

PRESIDENTIAL LIFE INSURANCE COMPANY



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(845) 358-2300
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MEMORANDUM

TO: Presidential Life General and Writing Agents (Representatives)

FROM: Agency

SUBJECT: Anti-Money Laundering (AML) training

DATE: September 1, 2006

The USA Patriot Act, enacted in October 2001, requires US Insurance Companies that issue life and annuity products, which present a heightened risk of money laundering, terrorist financing or other illicit activity to establish anti-money-laundering (AML) programs. The Federal Crimes Enforcement Network (FinCEN), a division of the US Department of the Treasury issued these requirements.

Providing and confirming General and Writing Agent AML training is one requirement of the act. Presidential Life Insurance Company and Presidential Life Corporation, require proof that all our Representatives are certified for AML training.

Please complete one of the following:

1. I have completed AML training from another company or third party provider (***name of company or provider and date completed***). Attached is a copy of my certificate, which indicates the completion of my AML training. If a certificate is not available, another form of verification may be acceptable. Please phone the Home Office for details.

Company/Provider Name: _____ Date: _____

Agent Name: _____ Agent #: _____

2. I have not completed AML training but am anticipating completing AML training through Presidential Life Insurance Company's third party provider RegEd. I will go to the RegEd link established in "Notable News" of the Presidential Life web site at <http://www.presidentiallife.com/> via the "Agent Resource Center" and complete their requirements for passing the course. In addition, I will review the company's specific AML policies found at _____ and complete the Agent Declaration.

Until I provide evidence of AML training, I am aware that annuity contracts and life insurance policies that my customers apply for after Friday, November 3, 2006 will not be issued.

Agent Name: _____ Agent #: _____ Date: _____

If you have any questions, please contact the Agency Department at 800-926-7599 Ext. 455 or 454.

**Presidential Life Corporation
Presidential Life Insurance Company
("The Companies")**

ANTI-MONEY LAUNDERING PROGRAM

Patriot Act – Section 352

September 6, 2006

(The "AML Program")

Program Statement

The "USA Patriot Act" or the "Act" was enacted on October 26, 2001. This Act requires financial service firms, defined as insurance companies, registered and unregistered investment companies, broker/dealers, futures commission merchants, commodity trading advisors, commodity pool operators and those registered with the Commodity Futures Trading Commission ("CFTC"), and trust companies to implement appropriate controls and procedures to detect money laundering activities.

Presidential Life Corporation and its wholly owned subsidiary company, Presidential Life Insurance Company ("the Companies") are committed to preventing unscrupulous clients from attempting to fund terrorist or criminal activities or launder the proceeds of illegal activities through the Companies ("money laundering activities"). To support its commitment, the Companies have adopted this Program, including the following policies and procedures, which have been reasonably designed to (i) protect the Companies against the risks of money laundering activities, and (ii) monitor the Companies' service providers and their policies and procedures to combat money-laundering activities in their performance of services for the Companies.

The Companies' AML Program has been formally approved by the Board of Directors.

Money Laundering Generally

The phrase "Money Laundering" covers all procedures to change the identity of illegally obtained money so that it appears to have originated from a legitimate source. Crime syndicates are able to build their substantial business empires only with the assistance and expertise of corrupt or gullible business counterparts. The Act treats those who assist criminals to launder their ill-gotten gains with particular harshness. As these offenses can also be committed negligently, it is important that all of the Companies' employees and agents, particularly the following, know about money laundering:

- All agents, and any employee who has client or account contact directly or through transactions;
- All employees who keep account/transaction records;
- All employees that exercise supervisory control over such person(s) or area.

Compliance Officer

The senior management team of the Companies has appointed Gary S. Mettler as the anti-money laundering Compliance Officer to develop, implement and oversee the policies and procedures promulgated under this Program. The Compliance Officer is the primary person responsible for evaluating, investigating and reporting, if necessary, suspicious activity to the proper authorities, as well as to the companies. See **Exhibit A** for examples of activity that may be considered suspicious.

