**BSA/AML & OFAC**

**Annual Risk Assessments**

**Assessment Period:** July 1, 2015 through June 30, 2016

**Overview**

J. Wallace Bank was founded in 1911 and is headquartered in the Township of Washington, New Jersey. Its parent company, J. Wallace Financial Corp. operates as a savings and loan holding company for J. Wallace Bank (“J. Wallace”) that provides retail and commercial banking services to individual and business customers in the United States. As of June 30, 2016, it operates 99 full service branches in Bergen, Hudson, Essex, and Passaic counties, New Jersey. J. Wallace qualifies as a “qualified thrift lender” and has elected to be treated as a savings association for purposes of the savings and loan holding company provisions of the Home Owners’ Loan Act. This allows J. Wallace Financial Corp. to be regulated as a savings and loan holding company rather than as a bank holding company.

J. Wallace offers a range of deposit products, including non-interest and interest-bearing demand and NOW checking accounts, money market deposit accounts, savings accounts, retirement accounts, and time deposits. J. Wallace provides multifamily loans that consists of mortgage loans secured by apartment buildings; commercial real estate loans comprising mortgage loans secured by commercial offices, retail space, warehouses, and mixed-use buildings; residential real estate mortgage loans, such as one to four family residential real property and consumer loans; and construction loans, which include one to four family and commercial development project loans. Its loan products also include second mortgage and equity loans; home equity lines of credit; and other loans, including business loans secured by cash and other business assets, account loans, and commercial line of credit loans. In addition, the company invests in securities and real estate properties.

Developing a Bank Secrecy Act (BSA) / Anti-Money Laundering (AML) / Office of Foreign Assets Control (OFAC) risk profile is the foundation in establishing an appropriate and effective BSA/AML/OFAC Program (Policy and Procedures). It also assists Management of J. Wallace in aligning appropriate resources to the BSA function.

Management of J. Wallace recently performed its annual BSA/AML Risk Assessment and OFAC Risk Assessment respectively in accordance with the guidance provided within the FFIEC Bank Secrecy Act Anti-Money Laundering Examination Manual released December 2014. The risk assessments are based on identification and measurement of the BSA/AML/OFAC risks associated with the bank’s products, services, customers, and geographic locations. This report reflects the bank’s level of risk exposure to being used by criminals to further their illegal activity and terrorist financing, as well as, possible OFAC violations as of June 30, 2016. It also serves as a basis for the development of risk- based policies, procedures, training, testing where appropriate and for allocation of resources to the BSA function.

The BSA/AML Risk Assessment takes into consideration 12 different risk factors and the OFAC Risk Assessment takes into consideration 7 different risk factors, which comprise the “Inherent Quantity of Risk” ratings. Each factor is important for purposes of establishing an appropriate and effective BSA/AML/OFAC Program, but each factor does not, by itself, reflect the complete picture of the risk of J. WALLACE being used for illegal activity or terrorist financing. Consequently, a high rating on an individual factor does not mean the bank is high risk; it only means that particular area of the bank is high risk and that appropriate controls should be in place to mitigate the risk.

The quantity of BSA/AML and OFAC risks assigned herein do not take into consideration factors contributing to the bank’s risk of non-compliance with applicable BSA/AML/OFAC regulations, regulatory examination violations, or past or recent enforcement actions. Moreover, the Quantity of Risk does not evaluate the effectiveness of controls. The effectiveness of controls is evaluated during the annual BSA Independent Testing Audit.

Inherent Quantity of Risk ratings do not take into account any mitigating controls. The matrices herein detail controls, processes, training, testing and experience that allow Management to further assess J. Wallace Residual Risks. This assists in determining whether the BSA/AML/OFAC Program is appropriate for the risk profile of the bank and whether adequate resources necessary to effectively administer the Program are in place. The Residual Risks provide the bank’s Management and the Board of Directors with a more accurate representation of the bank’s overall BSA/AML/OFAC risk exposure after addressing the mitigating controls in place.

**Executive Summary**

The risk of non-compliance with BSA/AML or OFAC arising from violations of, or non-conformance with BSA/AML and OFAC laws, rules, regulations, regulatory requirements, or internal policies and procedures is a risk to earnings, capital, reputation, franchise value, or growth opportunities. This risk exposes J. Wallace to potential enforcement actions, civil money penalties, payment of damages, and the voiding of contracts.

It is important to note that the BSA/AML and OFAC risk assessments did not evaluate the bank’s risk of non-compliance with the minimum regulatory requirements of a BSA/AML/OFAC Program; rather, it identified the money laundering, terrorist financing, and OFAC risks associated with the bank’s customers, products, services, and geographies.

As a result of the **BSA/AML Risk Assessment**, J. Wallace Bank’s **Inherent Quantity of Risk** is considered **HIGH** for the Bank Secrecy Act and potential money laundering activities mainly due to the following:

* Number of cash-intensive business customers;
* Number of SARs filed for cash structuring;
* Branches in high risk jurisdictions as defined by HIDTA and HIFCA;
* Number of customers who are Nonresident Aliens (NRAs);
* High risk products: Mobile deposit and remote deposit capture;
* Number and volume of international wires to and from international locations.

Due to the mitigating controls J. Wallace has put in place, the **Residual Risk** is considered **MODERATE**.

As a result of the **OFAC Risk Assessment**, J. Wallace Bank’s **Inherent Quantity of Risk** is considered **MODERATE** for OFAC risk exposure mainly due to the following:

* Volume of higher risk NRA customers;
* Wire transfers from international locations;
* International ACH transactions

However, due to the mitigating controls J. Wallace has put in place, the **Residual Risk** is considered **LOW**.

These ratings suggest that the bank’s customers, entities, products, services, geographies and activities currently have an elevated risk of being utilized for money laundering and terrorist financing and an average risk of encountering OFAC issues.

The Board of Directors and Management of J. Wallace understand their BSA and OFAC responsibilities and are committed to implement and maintain an effective on-going BSA and OFAC compliance program commensurate with the Bank’s risk profile. Such a program includes effective administration of the Customer Identification Program, Customer Due Diligence Procedures and Enhanced Due Diligence Procedures to address appropriately the risks identified, as well as robust programs for training Bank staff and for the independent testing of the BSA/AML/OFAC programs.

To ensure that the Bank’s controls remain at least adequate to maintain the residual risks of its activities within tolerable levels, the BSA/AML/OFAC program includes the following priorities:

* Maintain rigorous programs to increase compliance awareness bank wide.
* Provide advanced BSA AML business line training on an ongoing basis.
* Maintain programs to embed responsibility for BSA AML compliance in each of the Bank’s lines of business.
* Maintain robust KYC/CDD/EDD processes.
* Maintain rigorous CIP and SAR procedures.
* Maintain robust transaction monitoring for higher risk customers / products.
* Continue to evaluate the adequacy of reporting to management and the Board of Directors.
* Continue to evaluate the effectiveness of the Bank’s BSA AML transaction monitoring system, Patriot Officer and soon to be migrated to FIS PRIME.

During the last fiscal year, Mercadien, P.C., Certified Public Accountants (“Mercadien”) completed a BSA AML System Optimization for the Bank. The independent review included procedures to verify the quality of alerts being generated for the purposes of monitoring at the Bank.

Mercadien concluded that the Bank’s transaction monitoring system parameters appear adequate, as established, to detect potentially suspicious activity for review. Mercadien recommended deletions and additions to the scenarios being run by Patriot in an effort to reduce redundant rules and enhance the Bank’s coverage. These recommendations were implemented in the 4th quarter of FYE 15’, which led to more efficiency in the Bank’s transaction monitoring for suspicious activity.

GRC Risk Solutions, LLC (“GRC”) completed a validation of the AML transaction monitoring system, Patriot Officer. The independent validation included the following:

* Review of BSA/AML System Design
* Review BSA/AML Workflow Processing
* Review of List Monitoring Alerts
* Performance of a detailed, system-driven Transaction Code Mapping exercise for transaction codes identified during the three-month period
* Performance of Alert Detection scenario coverage verification.

The validation concluded the following:

* Bank customers, non-customers, accounts, and transactions are scrubbed through the appropriate sanction screening lists.
* All transaction codes are properly mapped between the core system (i.e., FIS Bankway) and the BSA/AML system (i.e., Patriot Officer).
* All wire transactions, foreign and domestic, are properly mapped between FIS Bankway and Patriot Officer.
* The Patriot Officer system has adequate transaction coverage across the Bank’s products and services. However, some minor recommendations are noted below.

**Methodology**

The BSA/AML/OFAC risk assessment follows guidance in the most current edition of the FFIEC Bank Secrecy Act Anti-Money Laundering Examination Manual (the “FFIEC Manual”) last updated in December 2014. This report sets forth the results of the risk assessments as of June 30, 2016. It estimates J. Wallace Bank’s vulnerability to illegal activity (including terrorist financing), as well as to possible OFAC violations taking into account the identification and measurement of the BSA/AML/OFAC risks associated with its products, services, customers, and the geographic locations of its operations and its customers. This report concludes with a discussion of the need, if any, for enhancements to the Bank’s policies, procedures or programs for training and testing possibly warranted taking into account both the Bank’s current operations and its near-term growth plans, including the planned introduction of new products and services, as well as whether the Bank appropriately allocates resources to the BSA/AML/OFAC compliance functions. Non-compliance with BSA/AML/OFAC laws, regulations, rules or regulatory requirements – and non-compliance with internal policies and procedures adopted to achieve compliance with them – is likely to have a significant adverse effect on earnings, capital, reputation, franchise value and growth opportunities. Such non-compliance exposes J. Wallace to enforcement actions, civil money penalties, payments of damages and the voiding of contracts.

The Bank prepared a baseline risk assessment profile relating its preparedness and exposure to respond to a broad set of BSA/AML conditions – specifically concerning its own business risk. The Bank considered information about its current products, services, geographic areas for service, customers, and international presence in determining its risk exposure to money-laundering and terrorist financing activity. Based upon this assessment the Bank developed appropriate customer due diligence, suspicious activity monitoring, reporting, and recordkeeping controls appropriate to manage its risk exposure.

Within the Risk Assessment profile there are numerous risk exposure characteristics that were considered in which the Bank weighed the probability of money laundering or terrorist financing activity occurring. Additionally, independent of probability, the Bank estimated the scope of impact and relevant scale of the impact to the business that would result if the event actually occurred or a deficiency was made known in our BSA/AML program.

Furthermore, the assessment considered the Bank’s resources and readiness to comply with BSA/AML requirements, our policy, procedures, and controls by weighing:

1. Experience – Level of knowledge and experience by staff in managing BSA compliance programs, analytical experience in detecting money laundering and terrorist financing schemes, and administration management in reporting and recordkeeping.
2. Training – Depth, frequency, and comprehensiveness of training to general staff, personnel with BSA responsibilities, and BSA Department personnel.
3. Testing – Validation of the BSA/AML program through independent testing.
4. Program – Comprehensiveness of Policy, procedures, and controls necessary to manage the risk exposure in those areas of greatest risk and attaining compliance with the regulations and laws.

