

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

_____)	
In the Matter of)	
ASIAN FINANCIAL CORPORATION)	Docket Nos. 05-33-B-HC
Philadelphia, Pennsylvania)	05-33-B-SM
and)	
ASIAN BANK)	Cease and Desist Order Issued on Consent
Philadelphia, Pennsylvania)	Pursuant to the Federal Deposit Insurance
_____)	Act, as amended

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of Asian Financial Corporation, Philadelphia, Pennsylvania (“Asian Financial”), a registered bank holding company, and its subsidiary bank, Asian Bank, Philadelphia, Pennsylvania (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, the Board of Governors of the Federal Reserve System (the “Board of Governors”), Asian Financial, and the Bank have mutually agreed to enter into this consent Cease and Desist Order (the “Order”);

WHEREAS, on February 28, 2006 the boards of directors of Asian Financial and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing Marc S Winkler to enter into this Order on behalf of Asian Financial and the Bank, and consenting to compliance with each and every applicable provision of this Order by Asian Financial, the Bank, and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1813(u) and 1818(b)(3)) (the “FDI Act”) and waiving any and all rights that Asian Financial and the Bank may have

pursuant to section 8 of the FDI Act (12 U.S.C. 1818) to: (i) a hearing for the purpose of taking evidence on any matters set forth in this Order; (ii) judicial review of this Order; (iii) contest the issuance of this Order by the Board of Governors pursuant to section 8 of the FDI Act; and (iv) challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Order or any provisions hereof.

NOW, THEREFORE, IT IS HEREBY ORDERED that, pursuant to sections 8(b)(1) and (3) of the FDI Act, Asian Financial, the Bank, and their institution-affiliated parties shall cease and desist and take affirmative action as follows:

Management Review

1. (a) Within 30 days of this Order, the Bank's board of directors shall retain an independent consultant (the "Management Consultant") acceptable to the Reserve Bank to conduct a review of the functions and performance of the Bank's officers (the "Management Review"), and prepare a written report of findings and recommendations (the "Management Consultant's Report") to the Bank's board of directors. The primary purpose of the Management Review shall be to aid in the development of a management structure suitable to the Bank's needs that is adequately staffed by qualified and trained personnel. The Management Review shall, at a minimum, address, consider, and include:

- (i) The identification of the type and number of officers needed to manage and supervise adequately the affairs of the Bank;
- (ii) an evaluation of each officer to determine whether the individual possesses the ability, experience, and other qualifications required to perform competently present and anticipated duties, including the ability to adhere to applicable laws and regulations

and the Bank's established policies and procedures, restore and maintain the Bank to a safe and sound condition, and comply with the requirements of this Order; and

(iii) a plan to recruit, hire, or appoint additional or replacement personnel with the requisite ability, experience, and other qualifications required to perform competently their assigned duties.

(b) Within 10 days of the engagement of the Management Consultant, but prior to the commencement of the Management Review, the Bank shall submit to the Reserve Bank for approval an engagement letter that sets forth the scope of the Management Review and the date of submission of the Management Consultant's Report, which shall not exceed 90 days from the date of the Reserve Bank's approval of the engagement letter.

(c) The Bank shall forward a copy of the Management Consultant's Report to the Reserve Bank at the same time that it is provided to the Bank.

(d) Within 30 days of the Bank's receipt of the Management Consultant's Report, the Bank shall submit to the Reserve Bank a written management plan that fully addresses the findings and recommendations in the Management Consultant's Report and describes the specific actions that the Bank's board of directors proposes to take in order to strengthen the Bank's management and to provide for management succession.

2. (a) In appointing any new officers or directors, Asian Financial and the Bank shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. 1831i) and Subpart H of Regulation Y of the Board of Governors of the Federal Reserve System.

(b) Asian Financial and the Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. 1828) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

Board of Directors Oversight

3. (a) Within 60 days of this Order, the Bank's board of directors shall submit to the Reserve Bank a written plan to strengthen board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

(i) The actions that the board of directors will take to improve the Bank's condition and maintain effective control over and supervision of the Bank's senior management and major operations and activities;

(ii) a description of the detailed information to be included in the periodic reports that will be reviewed by the board of directors in its oversight of the operations and management of the Bank; and

(iii) the deficiencies related to the board of directors' oversight of management noted in the report of the examination of the Bank conducted by the Reserve Bank in April and May 2005 (the "Report of Examination").

(b) Within 90 days of this Order and semi-annually thereafter, the Bank's board of directors shall review management's adherence to the Bank's written policies and procedures and shall prepare written findings and conclusions of this review and written descriptions of any management or operational changes that are made as a result of this review. The written findings, conclusions, and descriptions shall be included in the minutes of the board of directors meetings and shall be retained for subsequent supervisory review.

