customer's profile; and

- (ii) determine whether on-site visits to collect and verify information for the customer profile are warranted;

(d) Account/Transaction Monitoring: The Insured Institution shall develop, adopt and implement policies, procedures and processes appropriate to the Insured Institution considering its size and risk profile (based upon the Risk Assessment) to operate in conjunction with the policies, procedures and processes required by subparagraph (e) below and to monitor and aggregate currency activity, funds transfers, and monetary instrument sales to ensure the timely, accurate and complete filing of Currency Transaction Reports ("CTRs"), Reports of International Transportation of Currency or Monetary Instruments ("CMIRs"), Reports of Foreign Bank and Financial

Accounts ("FBARs") and any other similar or related reports required by law or regulation;

(e) Suspicious Activity Reporting: The Insured Institution shall, taking into account its size and risk profile (based upon the Risk Assessment), develop, adopt and implement appropriate policies, procedures, processes and systems for monitoring, detecting and reporting suspicious activity being conducted within or through the Insured Institution. These policies, procedures, processes and systems should:

- (i) collect and analyze data from each branch and business area of the Insured Institution on a centralized basis for the production of periodic reports designed to identify unusual or suspicious activity, to monitor and evaluate unusual or suspicious activity, and to maintain accurate information needed to produce these reports;
- (ii) be able to identify related accounts, countries of origin, location of the customer's businesses and residences to evaluate patterns of activity;
- (iii) cover a broad range of timeframes, including individual days, a number of days, and a number of months, as appropriate, and should segregate

- transactions that pose a greater than normal risk for non-compliance with BSA;
- (iv) establish risk based monitoring of high-risk customers enabling the Insured Institution to identify transactions for further monitoring, analysis and possible reporting;
 - (v) establish periodic testing and appropriate adjustment to the policies, procedures and processes utilized to monitoring high risk customers;
 - (vi) ensure 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 SARs on the same customer, or in the event a correspondent or other customer fails to provide due diligence information. Such procedures shall describe the circumstances under which an account should be closed and the processes and procedures to be followed in doing so;
 - (vii) require the documentation of management's decisions to file or not to file a SAR;
- and

(viii) ensure the timely, accurate and complete filing of required SARs and any other similar or related reports required by law or regulation;

(f) Wire Transfer Transactions: The Insured Institution shall develop, adopt and implement policies, procedures and processes with respect to wire transfer recordkeeping, including requirements for complete information on beneficiaries and originators, as required by 31 C.F.R. 103.33;

(g) Customer Identification Program: The Insured Institution shall develop, adopt and implement written policies, procedures and processes enhancing its customer identification program ("CIP") required by 12 C.F.R. § 326.8(b) to ensure that the Insured Institution's CIP contains at a minimum:

- (i) account opening procedures specifying the identifying information required for each customer type;
- (ii) risk-based procedures for verifying the identity of new customers within a reasonable time after the account is opened;
- (iii) procedures for circumstances in which the Insured Institution is unable to form a reasonable belief that it knows the true identity of a customer;

- (iv) risk based procedures for reviewing existing customers to determine whether sufficient information has been obtained to establish the customer profiles and risk ratings required by subparagraph (b) above; and procedures for obtaining any information necessary for such profiles and risk ratings;
- (v) procedures for recordkeeping and retention;
- (vi) procedures to determine whether a customer appears on any federal government list of known or suspected terrorists or terrorist organizations when such list is generated;
- (vii) procedures to provide adequate notice to customers that the Insured Institution will be requesting information to verify their identities;
- (viii) if applicable, procedures for reliance upon another financial institution to perform one or more elements of its CIP. Such procedures shall require at a minimum, confirmation that the relied-upon financial institution is subject to

a rule implementing the program requirements of 31 U.S.C. § 5318(h) and is regulated by federal functionally regulator, confirmation that the customer at issue has an account or is opening an account at the relied-upon financial institution, a determination that the Insured Institution's reliance upon the financial institution is justified under the circumstances and confirmation that the relied-upon financial institution has entered into a contract with the Insured Institution requiring it to certify annually to the Insured Institution that it has implemented its BSA/AML Compliance Program and will perform the specified requirements of the Insured Institution's CIP; and

(h) BSA/AML Staffing and Resources: The Insured Institution shall review BSA/AML compliance staffing and resources taking into consideration its size and risk profile (based upon the Risk Assessment) and make such modifications as are appropriate. The Insured Institution shall establish written policies, procedures and processes requiring the periodic review

of and appropriate adjustment to its BSA/AML staffing and resources.