In reviewing the **Probability** of an event due to the nature of customer, product, and service against its potential **Impact** and the need for the Bank to maintain a strong **Readiness** response capability; the Bank derived **overall Risk Exposure prioritization ratings** that reflect the Bank’s priority to take action in establishing programs to effectively manage the risk to an acceptable level.

**Caveats**

These risk assessments include subjective assessments of the magnitude of inherent risk and of the effectiveness of mitigating controls. Neither the risk assessments themselves nor the procedures for developing them, however, provide a validation of these assessments. The Bank’s internal audit service provider performs such a validation through its independent testing of the Bank’s exposure to BSA/AML/OFAC risks and the effectiveness of its controls in mitigating those risks. These subjective assessments, however, do take into account the service provider’s results, as well as the results of supervisory examinations, including identified violations of law and enforcement actions.

Not all activities are clearly illegal/improper or clearly legitimate/proper, until appropriate authorities designate such activity as legal or illegal.

**Forward Looking Risk**

There have been no significant changes in J. Wallace existing products, services, and business strategy during the assessment period. The bank is de-emphasizing retail and continues to seek aggressive growth primarily in commercial businesses, with a particular emphasis on financing multi-family apartments.

The following is a high level summary of modeled strategic scenarios that the Bank may consider in the future.

Scenario 1: Organic Growth Scenario

* Organic Growth Scenario
* Continued loan platform in CRE, but maintain concentration below Board limits
* Payment of regular quarterly cash dividends and special dividends each December

Scenario 2: Scenario 1 plus

* Fed Forecast Rate Environment
* CRE loan originations decline by 10% (since prepayment speed slow and loans extend)

Scenario 3: Scenario 1 plus

* Scenario 1 with a reduction in all loan originations of 15% and deposit growth of 10%

**BSA/AML Direction of Risk**

The J. Wallace BSA/AML Risk Assessment performed as of June 30, 2016 yielded a **HIGH** Inherent Risk Rating and a **MODERATE** Residual Risk Rating, which is consistent with the risk rating of the previous assessment. The direction of Risk over the next 12 months is expected to be trending slightly higher as a result of the following:

1. Moderate turnover at the management level;
2. Moderate turnover in Corporate staff positions;
3. High and critical turnover in Branch staff positions (Tellers);
4. Moderate increase in incoming international wire activity;
5. Moderate increase in high risk customers;
6. Aggressive growth in lending, retail and commercial banking;
7. Moderate to high increase in eBanking and RDC product lines.

**Bank Size**

J. Wallace falls under Uniform Bank Performance Report (UBPR) 101S SUPPLEMENTAL PEER GROUP, defined as all Stock-owned insured savings banks in excess of $1 billion. As of June 30, 2016, total asset size of J. Wallace was $3,669,338,000. From the last assessment period with an asset size of $3,353,065,000, the bank has grown about 1% and management continues to seek aggressive growth.

**Branch Locations**

The number of J. Wallace branches increased by one to 99 with the addition of the Westwood branch. All J. Wallace branches are located in both HIDTA / HIFCA zone. HIFCA stands for High Intensity Financial Crime Area. HIDTA stands for High Intensity Drug Trafficking Areas. HIFCA areas were created through legislation as a means of concentrating law enforcement efforts at the federal, state, and local levels in high intensity money laundering zones. The number of branches located in HIDTA/HIFCA zones has not changed since last assessment period. J. Wallace provides deposit, retail banking and commercial banking.

The Bank’s 99 branch offices are located in 4 Northern NJ Counties: Bergen, Hudson, Passaic and Essex Counties. The bank has considered the areas serviced by its offices and areas of its customers’ residences and business locations. Comprehensive training for all departments was completed during the year with these factors in mind.

The uses of the Patriot Officer Automated Anti-Money Laundering System and employee training have increased awareness and detection of suspicious activity but the Bank’s inherent risk remains **High** due to the area designations.

**Overseas Branches/Parallel Banking**

J. Wallace does not have overseas branches, nor does it maintain any Parallel Banking relationships. Management does not seek to open any overseas branches at this time or enter into any parallel banking relationships.

**Mergers & Acquisitions**

There have not been any mergers or acquisitions during the assessment period and management does not foresee any such activity in the near future.

**Potential or Pending Legal Proceedings**

As of June 30, 2016 there is no material pending or material potential legal proceeding involving J. Wallace Financial Corp., J. Wallace Bank, or its subsidiaries.

**Customer Base**

The Bank considered the nature of its customers and the type of account opening activity, longevity of accounts, and transitory nature of its customers. The Bank has been established as a community Bank since 1911 and supports a growing customer base within its market area. In addition, the commercial lending department has expanded our market area to surrounding states. The Bank has a total of 6 Nonresident Alien account owners with 6 total accounts. These accounts are opened only when prescribed written criteria are met but some degree of growth would have no effect on our risk. Despite this growth and expansion our risk exposure remains as **Moderate**.

As of 6/30/2016, J. Wallace Bank’s deposit customer base consisted of 18,960 Consumer and 4,267 Business & Non-Personal accounts. The total balance for consumer accounts was $1,625,482,189.00 and $634,517,108.00 for business accounts.

Although, there is a moderate decrease in customer growth from last assessment period, BSA staff remains sufficiently staffed to identify, research and report suspicious activities taking into consideration the bank’s overall risk profile and the volume of transactions.

|  |  |  |
| --- | --- | --- |
| **Number of Transactional Accounts** | | |
| **2016** | 31841 |  |
| **2015** | 32489 |  |
|  | 648 | -1.99% |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Account Type** | **FYE 2016** | | | **FYE 2015** | | **Difference** | | **% Increase/Decrease** |
| **Savings** | $165,623,337 | | | $160,020,589.13 | | $5,602,748 | | 3.38% |
| **\*CDs and IRAs** | $959,534,062 | | | $761,566,721.75 | | $197,967,340 | | 20.63% |
| **Personal DDA** | $167,412,615 | | | $179,096,031.12 | | -$11,683,416 | | -6.98% |
| **Personal MMDA** | $332,912,175 | | | $288,950,192.20 | | $43,961,983 | | 13.21% |
| **Business DDA** | $285,719,693 | | | $243,808,181.95 | | $41,911,511 | | 14.67% |
| **Business MMDA** | $348,797,415 | | | $108,148,095.22 | | $240,649,320 | | 68.99% |
|  | $2,259,999,297 | | | $1,741,589,811.37 | | **$518,409,486** | | 22.94% |
| **Account Type** | | **2016** | **2015** | | **Difference** | | **%Increase/Decrease** | |
| **Personal** | | 18,960 | 18,851 | | 109 | | 0.57% | |
| **Business &  Non-Personal** | | 4,267 | 3,916 | | 351 | | 8.23% | |
|
|  | | 23,227 | 22,767 | | 460 | | 1.98% | |

Increases in personal transactional accounts were not overly significant at 0.57%. Business and other non-personal accounts increased by 8.23% and continued efforts in FYE 2017 will be made to increase this market segment.

**CIP/CDD/EDD**

At account opening, customer identification is required and verified through documentary and non- documentary methods and a customer profile is created. CIP is performed on any person or business (including business account signers) opening an account. Each person must present primary and secondary forms of identification consistent with the requirements outlined the CIP Procedures. At a minimum, the following information must be obtained: name, date of birth, tax identification number, physical address, occupation, line of business and telephone number. For “persons” other than individuals (such as; corporations, partnerships, or trusts), J. Wallace requires documentation showing the legal existence of the entity. Customer due diligence is performed for all types of customers, and enhance due diligence is performed for higher risk customers at account opening and throughout the term of the relationship. Accounts are usually denied if negative records are found through verifications. All customers are subject to periodic reviews based on their risk levels.

Per Section 326 of the USA PATRIOT Act of 2001, the Bank reviewed its Customer Identification Program (“CIP”) considering the law’s requirements. The CIP defines the procedures and activities within the Bank for complying with the BSA/AML regulations and all new account openings apply CIP requirements.

These include:

* Risk based account opening verification procedures and controls to verify the identity of any person or business entity seeking to open an account.
* Record maintenance procedures to record the information used to verify the person or business identity.
* Collecting sufficient information to develop a transaction profile on all new customers. The primary objective of this procedure is to enable the Bank to predict with relative certainty the transaction activity in which the customer is likely to be engaged.
* Reporting responsibilities and procedures for account opening activities that identify suspicious activity which may warrant investigation and/or the required filing of a Suspicious Activity Report (SAR) to authorities.
* Periodic review and reporting by the Bank’s BSA Department on customers to determine whether the person or entity appears on any government agency lists of known or suspected terrorists or terrorist organizations.
* Initial and recurring training on both the regulations and the Banks Customer Identification Program; such training to occur at least annually.
* Management and Board of Director reporting requirements.
* Revisions are made as needed to the CIP, with a minimum of an annual review.
* Compliance verification review of the Banks Customer Identification Program in accordance with the Interagency CIP examination procedures to be completed by an independent party.
* Periodic monitoring of compliance with CIP policies and procedures by the BSA/AML Officer.
* The Bank does not currently make use of the Reliance Provision for account opening, but may consider in the future. If the Bank does make use of the Reliance Provision, prior to doing so will evaluate its’ procedures and controls and effect necessary changes to this policy.

**High Risk Customers**

J. Wallace has a moderate number of high risk customers and a moderate number of cash-intensive retail business and service provider customers, such as Accountants, Doctors, Dentists, MSB’s, food stores, restaurants and super markets.

The number of cash intensive businesses has decreased with Charitable Organizations, Accountants & CPA’s, other service providers, retail stores and restaurants seeing a moderate increase. Doctors, Dentists, Lawyers, MSB’s and Jewelry Stores have relatively remained static since last assessment period.

The Bank considered the account classifications of high-risk customers and businesses as defined in the Bank's Customer Risk Classifications Procedures. Also considered were research of account activity, front line personnel experience and the current regulatory environment. Use of the Automated Anti-Money Laundering System, Patriot Officer and employee training has increased awareness and detection of suspicious activity.

During previous risk assessment periods the increased focus on obtaining retail business customers doubled customers considered high risk which necessitated increased and ongoing monitoring of these customers transactions. During the current assessment period there was a decrease in the number of high risk customers, from 220 to 157, a decrease of 63 customers or 29%.

Due to the reclassification of accounts during the 3rd quarter, there were 157 customers reclassified as High Risk and scheduled for EDD which was completed. This decrease was due to the review of 63 accounts; mostly professional service providers who while inherently high risk had at least 3 consecutive reviews with no unusual or suspicious activity. These 63 customers were however placed in monitoring status in the transaction monitoring system Patriot Officer to immediately notify the department of any suspicious activity. The current high risk customer list stands at 157.

The following procedure is in place for a potential Watch List match:

* ***Watch List Report – If Matches Found – Change Record Status to “Undetermined” and assign the report to the BSA Department for review - Click Save. This will generate an email Alert to multiple persons for review.***
* **Do not proceed with the transaction until the report is approved by the BSA Department.** Assign the Report to “BSA Department” and click “Save”. After approval you will receive an email advising the report has been assigned back to you. Access the report in your “Alert Inbox”; change the Alert State to “Close” and click “Save”. Print the Watch List Report. If a positive match is determined do not proceed with the transaction and follow OFAC Reporting Procedures.