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The Compliance Officer shall report to the Companies' senior management at least annually regarding the operation and implementation of this Program. In addition, he shall furnish such other reports regarding this Program as the senior management team may from time to time require.

The Compliance Officer will continually monitor anti-money laundering rules and regulations, and periodically update the Program so that it complies with current regulatory framework.

Procedures and Internal Controls

Independent Insurance Agents. The Companies sell most of its insurance and annuity products through appointed general agencies and independent insurance agents. The Companies shall communicate the requirements of the Program to all agents as appropriate. The Companies will refer agent training on the requirements of the Act to outside third parties, that will provide agent training services for the Companies' Program. The Companies will maintain a record of all such training.

Agent training will insure that it incorporates the following safeguards, as appropriate:

- Limitations imposed on certain types of deposits and transactions, and generally monitor accounts deemed a high risk to money laundering activities.
- Detect and report suspicious activities to the Companies' Compliance Officer and to the proper governmental and law enforcement authorities.
- Conduct customer identification via the Customer Identification Program (CIP).
- Maintain required records.
- For General Agents, provide for proper supervision and training of writing agents.

Opening New Accounts. Prior to a new customer(s) opening an account (i.e., submits an application for a life insurance policy or annuity contract), an authorized employee will evaluate the extent to which the customer(s) is known by the Agent and verify the identity of the customer(s) to the extent reasonable and practical by performing a review of the:

- Account application. All solicited information on the application should be completed in full.
- A fully completed CIP form. Reference Exhibit B for guidance on how to identify your customer. Required for all new Annuity contract and Grade Benefit Life (GBL) insurance policy applications.
- Name of the customer(s) and place of residence against the list of suspected individuals and sanctioned countries on the list maintained by the U.S. Treasury Department Office of Foreign Assets Control (OFAC). Reference **Exhibit C** for the OFAC lists.
- Initial payment in appropriate form.

The employee will obtain supervisor approvals/authorizations, if necessary, and notify the Compliance Officer if opening a new account triggers suspicious indications or money laundering activity.

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Limitations and Restrictions on Types of Premium Payments: The Companies will accept checks, wire transfers and ACH payments drawn on an account in the name of the customer, or the name of the customer's company or employer. The Companies prohibit customers from opening accounts or making payments to existing accounts with the following instruments:

- Cash
- Checks drawn on foreign currencies
- Third party checks
- Travelers checks
- Starter Checks greater than \$500 without management approval
- Money orders or cashier's checks greater than \$500.00 without management approval

The Companies prohibit or limit payments with checks drawn on the account of an unrelated third party, or wire transfers from the accounts of unrelated third parties. The Compliance Officer may make exception to this policy if:

- The third party check or wire transfer includes the name, address and account number of the originator of the funds.
- The Compliance Officer conducts a CIP review of the customer or client, and unrelated third party.
- The Compliance Officer documents the reasons for making the exception to the policy and maintains the exception in a file and log titled 'Exceptions to Limitations and Restrictions on Premium Payments'.

The Companies' policies prohibiting or limiting acceptable forms of payment and preferred forms of client identification, and the Companies' right to reject a payment and return it to the payment remitter if an unacceptable form of payment is received will be disclosed to customers in offering materials.

To help insure agents and employees authorized to accept payments to client accounts are not circumventing the Companies' no-cash policies and other policies prohibiting certain types of payments, these employees and agents are prohibited from:

- Converting cash received from a customer or client to an acceptable form of payment.
- Accompanying a customer or client to a bank or other financial institution to purchase a cashier's check or money order.
- Directing a customer to deposit cash or unacceptable payments directly into an agent's bank account.

The Companies' anti-money laundering program has been designed based on a reasonable risk-based determination as to its customers and their true identity. In assessing the risks associated with particular customers or transactions, the Companies evaluate its business to ascertain those areas in which the likelihood of suspicious or potentially illegal activity may be greater.

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Customer Identification Program (CIP)

The companies are committed to establishing the true identity of its customers. To establish the customers' true identity, the companies require customers to produce: photo identification, and or other documents, acceptable to the Companies, to substantiate their identity claims. Reference Exhibit B for details regarding identity verification.