SYSTEM OF OFAC INTERNAL CONTROLS

3. Within 90 days of the effective date of this ORDER, the Insured Institution shall develop, adopt, and implement a system of internal controls designed to ensure full compliance with the OFAC Provisions ("OFAC Internal Controls") taking into consideration its customers, their geographic locations, the types of accounts, products and services it offers these customers and the geographic areas in which these accounts, products and services are offered. At a minimum, such system of OFAC Internal Controls shall include:

(a) written policies, procedures and processes for conducting OFAC searches of each department or business line of the Insured Institution;

(b) written policies, procedures, and processes for conducting OFAC searches of customers and account parties, including, but not limited to, beneficiaries, guarantors, principals, beneficial owners, nominee shareholders, directors, signatories and powers of attorney;

(c) written policies, procedures and processes for obtaining and updating OFAC lists or filtering criteria;

(d) written policies, procedures and processes for identifying and investigating potential OFAC matches;

(e) written policies, procedures and processes for blocking and rejecting transactions;

(f) written policies, procedures and processes to inform OFAC and the Insured Institution's Board or its designee of blocked or rejected transactions;

(g) written policies, procedures and processes to manage blocked accounts; and

(h) written policies, procedures and processes to retain OFAC records in accordance with the OFAC Provisions.

INDEPENDENT TESTING

4. Within 180 days from the effective date of this ORDER, the Insured Institution shall establish independent testing programs for compliance with the BSA and OFAC Provisions, to be performed on no less than an annual basis. The scope of the testing procedures to be performed, and testing results, shall be documented in writing and approved by the Insured Institution's Board or its designee. The testing procedures, at a minimum, should include the following:

(a) compliance testing for all appropriate business lines conducted by qualified staff independent of the Insured Institution's compliance, BSA/AML and OFAC functions;

(b) formal, documented testing programs, including adequately detailed reports and workpapers;

(c) testing of the adequacy of the Insured Institution's Risk Assessment;

(d) testing of the adequacy of the BSA and OFAC Internal Controls designed to ensure compliance with both the BSA and OFAC Provisions;

(e) testing of the adequacy of the Insured Institution's Training Program, as that term is defined in paragraph 5;

(f) a risk-based approach that includes transactional testing and verification of data for higher risk accounts;

(g) review of independent testing results by senior management;

(h) procedures to ensure that senior management institutes appropriate actions in response to independent testing results; and

(i) direct lines of reporting between the independent testing function and the Board or its designee.

TRAINING

5. Beginning on the effective date of the ORDER, the Insured Institution shall take all steps necessary, consistent with sound banking practices, to ensure that all appropriate personnel are aware of, and can comply with, the requirements of the BSA and OFAC Provisions applicable to the individual's

specific responsibilities to assure the Insured Institution's compliance with the BSA and OFAC Provisions.

6. Within 90 days from the effective date of this ORDER, the Insured Institution shall develop, adopt and implement effective training programs designed for the Board, management and staff and their specific compliance responsibilities on all relevant aspects of laws, regulations, and Insured Institution policies, procedures and processes relating to the BSA and the OFAC Provisions ("Training Program"). This Training Program shall ensure that all appropriate personnel are aware of, and can comply with, the requirements of both the BSA and OFAC Provisions on an ongoing basis. The Training Program shall include:

(a) an overview of BSA/AML and OFAC Provisions for new staff along with specific training designed for their specific duties and responsibilities upon hiring;

(b) training on the Insured Institution's BSA/AML policies, procedures and processes along with new rules and requirements as they arise for appropriate personnel designed to address their specific duties and responsibilities;

(c) training on the Insured Institution's OFAC policies, procedures and processes along with new rules and requirements as they arise for appropriate personnel designed to address their specific duties and responsibilities;

(d) a requirement that the Board fully document the training of each employee with respect to both the BSA/AML and

OFAC policies, procedures and processes, including the designated BSA and OFAC Compliance Officer(s); and

(e) a requirement that training in these areas be conducted no less frequently than annually.