We currently have 157 customers classified as High Risk based on their business type. A breakdown of these customer classifications is as follows:

|  |  |  |
| --- | --- | --- |
| **High Risk by Type of Business** | **Number of  Customers** |  |
|  |
| **Doctors & Dentists** | 1 |  |
| **Lawyers** | 29 |  |
| **Other Service Providers \*** | 15 |  |
| **Money Service Business Agents (MSBs) \* (Money Order Sales Agents who are also Convenience Stores, Pharmacies, or other retail.)** | 32 | **\*32 of these businesses are also classified as Cash Intensive Businesses (CIB).** |
| **Charitable Organizations** | 1 |  |
| **Jewelry Stores** | 2 |  |
| **Other Retail Stores and Restaurants \*** | 53 |  |
| **Total** | 133 |  |
|  |  |  |
| |  |  | | --- | --- | | **High Risk for Suspicious Activity** | 24 |  |  |  | | --- | --- | | **High Risk Watchlist** | **Customers** | | **High Risk for Suspicious Activity** | 24 | | **High Risk by Type of Business** | 133 | |  | 157 | |  |  | |  |  | | | |

In addition, all High Risk customers are classified as such, on the Watch List for Suspicious Activity and monitored on a quarterly basis. Included in the 157 are 133 customers that are also classified as **High Risk** due to their business classification.

Despite being located in a High Intensity Drug and Crime Risk Area and the additional re-classification of existing customers as High Risk it is believed the Risk Assessment remains as **Moderate** for the following reasons: the additional High Risk customers’ accounts were being monitored through Patriot Officer for suspicious activity before being re-classified; there has been no terrorist activity detected by the Bank or notified of by any law enforcement agency; there has been no appreciable increase in suspicious activity detected during the past 2 assessment periods; and, it is believed the use of the automated anti-money laundering detection system and the BSA employee training provided justifies the Risk Rating remaining as **Moderate**.

**Trade Finance, Import/Export Companies**

The bank does not maintain any Trade Finance relationships.

**Politically Exposed Persons (“PEPs”)**

The bank does not accept or maintain accounts for PEPs.

**Money Service Businesses (“MSBs”)**

As a matter of policy, J. Wallace does not open or accept MSB accounts, only agents for MSBs such as Western Union.

**Third Party Payment Processors**

The day-to-day responsibility of oversight of Third Party Provider Management has been assigned to the Senior Vice President/Corporate Secretary who will interact with the primary relationship managers and periodically report to the Management Compliance Committee. An annual review will be provided to the Nominating and Corporate Governance Committee of the Board of Directors by the Management Compliance Committee.

All Providers will be risk rated based on the nature of the Bank’s relationship or proposed relationship with the Provider. A rating of high, medium or low risk will be assigned to each Provider. The Provider will then be further classified based on likelihood of exposure to our customers’ non public personal information (“NPPI”). These ratings will be utilized to determine the level of due diligence that is required. Provider ratings will be reviewed annually to identify any relationships that might have changed during the course of the year.

**Products & Services**

J. Wallace continues to offer the following existing products and services:

* Consumer deposit products: Checking, Money Market, Statement and Passbook Savings, Certificate of Deposits, Traditional IRAs (CDs).
* Consumer lending product: Residential Mortgages
* Commercial deposit products: Business Checking, Money Market, Statement Savings, and Certificate of Deposits.
* Commercial lending products: Commercial Mortgage Loans, Commercial Lines of Credit, Term Loans, and Trade Financing.
* Sale of Monetary instruments (Cashier’s Checks, Money Orders, Travelers Checks and Gift Checks) to customers only.

J. Wallace provides Electronic Banking services to its customers such as ATM cards, Debit Card, ACH, Remote Deposit Capture (RDC), Wire Transfers, and Internet.

J. Wallace does not offer the following high risk products and services:

* Stored value cards
* Electronic Cash

**Monetary Instruments**

The Bank does not sell monetary instruments or perform funds transfer for non-customers. Only J. Wallace customer (“on-us”) checks are cashed for non-customers up to a maximum of $500.00. Photo Identification is required and Watch List checks are performed for each. By limiting the issuance of these items to customers only mitigates the risk by enabling the Bank to monitor these items through the Bank’s automated anti-money laundering system. The Bank performs OFAC / Watch List Checks for all third party payees (non-customers) listed on Cashier’s Checks and J. Wallace Bank customer checks cashed in the branches.

Business customer with payroll accounts requires an agreement on file with a list of current employees. Employees who do not have accounts with J. Wallace are required to present photo identification and Watch List checks are performed the 15th of every month and each time a new list is received. When cashing checks employees’ names are verified against the current list. The branches log on-us checks cashed but they have been logging them for both customers and non-customers. That practice has ceased and they will now only be logging on-us checks cashed for non-customers. The Vice President, Retail Banking believes the branches currently cash only a small amount of on-us checks for non-customers, excluding customer payroll checks. When these checks are cashed, including business customer payroll checks, valid current identification, such as a driver’s license or any other item listed in our new account procedures, is obtained and the information is recorded and retained and an OFAC Watch List Report is run and retained. The transaction is then approved by a supervisor.

There were a total of 12 Bank Checks sold during the assessment period and 868 money order sales. The instruments were sold as follows:

Bank Checks (12) totaling $144,295.93

Money Orders (649) totaling $237,943.72

Two branches (#7 and #30) did not have any monetary instrument sales for the risk assessment period.

The sale of monetary instruments is relatively low compared to the overall customer base. Branch Administration should consider amending the policy and procedures relating to Monetary Instruments. They should become more comprehensive by including regulatory guidance for processing Monetary Instruments and related definitions.

**Debit Cards**

**Debit Card (Point of Sale (“POS”) Purchases) Transactions per month**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Debit Card Transaction Volumes | | | |  |  |  |
| Month/Year | DDA Purchase | MC Purchase | MC Cash Advance | MC Int'l Purchase | DDA Purchase/Cash Back | Total Debit Card Transaction Volume |
| Jul-15 | 16,979 | 32,540 | 10 | 328 | 1,970 | 51,827 |
| Aug-15 | 16,856 | 32,646 | 10 | 342 | 1,909 | 51,763 |
| Sep-15 | 16,332 | 30,690 | 6 | 330 | 1,817 | 49,175 |
| Oct-15 | 17,451 | 31,740 | 10 | 327 | 1,995 | 51,523 |
| Nov-15 | 17,560 | 30,857 | 6 | 357 | 1,851 | 50,631 |
| Dec-15 | 20,083 | 33,790 | 6 | 406 | 1,785 | 56,070 |
| Jan-16 | 15,930 | 28,574 | 2 | 350 | 1,839 | 46,695 |
| Feb-16 | 15,933 | 32,130 | 6 | 325 | 1,697 | 50,091 |
| Mar-16 | 18,231 | 34,987 | 2 | 318 | 1,934 | 55,472 |
| Apr-16 | 17,696 | 34,752 | 8 | 315 | 1,957 | 54,728 |
| May-16 | 19,154 | 36,631 | 4 | 304 | 1,977 | 58,070 |
| Jun-16 | 18,218 | 35,665 | 8 | 318 | 1,893 | 56,102 |
| Jul-16 | 18,687 | 35,017 | 0 | 315 | 2,040 | 56,059 |

**Total FYE Point of Sale (“POS”) Purchases**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **FYE 2016** | **FYE 2015** | **Increase** | **Percent  Increase** |
| **POS** | 688,206 | 593,610 | 151,610 | 15.93% |

**Fraud Totals**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Fraud Totals** | **Claims** | | **Items** | | **Total  Fraud Amt** | | **Total  Recovery** |
| **Jan 15 to June 15** | 95 | | 484 | | $25,420.53 | | $2,208.50 |
| **July 15 to June 16** | 123 | 458 | | $30,951.53 | | $10,939.17 | |
|  | 218 | | 942 | | $56,372.06 | | $13,147.67 |
|  |  | |  | |  | |  |
| **Total Amount of FY Fraud Claims** |  | |  | |  | |  |
|  | **FYE 2016** | | **FYE 2015** | | **Increase** | | **Percent  Increase** |
| **Fraud Claims Total** | $30,951.53 | | $25,420.53 | | $5,501.00 | | 21.75% |

**Funds Transfer**

**Wire Transfers**

The Bank considered the nature of fund transfer activity including customers, locations, frequency, and currency amounts. No transfers are performed for non-customers and foreign wire transfers for customers are performed on an incoming basis only. All wire transfers are also entered manually through FSI’s Patriot Officer Wire Transfer Module. This enables staff to ensure all Foreign Wire Transfers received through US correspondent financial institutions are entered as Foreign Wires in the system. Wire transfers are monitored through the Patriot Officer Anti-Money Laundering System.

The Bank performs OFAC / Watch List Checks for all parties named on outgoing wire transfers which would include the receiving financial institution, beneficiary and any other individual or entity named in the wire transfer instructions before the wire transfer is processed.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **FYE 2016** |  |  |  |  |
| **COUNTRY** | **INCOMING COUNT** | **OUTGOING COUNT** | **INCOMING AMOUNT** | **OUTGOING AMOUNT** |
| **US** | 2,618 | 2,662 | $3,432,115,601.06 | $2,565,209,009.85 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **FYE 2015** |  |  |  |  |
| **COUNTRY** | **INCOMING COUNT** | **OUTGOING COUNT** | **INCOMING AMOUNT** | **OUTGOING AMOUNT** |
| **US** | 2,515 | 2,518 | $5,123,229,502.02 | $3,569,301,357.85 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **FYE 2016** | | **FYE 2015** | | **Increase/Decrease** | | **%** |
| **Domestic Wires Out** | 2,662 | $2,565,209,009.85 | 2518 | $3,569,301,357.85 | +144 | -1,004,092,348.00 | -39% |
| **Domestic Wires In** | 2,618 | $3,432,115,601.06 | 2515 | $5,123,229,502.02 | +103 | -1,691,113,900.96 | -33% |

For fiscal year 2016 the Bank processed 5,280 wire transfers for customers, $3,432,115,601.06 incoming and $2,565,209,009.85 outgoing. Foreign wire transfers are not included in these totals.

For fiscal year 2015 the Bank processed 5,033 wire transfers for customers, $5,123,229,502.02 incoming and $3,569,301,357.85 outgoing. Foreign wire transfers are not included in these totals.

The decrease for incoming wires was -33% and outgoing wires was -39%.