Scanning of potential customers' names against OFAC Specially Designated Nationals (SDN) and Sanctioned Program lists occurs prior to policy issue and again at various follow up intervals and is performed by several departments based on different phases of the policy application, issue, customer servicing and claim settlement processes.

If the Bridger scanning process identifies a **potential** match against a known OFAC list, immediately notify the Compliance Officer and/or senior management for further review and instructions regarding approved company procedures and policies.

If the Bridger scanning or money laundering transaction review process identifies a **true** match against a known OFAC list, immediately notify the Compliance Officer and/or senior management for further review and instructions regarding approved company procedures and policies. Each sanction is unique. The relevant sanction must be reviewed and instructions for compliance adhered to.

Lists of Known or Suspected Terrorists

The Companies verify that each new and existing customer does not appear on any list of known or suspected terrorists that are published by government agencies. Reference **Exhibit C** for the Treasury Department's Office of Foreign Assets Control (OFAC) lists.

Verification of customer identification is accomplished through the use of specialized OFAC compliant software, Bridger Homeland Tracker. The Bridger software continually updates its watch lists to be current with OFAC Specially Designated Nationals (SDN) and Sanctioned Programs lists.

Blocking a transaction involves accepting the funds intended for the transaction and then freezing those funds so that the owner is effectively denied access until appropriate action is taken by OFAC. Blocking can occur when a transaction is initiated at an institution or when funds are moved through an institution during a transfer.

Accounts will only be frozen in response to a seizure warrant or other order issued by a court or if required by OFAC regulations. Before returning a payment or severing a relationship, the lists of sanctioned countries and specially designated nationals, narcotics traffickers and terrorists issued by OFAC will be reviewed by senior management to ensure that the customer or any other person involved with the transactions (e.g.; the sender or recipient of the payment) is not a sanctioned person whose assets must be blocked under regulations issued by OFAC.

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Important OFAC Reports

The Compliance Officer may report suspicious activity to FinCEN or other law enforcement officials when suspicious activity may be indicative of money laundering or other criminal activity. **Exhibit D** details the Companies' reporting requirements for filing Suspicious Activity Reports (SARs) within 30 days of the suspicious transaction.

There are a number of important reporting requirements for OFAC. However, the three most important are:

1. Any transaction that has been blocked or rejected **must be reported to OFAC within ten business days**, from the date the property became blocked (see the OFAC Submission Report).
2. An annual report of all property blocked as of June 30 is due by September 30 of each year. (see the Annual Report of Blocked Property).
3. OFAC requires retention of all reports and blocked or rejected transaction records for five years.

Logs will be kept of all suspicious activity referrals and reports made, along with evidence of mailing. A separate file will be maintained for each referral, including reports filed, supporting documentation, the results of the investigation and any action taken. If an activity that has been identified as possibly suspicious is not reported or pursued, we will document the reason(s) why further action was not taken.

Detecting Reportable Currency Transactions

1. *Procedures to Monitor Currency Transactions.* The Companies are required to comply with federal regulations that require financial institutions to identify (i) single currency transactions over \$10,000, and (ii) multiple currency transactions conducted by the same person totaling more than \$10,000 on the same day or, if transactions are related, over a twelve-month period. **Exhibit D** details the Companies' reporting requirements.

To develop an appropriate system to identify and monitor transactions, the Companies shall monitor a number of factors:

- Type of customer base;
- Type of products or accounts;
- Volume and dollar amounts of premium payments received from the client and then refunded during the policy or contract's "free-look" period;
- Method of payment (ACH vs. other forms);
- Automated or outsourced payment processing

For example, if the type of customer and form of payment poses little money laundering risk (e.g., where the client is a long-time customer making a relatively small deposit into an existing account), only limited monitoring would seem warranted.

The Companies have adopted the following procedures to monitor cash transactions and suspicious activities:

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- Traveler checks are not acceptable and money orders, cashier's checks or starter checks may not exceed \$500 singularly or in the aggregate without management approval.
- Identify customers that are making frequent and/or large purchases that total more than \$15,000 over a calendar month into an existing flexible premium annuity contract or life insurance policy.
- Monitor and review wire transfers to determine whether the originator of the funds transfer is the client or a person related to the client.