DESIGNATION OF BSA AND OFAC OFFICER

7. Within 30 days from the effective date of this ORDER, the Insured Institution shall provide for the designation of a qualified individual or individuals ("BSA Officer") responsible for coordinating and monitoring day-to-day compliance with the BSA Provisions. The BSA Officer shall: (i) have sufficient executive authority to monitor and ensure compliance with the BSA; (ii) be responsible for determining the adequacy of the Insured Institution's BSA/AML staffing given its size and risk profile (based upon the Risk Assessment) and for supervising such staff; (iii) report directly to the Insured Institution's Board, the committee established pursuant to paragraph 16 of this ORDER, or the Insured Institution's chief executive officer; (iv) report to the Insured Institution's Audit Committee on a regular basis, not less than quarterly, with respect to BSA/AML matters; and (v) be responsible for assuring the proper and timely filing of CTRs, CMIRs, FBARs, SARs and any other BSA required reports.

8. Within 30 days from the effective date of this ORDER, the Insured Institution shall provide for the designation of a qualified individual or individuals ("OFAC Officer") responsible

for coordinating and monitoring day-to-day compliance with the OFAC Internal Controls and the oversight of blocked funds. The OFAC Officer shall (i) have sufficient executive authority to monitor and ensure compliance with the OFAC Provisions; (ii) report directly to the Insured Institution's Board, the committee established pursuant to paragraph 16 of this ORDER, or the Insured Institution's chief executive officer; (iii) report to the Insured Institution's Audit Committee on a regular basis, not less than quarterly, with respect to OFAC matters; and (iv) be responsible for assuring the proper and timely filing of, reports of blocked or rejected transactions with OFAC and any other reports required by the OFAC Provisions.

9. The designated BSA Officer and the OFAC Officer may be the same qualified individual or individuals.

AUDIT POLICY

10. Within 180 days from the effective date of this ORDER, the Insured Institution shall amend its policies, procedures, and processes with regard to both internal and external audits so that the Insured Institution periodically reviews compliance with both the BSA and OFAC Provisions as part of its routine auditing. As long as this ORDER shall remain in effect, the Insured Institution's internal and external audits shall include a review of these areas, with significant exceptions reported directly to the Insured Institution's Audit Committee and the Board.

11. Beginning on the effective date of this ORDER, the Insured Institution shall provide periodic reports to the Audit Committee of the Insured Institution's Board setting forth any law enforcement inquiry that relates in any way to the BSA or OFAC Provisions, any criminal subpoena received by the Insured Institution and any action taken or response provided with respect to such inquiry or subpoena.

THIRD PARTY LOOK BACK REVIEW

12. (a) Within 30 days from the effective date of this ORDER, the Insured Institution shall engage a qualified independent firm ("Consultant") acceptable to the Regional Director to conduct a review of account and transaction activity for the time period beginning June 1, 2005 through the effective date of this ORDER to determine whether suspicious activity involving any accounts of or transactions within or through the Insured Institution was properly identified and reported in accordance with the applicable suspicious activity reporting requirements ("Look Back Review").

(b) Within 10 days of the engagement of the Consultant, but prior to the commencement of the Look Back Review, the Insured Institution shall submit to the Regional Director for approval an engagement letter that sets forth:

- (i) the scope of the Look Back Review,
including the types of accounts and

transactions to be reviewed which shall, at a minimum, include the Insured Institution's foreign branch accounts, cash intensive business accounts, customers with high, frequent or international wire transactions and customers with financial transactions in locations linked to terrorist, drug trafficking or money laundering, including, but not limited to, the transactions or accounts identified in the ROE as requiring additional investigation by the Insured Institution;

- (ii) the methodology for conducting the Look Back Review, including any sampling procedures to be followed;
- (iii) the expertise and resources to be dedicated to the Look Back Review; and
- (iv) the anticipated date of the completion of the Look Back Review.

(c) Upon completion of the Look Back Review, the Consultant shall provide a copy of the report detailing its findings to the Regional Director at the same time the report is provided to the Insured Institution.