**Cash Management, Internet Banking and Mobile Banking**

J. Wallace offers Cash Management Internet services to business customers. These services include originating ACH transactions for the management of cash flow through multi-tiered security levels, processing payroll direct deposit, Corporate Cash Concentration and Disbursements and EFTPS Tax. Payments and origination of wire transfer requests without the inconvenience of leaving the office. Additionally customers can receive daily reports on checks that come in to be paid with the Bank’s Positive Pay check reconciliation service.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Cash Management Customers** | **2016** | **2015** | **Increase** | **%** |
| Business Customers | 56 | 43 | 13 | 30.23% |

J. Wallace offers Internet Banking to business and personal customers giving them convenient online access to their accounts. Customers can research transaction history and balance information, reorder checks and transfer funds between J. Wallace Business statement accounts. Additionally customers can receive emailed alerts on balance and transaction activity.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Internet Banking Customers** | **2016** | **2015** | **Increase** | **Percent  Increase** |
| Personal | 9,585 | 8,688 | 897 | 10.32% |
| Business | 1,829 | 1,599 | 230 | 14.38% |
|  | 11,414 | 10,287 | 1,127 | 10.95% |

Online bill pay presents unique BSA/AML risks in various stages of the money laundering process. In the placement stage, online banking grants customers remote access and therefore increases potential unauthorized access to customer’s account. At the layering stage, online banking grants non-human contact and speed transactions. At the integration stage, online banking allows for the purchase of high value items.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Bill Pay Customers** | **FYE 2016** | **FYE 2015** | **Increase/ Decrease** | **Percent Increase/ Decrease** |
| Total Active Bill Pay Users | 1,416 | 1,291 | 125 | 9.68% |
| CheckFree Bill Processed | 105,704 | 99,194 | 6,510 | 6.56% |
| New CheckFree Billpay Users | 1,130 | 1,187 | -57 | -4.80% |
| CheckFree Customer Count | 6,750 | 6,172 | 578 | 9.36% |

To alleviate the placement risks associated with online bill pay, J. Wallace maintains a robust CIP/KYC and CDD/EDD programs, which includes developing a thorough customer profile for each client and obtaining information on the customer's occupation/line of business and anticipated transaction volumes at account opening and throughout the term of the relationship. Moreover, as a general rule, J. Wallace does not open non-face to face accounts.

To alleviate the risks of illicit funds being integrated by the use of online bill pay, the current ACH parameters for the monthly review are reasonably designed to identify money laundering activity and/or suspicious or unusual activity at integration. In addition to the monthly monitoring of ACH transactions, the BSA staff also conducts quarterly and/or semi-annually review of high risk clients and total deposits for personal and non-personal customers to identify any possible money laundering activity at this stage.

The statistics for users of mobile banking during the current assessment period are as follows:

|  |  |  |
| --- | --- | --- |
| **Mobile Banking Statistics** | |  |
| Item Description | Volume |  |
| iPhone Apps Downloaded | 1,868 |  |
| Android Apps Downloaded | 1,395 |  |
| Total Apps Downloaded | 3,263 |  |
|  |  |  |
| Mobile Deposit Enrollments | 853 |  |

|  |  |  |
| --- | --- | --- |
| Deposits - June 2015 | 628 | $472,562.25 |
| Deposits - July 2015 | 600 | $562,745.36 |
| Deposits - August 2015 | 669 | $953,653.78 |
| Deposits - September 2015 | 614 | $540,095.27 |
| Deposits - October 2015 | 715 | $673,815.71 |
| Deposits - November 2015 | 679 | $572,055.00 |
| Deposits - December 2015 | 740 | $650,538.58 |
| Deposits - January 2016 | 636 | $514,754.72 |
| Deposits - February 2016 | 604 | $596,632.94 |
| Deposits - March 2016 | 704 | $652,386.35 |
| Deposits - April 2016 | 762 | $796,963.67 |
| Deposits - May 2016 | 702 | $711,161.39 |
| Deposits - June 2016 | 659 | $644,664.22 |

Internet banking is closely monitored utilizing authentication methods and oversight procedures currently used together with methods available specifically for this product. The addition of an experienced eBanking Manager provides additional supervision and oversight. Since this is a relatively new product to the financial industry and bank.

**RDC**

J. Wallace uses FSI Item Processing as its software vendor and third-party processor to provide remote deposit capture.

Remote deposit capture refers to computer hardware, software and telecommunications systems that enable commercial customers to process deposits to their depositary accounts with J. Wallace Bank from electronic devices of varying descriptions located at their place of business or elsewhere by scanning and transmitting images of deposited items. Once scanned and transmitted, the physical checks are no longer needed except to keep as back up until the transaction is properly posted.

Proper identification of all businesses and those authorizing business applications must be verified. High risk industries are to be identified and generally avoided; however, if exceptions are to be granted, these require additional scrutiny and additional levels of approval. BSA Guidelines are to be followed and "Know Your Customer" considerations in this context require the use of different identification, authentication, and transaction verification methods than those used with traditional delivery channels. It is the policy that documents requiring signatures, such as final contracts for services, require the client to meet with a bank representative and/or be verified as outlined in the bank's new business account procedures. New RDC accounts like all J. Wallace accounts must be completed in person with a bank representative present. Many of our RDC customers are also borrowers, often with locations distant from our branches.

RDC policies, procedures, and activity monitoring process are in place and site visits are performed annually. Management has developed security controls that govern network and data access user authentication, transaction verification, and virus protection.

1. Penetration Testing

* Tests simulate the probable actions of unauthorized and authorized users.

1. Business Continuity

* Senior management ensures that FSI has the ability to recover and resume RDC operations to meet customer service requirements when an unexpected disruption occurs.

1. Internal Procedures

* The bank maintains procedures internally to adequately administer and facilitate the remote deposit and cash management services.

There are currently 96 RDC customers, which represent a15.66% increase in RDC customers from last assessment period, with a total transaction volume of $627,447,476.29, which represents an increase of 9.92% from last assessment period.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **RDC** | **2016** | **2015** | **Increase/Decrease** | **Percent Increase/Decrease** |  |
|  | **Number of Customers** | **96** | **83** | **13** | **15.66%** |  |
|  | **Amount Totals** | **$627,447,476.29** | **$570,819,598.81** | **$56,627,877.48** | **9.92%** |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **RDC Totals FYE 2014-15** | |  | **RDC Totals FYE 2015-16** | |
| **Month** | **Amounts** |  | **Month** | **Amounts** |
| **Jul-14** | $44,566,091.86 |  | **Jul-15** | $48,002,663.32 |
| **Aug-14** | $62,692,283.60 |  | **Aug-15** | $82,024,826.47 |
| **Sep-14** | $32,876,732.39 |  | **Sep-15** | $28,490,777.95 |
| **Oct-14** | $60,634,408.82 |  | **Oct-15** | $56,129,827.76 |
| **Nov-14** | $56,956,837.12 |  | **Nov-15** | $70,019,431.03 |
| **Dec-14** | $24,680,571.16 |  | **Dec-15** | $34,245,019.48 |
| **Jan-15** | $37,725,938.84 |  | **Jan-16** | $36,468,847.19 |
| **Feb-15** | $63,631,164.95 |  | **Feb-16** | $77,352,910.41 |
| **Mar-15** | $40,795,683.44 |  | **Mar-16** | $41,993,083.20 |
| **Apr-15** | $47,747,604.33 |  | **Apr-16** | $50,419,925.61 |
| **May-15** | $71,148,230.24 |  | **May-16** | $76,765,742.16 |
| **Jun-15** | $27,364,052.06 |  | **Jun-16** | $25,534,421.71 |
| Total FYE 2014-2015 | $570,819,598.81 |  | Total FYE 2015-2016 | $627,447,476.29 |
|  |  |  |  |  |

The BSA team reviews RDC activity quarterly. There have been no SARs filed during the assessment period as result of unusual or suspicious activity surrounding the use of RDC services.

**ACH**

J. Wallace acts as both an Originating Depository Financial Institutions (“ODFI”) and a Receiving Depository Financial Institution (“RDFI”). The ODFI and RDFI are required to establish, monitor and periodically review exposure limits for each of its approved originators and beneficiaries. It also must examine compliance with this requirement on an ongoing basis through its internal audit process.

Customers may be in a corporate form of legal organization, may be Partnerships of various types or may be municipalities. These payments are automatically debited and/or credited from/to a customer’s account on the payment effective date of the file. ACH payments are governed by the National Automated Clearing House Association (NACHA).

FYE 2016 ACH activity was conducted as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **No. Debits** | **Debits Amount** | **No. Credits** | **Credits Amount** |
| **July-15** | 8990 | $11,146,715.10 | 12264 | $18,853,361.68 |
| **August-15** | 8489 | $10,710,266.90 | 10061 | $16,544,029.55 |
| **September-15** | 9201 | $13,584,191.46 | 13856 | $19,619,612.82 |
| **October-15** | 8489 | $11,629,349.87 | 10727 | $15,955,397.03 |
| **November-15** | 8562 | $11,905,993.25 | 9770 | $15,612,038.00 |
| **December-15** | 9299 | $13,701,365.26 | 12595 | $17,857,661.52 |
| **January-16** | 7986 | $11,398,928.39 | 9228 | $13,569,506.19 |
| **February-16** | 8616 | $12,941,705.74 | 11918 | $19,546,572.81 |
| **March-16** | 9608 | $13,797,993.02 | 14796 | $21,132,198.37 |
| **April-16** | 10148 | $15,072,726.85 | 13032 | $23,480,101.75 |
| **May-16** | 10451 | $15,109,262.88 | 11169 | $17,786,981.53 |
| **June-16** | 11662 | $15,960,856.84 | 13224 | $17,523,790.39 |
| **Totals FYE 2016** | 111510 | $156,959,355.56 | 142640 | $217,481,252.39 |

The department processes rejects and returns unpaid items in a timely manner which has not resulted in any losses to the Bank. Therefore an increase in ACH activity will not have an adverse effect on its risk rating.

**Brokered Deposits**

The Board of Directors of J. Wallace Bank promotes the maintenance of effective controls to ensure the liquidity needs of the institution will be met. The Board considers the prudent use of brokered funds to be a permissible liquidity source. Brokered deposits are defined as all deposits directly or indirectly obtained through deposit brokers.

**As per FFIEC guidance, J. Wallace generally does not accept deposit brokers:**

* Who are not known to Oritani;
* Conduct business or obtain deposits outside of the United States;
* Are unable to provide reference(s) from reputable banks;
* Provide other services that appear suspicious or may create the appearance of impropriety;
* Refuse to cooperate and provide material information during the due diligence process;
* Use technology or engage in behavior that would provide anonymity to customers.

The Board has appointed the Chief Financial Officer (CFO), under the general direction of the Board, to implement and administer the brokered deposit funding program. The Board of Directors will annually review and approve brokered deposit funding program policy. The CFO will recommend changes to it as appropriate for review and approval of the Board.

**Risk Management**

The Chief Risk Officer must evaluate and approve the use of brokered deposits. Risks associated with the use of brokered deposits include liquidity, interest rate, transaction, reputation and compliance risk.

**Liquidity Risk**

Liquidity risk refers to the risk to earnings or capital that arises from the bank’s inability to meet its obligations when they come due without incurring unacceptable losses. Management mitigates this risk by limiting the bank’s exposure to the use of brokered deposits. The risk is also limited by the substantial capital position the bank currently enjoys.

**Interest Rate Risk**

Interest rate (market) risk is the risk to a bank’s condition resulting from adverse movements in market rates or prices, such as interest rates, foreign exchange rates or equity prices. This type of risk focuses on the economic scenarios relative to the value of the Bank in the current interest rate environment and the sensitivity of that value to changes in interest rates. A thorough analysis will be conducted prior to commitment to a brokered deposit contract including rate, fees, and duration of said contract. Limits to the use of brokered deposits will be determined in this policy. The use of these funds will be reviewed by the Board of Directors on a quarterly basis.