2. Procedures to Monitor Refunds during the "Free-Look" Period or full or partial surrender requests.

The Companies have adopted the following procedures to specifically monitor requests for refunds during the "free-look" period of the policy or contract and *partial or full surrender requests*.

- Review large wire refund requests to identify wire transfers to unrelated third parties or high-risk countries, or other potentially suspicious wire transfers.
- Identify customers that purchase an insurance or annuity product and then have the transaction cancelled and premium refunded. Paying close attention to requests for refunds in this situation where good payment has not been received.
- Review customer requests for a full or partial surrender of a life insurance policy or an annuity contract resulting in a significant surrender charge.

If a Home Office employee, general or writing agent suspect suspicious activity, he or she will notify the Companies' anti-money laundering Compliance Officer.

Training

Training may take the form of live presentations, educational videos, on-line programs or the use of other media. The Compliance Officer shall report to the Companies on significant matters discussed at these training sessions.

The Compliance Officer will attend, no less frequently than once per year a training session(s) designed to address anti-money laundering activities relevant to the Companies Program and relevant to applicable anti-money laundering laws and regulations. The purpose of this training is to:

- Understanding the Companies' obligations under all relevant anti-money laundering regulations, including the Patriot Act.
- Evaluating the adequacy of anti-money laundering compliance of the Companies' service providers.
- Recognizing signs of possible money laundering activities relevant to the Companies.
 - Understanding the consequences for not following anti-money laundering policies and procedures.

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For the Companies' Writing Agents, General Agents and select Home Office employees, the Compliance Officer will develop or oversee the development of a formalized training program via a third party administrator (TPA). RegEd has been selected as the Companies' TPA for training with respect to money laundering schemes, applicable anti-money laundering laws and regulations and related policies and procedures. Certificates of training completion will be maintained in the Home Office. Appropriate personnel include those employees and their direct managers who have customer contact, process payments, and those who perform treasury, compliance, legal and audit functions.

Although regulations have not as yet been finalized regarding the frequency of recertification, it is "recommended" that Agents recertify on an annual basis.

For appropriate Home Office employees, in house training will periodically be provided regarding compliance issues of the Patriot Act. A sign-in sheet will be kept to evidence attendance.

The Compliance Officer will regularly circulate bulletins and other releases to assist in sensitizing employees and agents to new schemes and changes in laws, regulations, policy and procedures. All training will be documented and include the date of training, a sign-in sheet for the persons who attended, the topics covered and the materials used. Copies of training materials will be kept by the Compliance Officer and made available for review by examiners.

Independent Audit

An independent audit of this Program shall be conducted no less frequently than annually to review and test all aspects of the implementation and operation of this Program. The audit may be performed by trained members of the Companies' internal audit department, who are independent of the personnel working in the areas that are exposed to potential issues related to money laundering activities. The independent audit shall provide for:

- A written audit program that tests all affected areas to ensure that personnel understand and comply with anti-money laundering policies and procedures and to ensure the Programs adequacy.
- A test to ensure that cash, cash equivalents, unacceptable payments, and suspicious transactions are being properly identified, referred, and reported timely, if required.
- A written report of the audit results to be provided to Management and the Companies' Board of Directors.
- Procedures for follow-up and/or implementing recommendations to ensure that deficiencies are addressed and corrected.

As part of the Companies' normal quarterly audit, our payout annuity file is sent to Pension Benefit Information to be matched to their database. The process includes a social security number verification and notification of invalid and incorrect social security numbers.

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Recordkeeping

The Companies shall maintain, for a period of not less than five years, copies of all records and communications, including training materials and reports filed with FinCEN and the IRS, as applicable, as are reasonably necessary, consistent with applicable law, to document the implementation and operation of this Program. Records may take the form of memoranda, e-mails, audit reports or other information that documents the operation of this Program. Confidential records shall not be disclosed to third parties other than as permitted or required by law.