Capital Adequacy

4. Within 60 days of this Order, Asian Financial and the Bank shall submit to the Reserve Bank an acceptable joint written plan to achieve and thereafter maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The Bank's current and future capital requirements, including compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measures and Tier 1 Leverage Measures, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(b) the volume of the Bank's adversely classified assets;

(c) the growth in the Bank's assets;

(d) the risk profile of the Bank's asset and liability structure;

(e) the source and timing of additional funds to fulfill the future capital needs of the Bank; and

(f) the requirements of section 225.4(a) of Regulation Y of the Board of Governors that Asian Financial serve as a source of strength to the Bank (12 C.F.R. 225.4(a)).

Asset/Liability Management

5. Within 60 days of this Order, the Bank shall submit to the Reserve Bank an acceptable written asset/liability management plan designed to improve management of the Bank's sensitivity to market risk. The written plan, shall at a minimum, address, consider, and include:

(a) An interest rate risk process that includes the independent review and back-testing of interest rate risk modeling results requirements of the Joint Policy Statement on Interest Rate Risk, dated May 23, 1996;

(b) periodic testing of the Bank's asset/liability risk management process and reporting the findings to the Bank's Audit Committee on an annual basis; and

(c) monthly reporting to the Bank's board of directors on the status of the interest rate sensitivity position of the Bank and the actions taken by management to improve the Bank's position as it relates to rate sensitivity.

Funds Management and Liquidity

6. (a) Within 60 days of this Order, the Bank shall submit to the Reserve Bank an acceptable, comprehensive liquidity contingency plan. The plan shall assess possible liquidity events that the Bank may encounter and identify responses to the potential impact of such events on the Bank's short-term, intermediate-term, and long-term liquidity profile.

(b) Within 30 days of this Order, the Bank shall submit to the Reserve Bank an acceptable plan to reduce the Bank's reliance on non-core funding and increase its reliance on core deposits as a funding source, including establishment of risk limits on non-core funding sources. The plan shall include target dates and assign responsibility for execution of the plan to specific individuals.

(c) Management shall report, at a minimum quarterly, the level and percentage of core deposit funding and the sources and dollar amounts of non-core funding to the Bank's board of directors.

Brokered Deposits

7. The Bank shall not accept brokered deposits except in compliance with the provisions of section 29 of the FDI Act (12 U.S.C. 1831f). The Bank shall notify the Reserve Bank if the Bank requests any waiver of the restrictions imposed by section 29 from the Federal

Deposit Insurance Corporation (the “FDIC”) and shall notify the Reserve Bank of the FDIC’s disposition of any requests for such a waiver.

Internal Controls

8. Within 60 days of this Order, the Bank shall submit to the Reserve Bank acceptable written policies and procedures designed to strengthen and maintain the Bank’s internal controls. The policies and procedures shall, at a minimum, address, consider, and include:

- (a) General ledger account reconciliation and maintenance of records, approval procedures for entries to accounts, and timely resolution of open items;
- (b) segregation of duties between preparing and entering data to the general or subsidiary ledgers and preparing reconciliations;
- (c) reconciliations of all balance sheet accounts, incorporating a requirement that reconciliations be reviewed by an officer independent of the reconciliation process;
- (d) investment transactions, including: (i) written documentation of the authorization, execution, and review of investment transactions; (ii) the tracking of investment transactions; and (iii) written pre-purchase analysis and interim investment analysis;
- (e) controls on access to and passwords for information systems;
- (f) controls to ensure adequate monitoring and reporting of accounts that are overdrawn or drawing on uncollected funds, including, but not limited to: (i) management information systems that identify accounts that are overdrawn or drawing on uncollected funds; (ii) the designation of management authorized to approve payments against accounts that are overdrawn or drawing against uncollected funds; (iii) monthly reporting to the Bank’s board of directors of accounts that are overdrawn or drawing on uncollected funds; and (iv) procedures for

closing accounts with a level of overdraft or uncollected funds activity that is inconsistent with Bank policy or that poses a risk of loss; and

(g) corrective steps that are responsive to the criticism of the Bank's internal controls noted in the Report of Examination.

Internal Audit

9. Within 60 days of this Order, the Bank shall submit to the Reserve Bank acceptable written internal audit policies and procedures that shall, at a minimum, address, consider, and include:

(a) A formal, written audit plan and schedule, supported by an annual formal risk assessment that identifies all auditable areas and gives a detailed basis for the Bank's determination of relative risk;

(b) the establishment of follow-up procedures to ensure that required corrective actions have been taken, including implementation of an exception tracking process for internal and external audit findings and regulatory recommendations; and

(c) corrective steps to address the criticisms of the audit function noted in the Report of Examination.

Regulatory Reporting

10. The Bank shall take such actions as are necessary to ensure that all Reports of Condition and Income filed, submitted, or published by the Bank accurately reflect the Bank's condition on the date(s) for which such reports are filed, submitted, or published; that all such reports are filed, submitted, or published in a timely manner; and that all records indicating how such reports are prepared are adequately maintained for subsequent supervisory review.

Compliance with Laws and Regulations

11. (a) The Bank shall take the necessary steps, consistent with sound banking practices, to correct all violations of law and regulation set forth in the Report of Examination and to ensure the Bank's future compliance with all applicable laws and regulations.