**Transaction Risk**

Transaction risk is the risk to earnings or capital arising from problems with service or product delivery and may include potential financial losses from human error or fraud, incomplete information and related decision-making or operation disruption. The risk is a function of the adequacy of internal control and information systems, employee integrity, management policies and operation processes. In order to mitigate transaction risk, due diligence will be conducted on all deposit brokers prior to entering into a relationship with them and on an annual basis thereafter. Management information systems will provide ease in monitoring and tracking the use of brokered deposits. The system will include a listing of funds obtained through each significant program, rates paid on each instrument, maturity information and concentrations. The concentration of brokered deposits will be prepared at least quarterly by the CFO and reviewed by the Board in the financial report. Further, the use of brokered deposits and the management of its function will be reviewed annually by the bank’s external auditors.

**Reputation Risk**

Reputation risk is the potential that negative publicity regarding the Bank’s business practices, whether true or not, will impact our ability to raise brokered deposits. For this reason, bank management responsible for overseeing the brokered deposit program must be aware of any information that could affect the market’s or public’s perception of the soundness of the institution.

**Compliance Risk**

Compliance risk arises from violations of or nonconformance with those laws, regulations or prescribed practices that govern the Bank’s activities. There are two specific compliance concerns regarding brokered deposits- Capital Level Requirements and Bank Secrecy Act and Anti-Money Laundering compliance. FDIC requires an institution to be well capitalized in order to accept brokered deposits. The Bank only does business with deposit brokers who are registered with the Securities Exchange Commission (SEC). Brokers registered with the SEC are required to follow the same general CIP requirements as banking institutions and are periodically examined by the SEC for compliance.

As of 06/30/2016, the bank has opened 4 Brokered deposit accounts totaling $12,269,656.11 and it is planned to increase these deposits during FYE 2017. While these deposits are considered High Risk, this risk is mitigated by the fact that we are only accepting time deposits and a limited amount of money market accounts. There will be no demand deposit accounts accepted. Brokered money market accounts will be subject to Enhanced Due Diligence (EDD).

**J. Wallace Brokered Deposit Accounts:**

|  |  |  |
| --- | --- | --- |
| **Account Type** | **Number of Accounts** | **Current Balance** |
| Brokered MMA | 1 | $4,422,656.11 |
| 6YR Brokered CD PSB | 1 | $2,888,000.00 |
| 7YR Brokered CD PSB | 2 | $4,959,000.00 |
|  | 4 | $12,269,656.11 |

For the coming fiscal year, it is anticipated such deposits will grow at a relatively moderate pace.

**Loans**

During the assessment period, the Bank experienced a $139,439,725.64 or a 20.86% increase in total loans for FYE 2016. The largest increase in terms of dollar value was in Commercial Loans totaling $52,724,523.26 or 9.37%. Commercial Loans has been an integral segment of the Bank’s lending focus.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Loan Type** | **FYE 2016** | **FYE 2015** | **Increase** | **%** |
| Residential | $68,010,210.57 | $36,926,622.01 | $31,083,588.56 | 84.18% |
| Commercial | $739,895,750.99 | $615,085,719.17 | $124,810,031.82 | 20.29% |
| Totals: | $807,905,961.56 | $668,466,235.92 | $139,439,725.64 | 20.86% |

The Bank does not offer Letters of Credit or any other type of commercial or personal financing programs.

There have not been any changes to the loan programs offered and there are none anticipated for FY 2017. There has been one case of suspicious activity investigated related to loan activity in the past 3 years and that was for rejected loan application, possible straw buyer. The Risk rating for 2016 will remain as Moderate.

**Deposits**

During the assessment period, core deposits increased $518,409,485.63 or 29.77%

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Account Type** | | **FYE 2016** | **FYE 2015** | | **Difference** | **% Increase/Decrease** | |  |
| Savings | | $165,623,337.00 | $160,020,589.13 | | $5,602,747.87 | 3.5% | |  |
| CDs and IRAs | | $959,534,062.00 | $761,566,721.75 | | $197,967,340.25 | 25.99% | |  |
| Personal DDA | | $167,412,615.00 | $179,096,031.12 | | -$11,683,416.12 | -6.52% | |  |
| Personal MMDA | | $332,912,175.00 | $288,950,192.20 | | $43,961,982.80 | 15.21% | |  |
| Business DDA | | $285,719,693.00 | $243,808,181.95 | | $41,911,511.05 | 17.19% | |  |
| Business MMDA | | $348,797,415.00 | $108,148,095.22 | | $240,649,319 | 222.52% | |  |
|  | | $2,259,999,297.00 | $1,741,589,811.37 | | $518,409,485.63 | 29.77% | |  |
|  |  |  |  |  |  |  |  |  |

The Bank does not rent Safe Deposit Boxes to non-customers. The current customer safe deposit data is as follows:

**CDARs**

J. Wallace does not presently participate in The Certificate of Deposit Account Registry Service (“CDARS”) Reciprocal Program offered by Promontory Interfinancial Network, LLC. In the future, J. Wallace will take this program into consideration if there is sufficient demand and neutral costs. CDARS is a service that enables financial institutions to provide access to FDIC insurance on certificates of deposit investments of $50 million and above. All participants are regulated financial institutions. Should J. Wallace participate at a later date, the Bank places its own customer’s funds that are over the FDIC deposit insurance limit with CDARS and gets the matching funds back from CDARS. J. WALLACE would perform CIP/CDD on all customers and verify the source of funds on all deposits.

**New Products and Services**

In addition to senior management and the Board of Directors approval, new products must be approved by the new product committee and BSA Officer dependent on apparent risk. During FYE 16 the following Retail products were introduced:

* Diamond Money Market – September 2015
* Westwood Business Money Markey Account

As of May 4, 2016 J. Wallace Bank has joined Allpoint Network, which means J. Wallace Bank customers now have access to America’s largest surcharge-free ATM network, with some 55,000 surcharge-free ATMs worldwide.

In addition to J. Wallace Bank’s branch locations and ATMs, with Allpoint Network, J. Wallace Bank customers will never be far away from surcharge-free ATM access to their cash, especially in the United States where Allpoint offers 43,000 cash machines in places they're already visiting as part of their daily routine. Conveniently located in destination retail outlets including major discount retailers, convenience, grocery and pharmacy stores, Allpoint Network ATMs save customers of J. Wallace Bank time in addition to ATM fees.

**Currency Transaction Reporting**

J. WALLACE has established CTR recordkeeping and reporting policy and procedures. There have been some removals from the CTR Exemption List since FYE 2015 and stands at 6 customers. For FYE 2016 there were 2,529 Currency Transaction Reports (CTRs) filed through FinCEN’s BSA E-Filing System. This is an increase of 151 or 6.35% over the 2,378 filed for FYE 2015. These reports are system prepared by Patriot Officer, reviewed by the branches where the transactions took place and then reviewed again and approved by the BSA Department before filing. The majority of these CTRs are for customers who do not qualify for exemptions because of the type of services they provide their customers, e.g. sell money orders or transfer funds for Western Union.

|  |  |  |
| --- | --- | --- |
| **CTRs Filed** | |  |
| **FYE 2016** | 2,529 |  |
| **FYE 2015** | 2,378 |  |
|  | 151 | 6.35% |

**Suspicious Activity Transaction Monitoring**

**Transaction Monitoring Software**

Senior Management has determined that Global Vision System’s Patriot Officer (anti-money laundering solution) provides the most suitable solution for the bank. Based upon an established timeline, the new AML transaction monitoring system went live in the 2Q of 2014. The new AML transaction monitoring system strengthens the bank’s transaction monitoring capabilities, creates a more efficient and effective department and over time will reduce the department’s workload.

Patriot Officer Automated Anti-Money Laundering System is used to detect suspicious activity that is occurring at, through or against the Bank. During the assessment period BSA placed more emphasis on determining customer high risk transactional activity from account opening on. This process requires an initial 90 day review of anticipated activity documented at account opening versus the actual activity. There is currently no automated system in place to perform the 90 day reviews and the manual process is time consuming and not adequate. Patriot Officer does have a module, Dynamic Risk Module, which will assist with this process at no additional cost for its use, however the Bank has not received training in how to best utilize it. It has been recommended the Bank investigate the implementation of this module with the proper setup and training directly from Global Vision or another third party consultant. J. Wallace will be migrated to a new transaction monitoring system, PRIME, effective 11/11/16. The new system will create increased efficiency in the daily operations as PRIME interfaces directly with the bank’s operating system Bankway. Patriot Officer and Bankway do not currently have an effective interface.

**Transaction Monitoring Results**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **SARs filed** | |  |  |  | **Breakdown of Alerts by Department** | | | |
| **FYE 2016** | 116 |  |  |  | **BSA Department** | 73 |  |  |
| **FYE 2015** | 115 |  |  |  | **Branch Administration** | 3 |  |  |
|  | +1 | 0.8% |  |  |  | 76 |  |  |

For FYE 2016 there were 116 Suspicious Activity Reports (SARs) filed with FinCEN compared with 115 for FYE 2015, an increase of 0.8%.

During the assessment period there were 76 new suspicious activity alerts reported and investigated. A breakdown of these alerts by department is as follows: BSA 73 and Branch Administration 3. The 76 new alerts did not all yield a SAR being file. 25 were labeled as “no further action” while the remainder was labeled as “SAR filed” or “Prepare SAR”.

**Money Laundering – 12**

**Large Cash withdrawals under limit of reporting- 1**

**Possible Elder Abuse – 1**

**Structuring – 31**

**Tax evasion – 1**

**Currency exchanges – 1**

**Review Activity – 7**

**Unknown Source of Cash – 20**

**Structured Withdrawals/Business Check – 1**

**Excessive ODs- 1**

The majority of suspicious activity investigated has been money laundering activity where business owners have been laundering funds from their businesses through their personal accounts or customers have been using personal accounts to conduct business activities such as managing real estate, landscaping, construction related jobs and beauty salon related occupations.

The 116 SARs were filed as follows:

**Money Laundering: 55**

**Structuring: 5**

**Structuring/Money Laundering: 52**

**Money Laundering/Possible Elder Abuse: 1**

**Possible Elder Abuse: 1**

**Structuring/Money Laundering/Elder Abuse: 1**

**Unusual Wires: 1**

The BSA Officer prepares and presents a summary of the SARs filed from the previous month, including continuous SARs filed, to the Board of Directors. The BSA Officer, at the special request of the board, prepares an enhanced SAR report to identify specific patterns of suspicious activity.

**Crimes and Losses:**

Branch Robberies:

During FYE 2016 there were no branch robberies

Check, Reclamation, ATM, ACH and Debit Card Losses:

For fiscal year 2016 (07/01/2015- 06/30/2016)

J. Wallace Bank Cashier’s Checks continued to be counterfeited across the United States. In this scam, fraudsters would send a counterfeit J. Wallace Bank cashier’s check to persons buying/selling items on Craigslist or Online for jobs payments exceeding the amounts owed and request victims send remaining funds back to fraudster. According to our records these counterfeit checks have, resulted in losses of $1,449,575.86 to victims outside of the J. Wallace Bank customer network. t. Internally, J. Wallace Bank suffered one loss of $2,480 when a branch cashed one of these counterfeit J. Wallace Bank checks for a non-customer.