(d) Within 30 days of its receipt of the Look Back Review report, the Insured Institution shall ensure that all matters or transactions required to be reported, that have not previously been reported, are reported in accordance with applicable laws and regulations.

THIRD PARTY REVIEW

13. Within 210 days of the effective date of this ORDER, an independent third party, engaged by the Insured Institution, shall begin a comprehensive review ("Review") of the actions taken by the Insured Institution in connection with paragraphs 1 through 11 of this ORDER and the Insured Institution's compliance with the BSA and OFAC Provisions. At a minimum, this Review shall include the effectiveness of the policies, procedures and processes adopted by the Insured Institution pursuant to this ORDER and their implementation. The independent third party shall prepare and submit a written report of its findings (the "Review Report") to the Board and the Regional Director within 30 days of the completion of the Review.

14. (a) Within 30 days of receipt of the Review Report, the Board shall appropriately amend its policies, procedures and processes to implement any recommendations made in the Review Report and address any concerns or deficiencies noted in the Review Report.

(b) Within 45 days of receipt of the Review Report, the Board shall provide a written response to the Review Report to the Regional Director outlining the steps it has taken to implement the recommendations made in the Review Report and to address any concerns or deficiencies noted in the Review Report. If the Board fails to implement any of the Review Report's recommendations or address any concerns or deficiencies noted in the Review Report, it shall provide to the Regional Director in its response a comprehensive explanation of its rationale for not implementing the Review Report's recommendations or addressing any concerns or deficiencies noted in the Review Report.

SHAREHOLDERS

15. Following the effective date of this ORDER, the Insured Institution shall send to its shareholders or otherwise furnish a description of this ORDER (i) in conjunction with the Insured Institution's next shareholder communication, and also (ii) in conjunction with its notice or proxy statement preceding the Insured Institution's next shareholder meeting. The description shall fully describe the ORDER in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Division of Supervision and Consumer Protection, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429 for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

COMPLIANCE COMMITTEE

16. Within 30 days from the effective date of this ORDER, the Insured Institution's Board shall appoint a committee ("Compliance Committee") composed of at least three directors who are not now, and have never been, involved in the daily operations of the Insured Institution, and whose composition is

acceptable to the Regional Director, to monitor the Insured Institution's compliance with this ORDER. Within 30 days from the effective date of this ORDER, and at monthly intervals thereafter, such Compliance Committee shall prepare and present to the Insured Institution's Board a written report of its findings, detailing the form, content, and manner of any action taken to ensure compliance with this ORDER and the results thereof, and any recommendations with respect to such compliance. Such progress reports shall be included in the minutes of the Insured Institution's Board meetings. Nothing contained herein shall diminish the responsibility of the entire Board to ensure compliance with the provisions of this ORDER.

PROGRESS REPORTS

17. By the 30th day after the end of the calendar quarter following the effective date of this ORDER, and by the 15th day after the end of every calendar quarter thereafter, the Insured Institution shall furnish written progress reports to the Regional Director detailing the form, content, and manner of any actions taken to secure compliance with this ORDER, and the results thereof.

OTHER ACTIONS

18. It is expressly and clearly understood that if, at any time, the Regional Director shall deem it appropriate in fulfilling the responsibilities placed upon him or her under applicable law to undertake any further action affecting the Insured Institution, nothing in this ORDER shall in any way inhibit, estop, bar or otherwise prevent him or her from doing so, including, but not limited to, the imposition of civil money penalties.

19. It is expressly and clearly understood that nothing herein shall preclude any proceedings brought by the Regional Director to enforce the terms of this ORDER, and that nothing herein constitutes, nor shall the Insured Institution contend that it constitutes, a waiver of any right, power, or authority of any other representatives of the United States or agencies thereof, Department of Justice or any other representatives of the State of New York or any other agencies thereof, including any prosecutorial agency, to bring other actions deemed appropriate.

ORDER EFFECTIVE

20. The effective date of this ORDER shall be immediately upon the date of issuance.

21. The provisions of this ORDER shall be binding upon the Insured Institution, its directors, officers, employees, agents, successors, assigns, and other institution-affiliated parties of

the Insured Institution.

20. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provisions of this ORDER shall have been modified.

Pursuant to delegated authority.

Dated: August 24, 2006.

Christopher J. Spoth
Regional Director