(b) The Bank shall not engage, directly or indirectly, in any violation of Regulation O of the Board of Governors (12 C.F.R. Part 215), including, but not limited to the payment of overdrafts on accounts of executive officers, directors, principal shareholders, or their related interests, as defined in section 215.2 of Regulation O.

(c) Within 10 days of this Order, the Bank shall submit to the Reserve Bank an acceptable program to ensure compliance with the provisions of Regulation O. At a minimum, the program shall require: (i) the directors and management of the Bank, as well as all personnel responsible for authorizing the payment of overdrafts, to familiarize themselves with the provisions of Regulation O; (ii) the amendment of the Bank's loan policies and procedures to ensure that extensions of credit to executive officers, directors, principal shareholders, or their related interests, including, but not limited to the payment of overdrafts, are in compliance with the restrictions and limitations of Regulation O; (iii) appropriate reporting to the Bank's board of directors and its audit committee concerning any overdrafts by executive officers, directors, principal shareholders, or their related interests; and (iv) other appropriate measures to ensure compliance by the Bank and its institution-affiliated parties with the requirements of Regulation O.

Dividends

12. (a) Asian Financial and the Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director of the Division of Banking Supervision and Regulation of the Board of Governors. All requests for prior approval

shall be received by the Reserve Bank at least 30 days prior to the proposed dividend declaration date and shall contain, but not be limited to, current and projected information on consolidated earnings, and cash flow, capital, asset quality, and ALLL needs of the Bank.

(b) Asian Financial shall not take dividends or any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank.

Debt and Stock Redemption

13. (a) Asian Financial shall not, directly or indirectly, incur any debt without the prior written approval of the Reserve Bank. All requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) Asian Financial and the Bank shall not redeem any stock without the prior written approval of the Reserve Bank.

Strategic Planning and Budgeting

14. (a) Within 90 days of this Order, the Bank shall submit to the Reserve Bank a written strategic plan and budget for 2006, which shall, at a minimum, provide for or describe:

(i) The responsibilities of the Bank's board of directors regarding the definition, approval, implementation, and monitoring of the strategic plan and budget;

(ii) management, lending, and operational objectives, and a description of how the Bank's board of directors and senior management intend to achieve the stated objectives;

(iii) financial performance objectives, including plans for asset growth, earnings, liquidity, and capital supported by detailed quarterly and annual pro forma financial statements, including projected budgets, balance sheets, and income statements;

(iv) key ratios such as the efficiency ratio, net interest margin, return on equity, return on assets, capital ratios, and any other performance measures deemed necessary by the Bank's board of directors; and

(v) the establishment of a quarterly review process to monitor the actual income and expenses, balance sheet composition, and capital levels of the Bank, in comparison to budgetary projections and provide explanations for significant budget variances.

(b) A strategic plan and budget for each calendar year subsequent to 2006 shall be submitted to the Reserve Bank at least one month prior to the beginning of that calendar year.

Approval, Implementation, and Progress Reports

15. (a) The Bank and, where applicable, Asian Financial shall submit written plans, policies, procedures, and an engagement letter that are acceptable to the Reserve Bank within the applicable time periods set forth paragraphs 1(b), 4, 5, 6(a) and (b), 8, 9 and 11(c) of this Order. An independent consultant acceptable to the Reserve Bank shall be retained by the Bank within the time period set forth in paragraph 1(a) of this Order.

(b) The Bank and, where applicable, Asian Financial shall adopt the approved plans, policies, procedures, and engagement letter within 10 days of approval by the Reserve Bank. The Bank and, where applicable, Asian Financial shall thereafter implement and fully comply with the approved plans, policies, procedures, and engagement letter. During the term of

this Order, the approved plans, policies, procedures, and engagement letter shall not be amended or rescinded without the prior written approval of the Reserve Bank.

16. Within 45 days after the end of each calendar quarter (March 31, June 30, September 30, and December 31) following the date of this Order, the boards of directors of Asian Financial and the Bank shall submit to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with this Order and the results thereof. Such reports may be discontinued when the corrections required by this Order have been accomplished and the Reserve Bank has, in writing, released Asian Financial and the Bank from making further reports.

Communications

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

- (a) A. Reed Raymond
Vice President
Supervision, Regulation, and Credit
Federal Reserve Bank of Philadelphia
Ten Independence Mall
Philadelphia, Pennsylvania 19106
- (b) Marc S. Winkler
President & CEO, Asian Bank
Director, Asian Financial Corporation
1008 Arch Street
Philadelphia, Pennsylvania 19107

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

19. The provisions of this Order shall be binding upon Asian Financial, the Bank, and each of their institution-affiliated parties, in their capacities as such, and their successors and assigns.

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

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

22. This Order does not supercede the Written Agreement between the Reserve Bank and the Bank, dated January 18, 2005.

By order of the Board of Governors of the Federal Reserve System effective this 8th day of March, 2006.

Asian Financial Corporation

By: M. S. Walker

Board of Governors of the
Federal Reserve System

By: Jennifer J. Johnson
Jennifer J. Johnson
Secretary of the Board

Asian Bank

By: M. S. Walker