Additional losses included fraudulent provisional credits and late ACH notifications resulting in a total loss of $4,550.92.

For fiscal year 2016 (07/01/2015- 06/30/2016) there were reclamation losses of $3,615.84 with no recoveries. Reclamations losses were the result of returned funds to the US Treasury for benefits received for joint owner accounts and the funds were withdrawn before the reclamation was received. Collection efforts have been unsuccessful.

For fiscal year 2016 (07/01/2015- 06/30/2016) there were 123 claims of fraudulent ATM or debit card transactions totaling $30,951.53. We recovered $10,939.resulting in net losses of $20,012.36. The majority of the fraud claim loses were debit card numbers stolen with fraudulent cards reproduced and are signature based transactions. EBanking uses 3 separate 3rd party neural programs to detect and prevent fraud. When potential fraud is detected, customer contact is attempted and cards are closed down as warranted.

The Deposit Operations Department is now using an automated Check Fraud Detection System (ASV) that is integrated with the FIS core processing system. The main features of this system compares signatures on checks from preciously received items, detects checks out of sequence, compares the check stock and duplicate checks (numbers) received.

Internal Theft / Embezzlement:

During FYE 2016 there was no branch Internal Theft or Embezzlement

Identity Theft and Data Base Breaches:

During FYE 2016 there were three (3) attempted Identity Thefts of customer’s information:

1-Branch notified security customer provided personal information to a person over the telephone. A subsequent unauthorized transfer of $1,000.00 from the customer's saving account to the customer's checking account was made. Branch Manager placed both accounts in a Frozen Status. Customer will close both account and open new ones on 12/16/2015 after a direct deposit is received on that date.

2-Customer alerted Branch that he received a phone call from an IRS scammer; he believed the scammer either had his social security number or customer furnished it to him. Customer is 85 years of age and does not wish to come to the branch and open a new account. Fraud Alert and Customer Comment placed in the CIF in Bankway.

3-A person contacted a Branch claiming to be a customer and had her Social Security number and asked for her account balance. Branch employee knows customer's voice and suspected it was not her and did not release any information. Branch contacted customer, who confirmed she did not make the call to the branch. Fraud alert added to customer CIP- Special Instructions added to all customer accounts.

No Data Base Breaches during FYE 2016.

The Bank did have 2 reports filed concerning Terrorist Financing in 2007 and 2008 that resulted in Subpoenas from the United States District Court / FBI. We filed one report for possible Terrorist Financing in 2010 and notified FinCEN’s Hotline and the FBI’s Joint Terrorism Task Force. It was based on transactions taking place by a customer in the Middle East. Nothing was heard from the authorities and the activity ceased. There has been no other activity detected since then related to possible terrorist financing.

**SAR Committee**

The SAR Review Committee consists of the: Executive Vice President & Chief Operating Officer; Senior Vice President & Chief Compliance Officer; and, if required, the President & Chief Executive Officer.

If both the EVP and SVP do not concur with the BSA Officer’s recommendation the President will make the final decision.

A recommendation can made be made by the BSA Officer to the Committee to terminate an account relationship after any SAR is filed if the BSA Officer believes continuing the relationship would be detrimental to the Bank. This would include a possible financial loss or potential harm to the bank’s reputation or a conflict of interest.

After four (4) consecutive SARs are filed for the same customer for the same activity a customer will be referred to the Committee for action including the termination of their account relationship(s).

Exception

Regardless of the number of SARs filed an account relationship may be maintained upon request of a Law Enforcement Agency during the course of an investigation. For the assessment period, all recommendations by the BSA Officer to terminate a client relationship have been fulfilled.

**Bank Staffing**

J. Wallace had a moderate turnover rate of 10% in branch personnel (CSRs, tellers, and branch management).

The Bank considered the stability and actions of its staff with regard to insider fraud. The Bank recognizes that federal crime statistics reflect that money laundering and terrorist financing activity through financial institutions can often be influenced or assisted by internal staff. The Bank has not experienced personnel fraud during the current assessment period and minimal terminations resulting from procedural violations. There were no reports of terminated staff involved in fraud, money laundering or terrorist financing activities. Additionally there were no incidents involving employee mismanagement of funds leading to a loss to the Bank.

The increase of illicit employee activity and possible income loss of the bank creates a need for a Know Your Employee (“KYE”) policy to be implemented by the BSA Department. As a matter of policy the BSA Department will create the KYE policy as a standalone or part of the KYC policy.

The shortage of front line personnel in the branch offices remains a factor this year. Branch Managers are staffed in each branch as opposed to the last assessment period where two branch managers were needed and the locations were run by experienced assistant branch managers. None of the branches are in need of customer service representatives and one is in need of a senior teller. The Bank makes an effort to staff all branches with managers, assistant managers and senior tellers with current employees who have knowledge of J. Wallace products and procedures. The overall frontline personnel vacancy rate is currently 10% and is concentrated in the teller area, an area of concern.

Human Resources is actively seeking experienced replacements through outside recruitment. Based on the continued rate of front line personnel vacancies with offices located in High Crime and Drug Risk Areas the Risk Assessment will remain as Moderate.

**Branch Openings by location:**

|  |  |  |
| --- | --- | --- |
| **Branch** | **Employees on FML** | **Total Open Positions** |
| Hackensack | N/A | 0 |
| Cliffside Pk | N/A | 2 |
| Teaneck | N/A | 1 |
| Palisade Pk | N/A | 0 |
| Hohokus | 1 | 1 |
| Twp of Washington | N/A | 2 |
| Fairmount | N/A | 0 |
| WCL | N/A | 0 |
| Paterson | N/A | 0 |
| North Bergen | N/A | 0 |
| Park Ridge | N/A | 0 |
| Fairview | N/A | 0 |
| Shaler | N/A | 0 |
| New Milford | N/A | 1 |
| Ridgefield Pk | N/A | 0 |
| Central Avenue | N/A | 1 |
| Emerson | N/A | 0 |
| Bergenfield | N/A | 2 |
| Ramsey | N/A | 2 |
| Upper Montclair | N/A | 1 |
| Clifton | N/A | 1 |
| Bergenline | N/A | 3 |
| Summit | N/A | 0 |
| Monastery | N/A | 1 |
| Grand | N/A | 1 |
| **Total Population** | **N/A** | **187** |
| **Total Current Openings** | **N/A** | **19** |
| **Total Vacancy Rate** | **0** | **10%** |
| **Total Vacancy Rate  Tellers-14%** |  |  |
| **Total Vacancy Rate Supervisors- 5%** |  |  |

At the conclusion of the assessment period there were no employee vacancies in the BSA, Wire Transfer, eBanking or Deposit Operations Departments.

**Board of Directors**

There have been no changes to the Board of Directors composition since last assessment period. The Board has been stable since last assessment period. The Board was provided AML/BSA/OFAC training by the Chief Compliance Officer and BSA Officer during the last assessment period.

|  |  |  |  |
| --- | --- | --- | --- |
| Board of Directors | Age | Elected | Term Ends |
| **Kevin J. Lynch** | **70** | **1990** | **2016** |
| **Nicholas Antonaccio** | **69** | **1994** | **2016** |
| **Michael A. DeBernardi** | **62** | **1993** | **2018\*** |
| **James J. Doyle Jr.** | **67** | **1998** | **2017** |
| **Robert S. Hekemian Jr.** | **56** | **1999** | **2018\*** |
| **Harvey R. Hirschfeld** | **68** | **2014** | **2016** |
| **John J. Skelly Jr.** | **77** | **1999** | **2017** |
|  |  |  |  |
| **\* Up for re-election** |  |  |  |

**Senior Executive Management**

There have been no changes to Senior Executive Management since last assessment period. Senior Executive Management has been stable since last assessment period.

**John Doe**

John Doe has been President and Chief Executive Officer of J. Wallace Bank, headquartered in the Township of Washington, New Jersey, since July, 1993. He has also been President and Chief Executive Officer of J. Wallace Financial Corporation, the holding company of J. Wallace Bank, since 1998. Mr. Doe has also served as Chair of the two aforementioned entities since August of 2006; prior to that time, he served as a Director.

**John Doe**

John Doe has been employed by the J. Wallace Financial Corp. since 1999 and currently serves as Executive Vice President and Chief Financial Officer. He is also responsible for information technology, investor relations, electronic banking and deposit operations, as well as investment and treasury functions.

**John Doe**

John Doe has been the Chief Operating Officer and Executive Vice President of J. Wallace Financial Corp. and its subsidiary J. Wallace Bank since 2008. Mr. Doe previously served as a Lead Director of the Bank and has been on the Board of Directors since 1993.

**John Doe**

John Doe has been employed by the Company since 2003 and currently serves as Executive Vice President and Chief Lending Officer. Mr. Doe is responsible for overseeing all aspects of the retail and commercial lending operations of J. Wallace Bank, including originations, portfolio growth and developing strategies to enhance the bank’s market share and profitability.

**BSA Team Staffing**

The Board approved BSA Officer; Jason E. Wallace has been with J. Wallace since July 2015. Mr. Wallace has over 15 years of experience in banking/financial services with at least 10 years dedicated to BSA/AML/OFAC compliance and investigative experience.

The BSA Officer administers the bank’s BSA/AML/OFAC compliance program that includes the coordination and monitoring of day-to-day BSA/AML/OFAC activities, maintaining the bank’s BSA/AML/OFAC risk assessments, writing and updating the bank’s BSA/AML/OFAC policy and procedures, and coordinating the BSA/AML/OFAC training program.

Specific day-to-day responsibilities of the BSA Officer include, but are not limited to, overseeing the reviews of CIP/CDD/EDD/OFAC, approving all cases of suspicious activity and the filing of SARs, overseeing the banks 314(a) and 314(b) participation, and the reporting all suspicious transactions to the Board. The BSA Officer is also responsible for administering an annual BSA compliance review plan that covers Currency Transaction Reporting (CTR), the recordkeeping requirements of monetary instrument purchases and funds transfers, Remote Deposit Capture, and Loans. In addition, the BSA Officer is also responsible for staying abreast of any changes to BSA regulations and recommending any changes in the bank’s BSA/AML/OFAC policy and procedures, as needed. On a monthly basis, the Board is informed of the status of the BSA/AML Program. The update is provided to the Board by the BSA Officer on regulatory and consultant recommendations.

The 6 member BSA team in FYE 16’ consists of the BSA Officer (Jason E. Wallace), 1 Senior BSA Analyst, 2 BSA Analysts and 2 BSA Specialists. Effective June 15, 2016 the Board of Directors appointed former Security Consultant, to the Bank’s Security Officer. Mr. Doe reports to the Compliance Officer, Roseanne Buscemi with a dotted line to the BSA/Security Officer.