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Exhibit A

What Constitutes "Suspicious Activity"

Note: Home Office employees, general agents and writing agents must not notify any person involved in a suspicious transaction that the activity is being or might be investigated internally or being reported to the government as suspicious. Notifying or advising the suspect could compromise the investigation.

When Opening or Servicing an Account:

- Customer refusal to answer or only partially answer inquires made by the Customer Identification Program (CIP) form whether they purchase a product or not.
- Customer wishes to engage in transactions that lack business sense, apparent investment or retirement strategy, or are inconsistent with the customer's stated business/strategy.
- Customer exhibits unusual concern for secrecy. Particularly with respect to his/her identity, type of business, assets or dealings with firms.
- Customer exhibits a lack of concern regarding risks, commissions, or other transactional costs.
- Customer has difficulty describing the nature of his business.
- Customer appears to operate as an agent for an undisclosed principal, but is reluctant to provide information regarding that entity.
- For no apparent reason, the customer has multiple accounts under a single name or multiple names, with a large number of inter-account or third party transfers.
- Customer is from, or has accounts in, a country identified as a haven for money laundering.
- Customer publicly associates with a person(s), who has a questionable background, such as a prior criminal record.

Risk Indicators as Part of Customer Account Activity

- Transaction(s) serves no business or apparent lawful purpose, and the Companies know of no reasonable explanation for the transaction after examining the available facts.
- Account has unexplained or sudden extensive wire activity, especially in accounts that had little or no previous activity.
- Account shows numerous currency or cashiers check transactions aggregating to significant sums
- Account has a large number of wire transfers to unrelated third parties.
- Account has wire transfers to or from a country identified as a money laundering risk.
- Account indicates large or frequent wire transfers, immediately withdrawn.
- Customer engages in large international fund transfers from his/her domestic account in amounts or frequency not consistent with the nature of the customer's known business activities.

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Exhibit B

Customer Identification Program (CIP)

The Companies' anti-money laundering program has been designed based on a reasonable risk-based determination methodology in order to determine its customer's true identity. In assessing the risks associated with particular customers or transactions, the Companies' evaluate its business to ascertain those areas in which the likelihood of suspicious or potentially illegal activity may be greater.

The Companies shall undertake reasonable efforts during the account opening process to collect customer identity information:

- The name and address of the customer(s);
- Customer's date of birth;
- Obtain formal picture identification such as State drivers license, passport, etc.;
- Obtain entity verification via official documents;
- Obtain entity representative identity verification;

Exhibit C

List of Sanctioned Countries and Suspected Individuals

The OFAC generally prohibits trade, financial and commercial dealings and transactions with certain countries, their governments (including government-owned or controlled entities) and other specially designated persons. Currently there are sanction regulations pertaining to:

Sanctioned Countries:

Balkans
Belarus
Burma (Myanmar)
Cote d'Ivoire (Ivory Coast)
Cuba
Iran
Iraq
North Korea
Liberia
Sudan
Syria
Zimbabwe

Sanctioned Individuals or Organizations

See website www.treas.gov/ofac for a current list and important information.

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Please note that these lists are updated periodically. You may also call the OFAC Compliance Hotline for information (1 -800-540-6322)

If the Companies determine that a customer is listed on an OFAC list, the Compliance Officer will contact OFAC.

Exhibit D

Reporting Requirements

SAR Filings

Requirement:

Since 1996 banks and broker/dealers affiliated with banks have been required to file Suspicious Activity Reports ("SARs") with the US Treasury's Financial Crimes Enforcement Network ("FinCEN"). Insurance companies are required to file SARs for all transactions occurring after May 2, 2006. There are two events that trigger filings: (i) any known or suspected violation of law or regulation, or (ii) a transaction that has no apparent business or other lawful purpose, or is not normally the type of transaction a particular customer would normally engage. Transactions should be over \$5,000. Firms are prohibited from notifying any person involved in the transaction that a SAR was filed, known as the 'no tipping' rule.

Timing of Filing:

Reports are due within thirty days of the suspicious transaction. The Companies' maintain logs and copies of all forms filed, with supporting documentation and evidence of mailing for five years.