As of June 30, 2015, all BSA positions were filled with qualified candidates and the team was fully staffed. The BSA Officer monitors the staff adequacy quarterly which yielded positive results by the end of the 4th quarter. There were no severe pending matters requiring attention at the end of the assessment period.

**\*Started in the 4th quarter FYE 16’**

**Training**

Annual AML/BSA Employee Training Program

The Bank has a risk based annual BSA and OFAC training program. The BSA Officer in collaboration with the Compliance Officer have defined training program requirements covering relevant information required by new or changed regulations. The BSA Officer in conjunction with the Compliance Officer shall review the Bank’s training program and requirements annually and revise as necessary to reflect current policy.

The Bank utilizes the ABA Online Frontline Compliance Training programs as its online source for annual core compliance training. The topics and courses addressed through this program for BSA related training include courses in the following areas: BSA for tellers, BSA for lenders, BSA - General Customer Identification Program (CIP) OFAC USA Patriot Act CTR & SAR Reporting Information Security and Red Flags

All bank employees are enrolled in the ABA Learning Management System (LMS) and are assigned courses specific to their area of operation.

In conjunction with Human Resources, the Compliance Department maintains an accurate list of all employees including new hires and removal of any employees who leave our hire.

Courses are assigned by February each year and are required to be completed before December 31st of the same year.

The BSA Officer is responsible for approving the curriculum as well as coordinating with the Compliance Department and the Board for the training of other departments with functions supporting the Banks BSA/AML policy, procedures, and processes.

BSA/AML/OFAC annual employee training is of upmost importance to management and the BSA Officer. All employees are assigned online training annually and job specific training (for retail and lending staff) at least once a year or as needed. The BSA Officer assigns ABA BSA training modules to bank staff and monitors the administration and execution of the bank wide BSA compliance training program. The Compliance Officer is responsible of keeping Management and the bank’s Board adequately informed as to the status and progress of the bank’s annual training program and any pending issues.

Senior Management including the Chief Operating Officer and Chief Compliance Officer has enforced the importance of BSA staff training to employees and their respective managers.

**New Hire Training**

J. Wallace requires BSA and OFAC training for all new employees and new members of the Board of Directors within 30 days of hire.

The bank incorporates an initial presentation on BSA regulations and policy as part of the initial employee orientation.

**BSA Staff Training / Professional Development**

Management continues to provide adequate resources to the BSA team for specialized training and professional development. The BSA Officer and staff attend the NJ Bankers Association Annual BSA AML Compliance Conference each year. All BSA staff receives at least one external training annually and webinars will also be arranged as needed.

The BSA Officer also maintains a robust in-house training program for the BSA team, which includes BSA team meetings, ad-hoc training, ad-hoc discussions/current events, seminars/webinars and live training events.

**OFAC Risk Assessment**

**Geography**

J. Wallace currently operates its 99 full service branches which include the main office in the New Jersey Counties of Bergen, Hudson, Essex and Passaic. All twenty-six branches operate in HIDTA / HIFCA regions. There has been no change to the bank’s operating locations since last assessment period. One branch was opened in Westwood NJ in April 2016.

During the assessment period, the bank has NOT:

Conducted business in, opened accounts for customers from, or facilitated transactions involving countries subject to OFAC sanctions, including state sponsors of terrorism.

Conducted business in, opened accounts for customers from, or facilitated transactions involving countries identified as supporting international terrorism under section 6(j) of the Export Administration Act of 1979, as determined by the Secretary of State.

Conducted business in, opened accounts for customers from, or facilitated transactions involving jurisdictions determined to be “of primary money laundering concern” by the Secretary of the Treasury, and jurisdictions subject to special measures imposed by the Secretary of the Treasury, through FinCEN, pursuant to section 311 of the USA PATRIOT Act.

Conducted business in, opened accounts for customers from, or facilitated transactions involving jurisdictions or countries monitored for deficiencies in their regimes to combat money laundering and terrorist financing identified as non-cooperative by international entities such as the Financial Action Task Force on Money Laundering (FATF).

Conducted business in, opened accounts for customers from, or facilitated transactions involving most major money laundering countries and jurisdictions identified in the U.S. Department of State’s annual International Narcotics Control Strategy Report (INCSR), in particular, countries which are identified as jurisdictions of primary concern. Wires were conducted through the following countries:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Country** | **Incoming** | **Incoming  Amount** | **Outgoing** | **Outgoing Amount** |
| **Canada** | 6 | $117,310.99 | 0 | $0.00 |
| **China** | 12 | $83,107.42 | 0 | $0.00 |
| **Colombia** | 6 | $4,562.82 | 0 | $0.00 |
| **Costa Rica** | 4 | $2,000.00 | 0 | $0.00 |
| **Croatia** | 10 | $9,868.54 | 0 | $0.00 |
| **Dominican Republic** | 3 | $16,100.00 | 0 | $0.00 |
| **Ecuador** | 1 | $9,454.00 | 0 | $0.00 |
| **El Salvador** | 1 | $6,775.00 | 0 | $0.00 |
| **India** | 2 | $78,128.85 | 0 | $0.00 |
| **Italy** | 2 | $1,882.11 | 0 | $0.00 |
| **Korea, Republic of** | 1 | $600.00 | 0 | $0.00 |
| **Peru** | 1 | $8,670.00 | 0 | $0.00 |
| **Trinidad and Tobago** | 11 | $8,461.79 | 0 | $0.00 |
| **United Kingdom** | 22 | $290,066.08 | 0 | $0.00 |
| **Venezuela, Bolivarian Republic of** | 2 | $1,850.00 | 0 | $0.00 |

Conducted business in, opened accounts for customers from, or facilitated transactions involving most offshore financial centers. Wires were conducted through the following countries:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Country** | **Incoming** | **Incoming  Amount** | **Outgoing** | **Outgoing Amount** |
| **Anguilla** | 1 | $1,298.00 | 0 | $0.00 |
| **Barbados** | 3 | $8,438.00 | 0 | $0.00 |
| **Costa Rica** | 4 | $2,000.00 | 0 | $0.00 |
| **Hong Kong** | 11 | $136,086.17 | 0 | $0.00 |
| **Seychelles** | 1 | $2,006.00 | 0 | $0.00 |
| **Switzerland** | 33 | $51,574.56 | 0 | $0.00 |
| **Virgin Islands, British** | 1 | $109,000.00 | 0 | $0.00 |

**Customer Base**

Most J. Wallace customers are U.S. citizens & residents and small to mid-size domestic businesses. The Bank considered the nature of its customers and the type of account opening activity, longevity of accounts, and transitory nature of its customers. In addition, the commercial lending department has expanded our market area to surrounding states.

**Customer Risk**

The Bank has established a risk rating and monitoring frequency system to mitigate the risks associated with money laundering and terrorist financing activity. The BSA Department determines the risk rating on every type of account by reviewing new and/or existing account criteria.

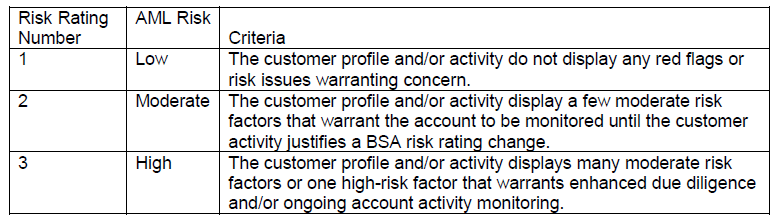
When a new account is opened the procedures in the Branch Administration Procedures –New Deposit Accounts will be followed using the ChexSystems (DDA only) and Bridger Insight (all accounts) on-line programs. In the event that a match is found an individual at the bank will follow the steps in the “Processing an OFAC Hit” section of these procedures.

The Bank’s use of the Lexis/Nexis Bridger Insight automated system provides immediate results when verifying that new customers are or are not on the Government’s Specially Designated Nations (SDN) or Palestinian Legislative Council (NS-PLC) Lists or any of the other 25+ Watch Lists the system monitors. Updates to the SDN and NS-PLC lists are compared to the Bank’s customer base within five (5) business days after each time those lists are updated.

**Other Departments**

Loan Accounts, wire transfers in and wire transfers out, requests for donations, all require that a check of the OFAC list is performed prior to completion of the transaction. In the event that a match is found, the department should follow the steps outlined below in “Processing an OFAC Hit”

By assigning a risk rating and monitoring frequency, the BSA Department. is able to maintain control of unusual or high-risk account activity. This system allows the BSA Department to effectively manage accounts and identify those accounts that may require enhanced due diligence (EDD).

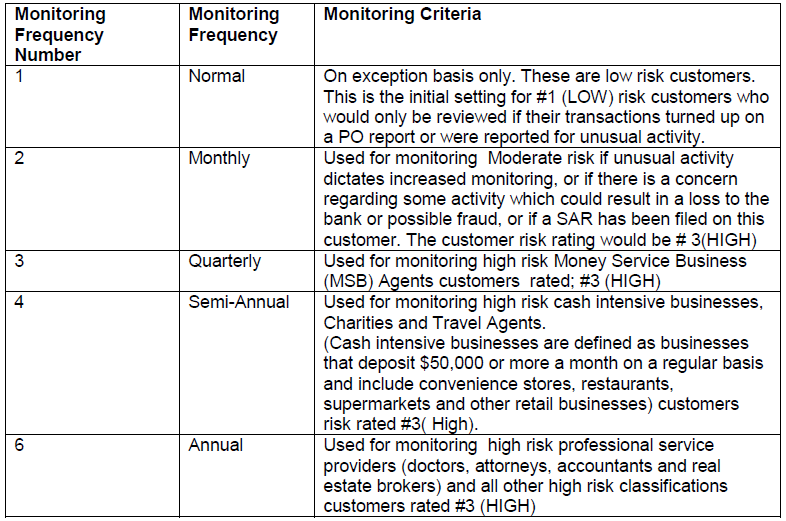


There are no overseas borrowers and all loan collateral is located in the U.S.A.

The BSA team checks on OFAC compliance every time FinCEN publishes an update (usually daily) and reviews on-going OFAC screening results weekly.

Customer profiles may change over time and it is important that a periodic review be performed so that risk rating and monitoring frequency reflects the risk profile of the relationship. Reviews by the BSA Department determine if the risk factors have significantly changed and whether a more appropriate risk rating and or monitoring frequency should be assigned.

When a customer relationship is reviewed, it is important to review all factors including, but not limited to customer type, transactional activity, and volume or amount of transactions that influence the risk rating.



**Overseas Branches / Correspondent Accounts with Foreign Banks**

J. Wallace is a Northeast US regional bank and as such does not have or maintain any foreign branches or foreign correspondent bank accounts.

**Electronic Banking**

J. Wallace offers electronic banking services, including; ATM/Debit Cards to consumers and authorized signors of businesses only (11,414), and Remote Deposit Capture to established U.S. business customers only (96). Online banking services include account inquiry and transfer between own accounts only. No account opening, wire transfer or ACH initiation services are offered via the Internet banking system. Third-party transfers cannot be performed over the internet. Industry standard security practices are adhered to, and the bank follows specific procedures in approving applications.

**NRA**

The Bank has a total of 6 Nonresident Alien account owners with 6 accounts (2 checking, 4 savings). All but current W8 Certifications. These accounts are opened only when prescribed written criteria are met. There has been no growth in NRA accounts during the assessment period and as such there is no increased risk for the Bank.

Nonresident Aliens (NRAs) who can be qualified as current US students or who have an ITIN (Individual Tax Identification Number), may open or be party to an account at J. Wallace without a tax id provided they certify their status as a Nonresident Alien on Form ‘W-8BEN - Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding’ (W-8BEN). We require documentation of the student status and the institution where they are enrolled.

An individual is a Nonresident Alien if they are neither a US citizen nor a Resident Alien. Generally, Nonresident Aliens do not have tax ID numbers. However, in some cases where the Alien files or is named in a US tax return, they are issued an ITIN (they usually begins with the # 9 and are issued after 1995).

Criteria:

1. The individual has a verifiable NJ mailing address that is their current residence, and
2. The individual provides a documented permanent (foreign) address, and
3. The individual is a student with a current valid student ID from an identifiable school, or is a Nonresident Alien with a ITIN, and
4. A photocopy of either their current passport or Visa must be attached to our records.

Rules for Form W-8:

1. Valid for only three calendar years – year received and two subsequent years

2. Recertification must be preformed every third year anniversary and on file by December 31st of that year.

3. A valid Form W-8 must be on file prior to interest being paid. If not, the interest paid is subject to IRS reporting and back-up withholding.

4. The Form W-8 must be completed in full by the customer

a. Customer’s name and permanent (foreign) address

b. Check all appropriate boxes

c. Signed and dated by customer

Despite the decrease in NRA accounts our risk exposure remains **Moderate**.

**International Transactions**

The Bank considered the nature of fund transfer activity including customers, locations, frequency, and currency amounts. No transfers are performed for non-customers and foreign wire transfers for customers are performed on an incoming basis only. All wire transfers are also entered manually through FSI’s Patriot Officer Wire Transfer Module. This enables staff to ensure all Foreign Wire Transfers received through US correspondent financial institutions are entered as Foreign Wires in the system. Wire transfers are monitored through the Patriot Officer Anti-Money Laundering System.

The Bank performs OFAC / Watch List Checks for all parties named on outgoing wire transfers which would include the receiving financial institution, beneficiary and any other individual or entity named in the wire transfer instructions before the wire transfer is processed.

**International Wire Transfer**

The Wire Transfer Department was transferred from the Accounting Department to the eBanking Department during the previous assessment period with its personnel. Foreign wires are monitored separately on a quarterly basis. Each review encompasses wire transfers for each customer for the previous 6 month period. All customer domestic and foreign wire transfers are monitored in the same manner.

For fiscal year 2016 the Bank processed 175 international wire transfers totaling $1,305,571 for customers. All of the wire transfers were incoming.

|  |  |  |  |
| --- | --- | --- | --- |
| **FYE 2016** |  |  |  |
| **COUNTRY** | INCOMING COUNT | OUTGOING COUNT | INCOMING AMOUNT |
| **ANGUILLA** | 1 | 0 | $1,298.00 |
| **AUSTRALIA** | 5 | 0 | $8,220.38 |
| **BARBADOS** | 3 | 0 | $8,438.00 |
| **CANADA** | 6 | 0 | $117,310.99 |
| **CHINA** | 12 | 0 | $83,107.42 |
| **COLOMBIA** | 6 | 0 | $4,562.82 |
| **COSTA RICA** | 4 | 0 | $2,000.00 |
| **CROATIA** | 10 | 0 | $9,868.54 |
| **DOMINICAN REPUBLIC** | 3 | 0 | $16,100.00 |
| **ECUADOR** | 1 | 0 | $9,454.00 |
| **EL SALVADOR** | 1 | 0 | $6,775.00 |
| **FINLAND** | 1 | 0 | $1,525.00 |
| **FRANCE** | 8 | 0 | $4,674.66 |
| **GERMANY** | 12 | 0 | $5,788.35 |
| **HONG KONG** | 11 | 0 | $136,086.17 |
| **ICELAND** | 1 | 0 | $176.00 |
| **INDIA** | 2 | 0 | $78,128.85 |
| **IRELAND** | 1 | 0 | $263,112.40 |
| **ISRAEL** | 1 | 0 | $9,968.00 |
| **ITALY** | 2 | 0 | $1,882.11 |
| **JAPAN** | 1 | 0 | $600.00 |
| **KOREA REPUBLIC OF** | 3 | 0 | $58,036.92 |
| **PERU** | 1 | 0 | $8,670.00 |
| **SEYCHELLES** | 1 | 0 | $2,006.00 |
| **SLOVAKIA** | 9 | 0 | $6,829.39 |
| **SWITZERLAND** | 33 | 0 | $51,574.56 |
| **TRINIDAD AND TOBAGO** | 11 | 0 | $8,461.79 |
| **UNITED KINGDOM** | 22 | 0 | $290,066.08 |
| **VENEZUELA, BOLIVARIAN REP** | 2 | 0 | $1,850.00 |
| **VIRGIN ISLAND, BRITISH** | 1 | 0 | $109,000.00 |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| **TOTALS:** | 175 | 0 | $1,305,571.43 |

For fiscal year 2016 the Bank processed 181 international wire transfers for customers, 178 totaling $1,452,003.05 incoming and 3 wires totaling $14,217.15 outgoing.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Country** | **Incoming Count** | **Incoming  Amount** | **Outgoing** | **Outgoing Amount** |
| **Argentina** | 3 | $27,980.00 | 0 | $0.00 |
| **Austria** | 1 | $1,225.90 | 0 | $0.00 |
| **Barbados** | 3 | $5,172.00 | 0 | $0.00 |
| **Canada** | 13 | $368,660.40 | 0 | $0.00 |
| **China** | 12 | $68,368.40 | 0 | $0.00 |
| **Colombia** | 5 | $55,377.77 | 0 | $0.00 |
| **Costa Rica** | 1 | $280.00 | 0 | $0.00 |
| **Croatia** | 12 | $2,114.36 | 0 | $0.00 |
| **Dominican Republic** | 3 | $15,772.62 | 0 | $0.00 |
| **Finland** | 2 | $2,677.00 | 0 | $0.00 |
| **France** | 2 | $689.70 | 0 | $0.00 |
| **Georgia** | 1 | $365.00 | 0 | $0.00 |
| **Germany** | 5 | $2,825.00 | 0 | $0.00 |
| **Haiti** | 1 | $1,258.70 | 0 | $0.00 |
| **Hong Kong** | 12 | $182,308.25 | 1 | $11,460.00 |
| **India** | 3 | $36,155.74 | 0 | $0.00 |
| **Ireland** | 1 | $2,472.50 | 0 | $0.00 |
| **Israel** | 1 | $4,810.00 | 0 | $0.00 |
| **Japan** | 1 | $17,234.69 | 0 | $0.00 |
| **Korea, Republic of** | 10 | $143,100.23 | 0 | $0.00 |
| **Lithuania** | 1 | $133.63 | 0 | $0.00 |
| **Mexico** | 2 | $64,034.00 | 0 | $0.00 |
| **Philippines** | 3 | $8,795.00 | 0 | $0.00 |
| **Saudi Arabia** | 1 | $2,965.00 | 0 | $0.00 |
| **Slovakia** | 12 | $16,021.61 | 0 | $0.00 |
| **Spain** | 1 | $45.00 | 0 | $0.00 |
| **Switzerland** | 38 | $62,582.69 | 1 | $1,782.53 |
| **Trinidad and Tobago** | 13 | $22,537.19 | 0 | $0.00 |
| **Turkey** | 1 | $20.00 | 0 | $0.00 |
| **United Arab Emirates** | 2 | $2,976.00 | 0 | $0.00 |
| **United Kingdom** | 9 | $330,515.67 | 0 | $0.00 |
| **Uruguay** | 1 | $1,454.00 | 0 | $0.00 |
| **Venezuela, Bolivarian Republic of** | 2 | $1,075.00 | 1 | $975.00 |
| **TOTALS:** | 178 | $1,452,003.05 | 3 | $14,217.53 |

Incoming foreign wires transfers remained static with the only increase coming by way of outgoing international wires.

Despite the facts, we do not perform funds transfers for non-customers or originate foreign funds transfers routinely, the slight increase for 2016, the probable increase further for FYE 2017 and with all branches located in HIFCA and/or HIDTA communities the level of risk remains **Moderate**.

**International ACH Transactions**

International ACH Transactions (IATs) are monitored daily and each incoming transaction’s originator is checked against the OFAC and PLC lists. There have been no matches to date. As reported in previous assessments, these transactions have been mostly retail purchases (i.e. PayPal) by our customers and direct deposits of pensions to our customers’ accounts.

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Number** | **Debits** | **Credits** |
| Jul-15 | 188 | $5,074.29 | $10,165.52 |
| Aug-15 | 167 | $7,346.91 | $11,970.79 |
| Sep-15 | 179 | $4,508.49 | $18,475.79 |
| Oct-15 | 176 | $14,817.24 | $12,957.64 |
| Nov-15 | 173 | $5,248.31 | $12,164.67 |
| Dec-15 | 191 | $6,050.16 | $13,769.33 |
| Jan-16 | 177 | $10,492.08 | $7,798.10 |
| Feb-16 | 155 | $6,192.02 | $13,994.25 |
| Mar-16 | 182 | $5,228.99 | $21,001.47 |
| Apr-16 | 220 | $5,492.19 | $11,618.89 |
| May-16 | 181 | $4,749.01 | $5,761.22 |
| Jun-16 | 214 | $7,484.41 | $20,043.76 |
| **Total FYE 2016** | **2203** | **$82,684.10** | **$159,721.43** |

Since the last review there have been significant increases in transaction numbers and totals. For FYE 2016, the number of transactions was 735 up from 1,468 and the debits and credits showed an increase with a combined total of $72,087.04.

**2016 IAT Data:**

**Deposits:** $82,684

**Charges:** $159,721

**Number of Transactions:** 2,303

**OFAC Actions**

J. Wallace has no communications from OFAC indicating compliance problems, and no history of OFAC violations, with a small number of transactions occurring in high risk jurisdictions relative to the transaction population. As such our inherent risk remains **MODERATE**.

The purpose of the OFAC program is to completely comply with OFAC regulations, and to help ensure no funds are transferred into or out of accounts blocked in accordance with OFAC sanctions.

J. Wallace Bank originates wire transfers, issues Official Checks, sells Travelers Checks and Gift Checks. The OFAC list is checked when the receiver of funds is not a customer to ensure that no transactions of any type are completed for entities that appear on the OFAC List. ACH activity is monitored on a daily basis with reports provided by Lexis/Nexis and FSI. OFAC searches on the originators are performed for all of these transactions.

J. Wallace Bank has compliance procedures in place so that we are able to react to frequent changes to the sanction lists, and can identify accounts or transactions that would be subject to the sanctions, resulting in blocking, freezing, rejecting and reporting funds.

Total compliance with OFAC sanctions requires a great deal of information, some of which may need to be obtained with legal assistance. Our procedures have been developed with this in mind, and do not address specific issues with specific governments or entities.