

UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

_____)	Docket No. 02-004-B-SM
In the Matter of)	
BANK OF THE ORIENT)	Order to Cease and Desist
San Francisco, California)	Issued Upon Consent
_____)	

WHEREAS, in recognition of the common goal of the Board of Governors of the Federal Reserve System (the “Board of Governors”) and the Bank of the Orient, San Francisco, California (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, to restore and maintain the financial soundness of the Bank, and to ensure the Bank’s compliance with all applicable federal and state laws, rules, and regulations, the Bank has consented to the issuance of this Cease and Desist Order (the “Order”);

WHEREAS, as the result of the identification of deficiencies in its operations, the Bank is taking steps to enhance and improve its policies and procedures for compliance with all applicable laws and regulations, including the Currency and Foreign Transactions Reporting Act (31 U.S.C. 5311 et seq.) and the regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. 103.11 et seq.) (collectively referred to as the Bank Secrecy Act (the “BSA”)) and the applicable provisions of Regulation H of the Board of Governors (12 C.F.R. 208.62 and 208.63); and

WHEREAS, on 04/16, 2002, the board of directors of the Bank adopted a resolution authorizing and directing JOHN NG to enter into this Order on behalf of the Bank and consenting to compliance by the board of directors of the Bank and the Bank's institution-affiliated parties, as defined in section 3(u) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1813(u)), to comply with each and every provision of this Order; and waiving any and all rights that the Bank may have pursuant to 12 U.S.C. 1818: to the issuance of a notice of charges and of hearing on any matter set forth in this Order; to a hearing for the purpose of taking evidence on any matters set forth in this Order; to judicial review of this Order; and to challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Order or any provision hereof.

NOW, THEREFORE, before the taking of any testimony or adjudication of, or finding on any issue of fact or law herein, and without this Order constituting an admission of any allegation made or implied by the Board of Governors, and solely for the purpose of settlement of this proceeding without protracted hearing or testimony and pursuant to the aforementioned regulations:

IT IS HEREBY ORDERED that the Bank and its institution-affiliated parties cease and desist and take affirmative action as follows:

Management

1. (a) Within 90 days of this Order, the board of directors shall conduct a review of the functions and performance of the Bank's management and shall forward to the

Federal Reserve Bank of San Francisco (the "Reserve Bank") a written report that includes findings, conclusions, and a description of specific actions that the board of directors proposes to take to strengthen the Bank's management and to improve the board of directors' supervision over the Bank's officers. The primary purpose of the review shall be to assure the development of a management structure that is adequately staffed by qualified and trained personnel suitable to the Bank's needs. The review shall, at a minimum, address, consider, and include:

(i) 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 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;

(ii) 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; and

(iii) the provision of guidance and oversight to Bank management by the board of directors' committees.

(b) Within 180 days of this Order, and semi-annually thereafter, the board of directors shall review management's adherence to the Bank's established policies and procedures and shall prepare written findings and conclusions of this review, along with written descriptions of any management or operational changes that are to be made as a result of the review. These written findings shall be included in the minutes of the board of directors' meetings.

2. During the term of this Order, or as otherwise required by law, the Bank shall comply with the provisions of section 32 of the FDI Act (12 U.S.C. 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. Part 225, Subpart H) with respect to the appointment of any new directors or the hiring or promotion of any senior executive officers as defined in Regulation O of the Board of Governors (12 C.F.R. Part 215).

Capital and Dividends

3. Within 45 days of this Order, the Bank shall submit to the Reserve Bank an acceptable written plan to 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 of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(b) any planned asset growth;

(c) the volume of adversely classified assets and the potential for additional asset quality problems at the Bank;

(d) the anticipated level of retained earnings of the Bank, with particular attention to maintaining adequate loan loss reserves and to the overhead costs associated with improving the Bank's BSA compliance program as required by the provisions of this Order; and

(e) the source and timing of additional funds to fulfill the future capital and allowance for loan and lease loss needs of the Bank.

4. 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. Requests for 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 earnings, cash flow, capital levels, and asset quality of the Bank.

Concentrations of Credit

5. Within 60 days of this Order, the Bank shall submit to the Reserve Bank acceptable written policies and procedures to monitor and control concentrations of credit. The policies and procedures shall, at a minimum, address, consider, and include:

- (a) the establishment of acceptable limits on concentrations of credit;
- (b) monitoring to control concentrations of credit; and
- (c) written monthly reporting of concentration levels to the board of

directors, copies of which shall be retained for subsequent supervisory review.

Risk Management

6. Within 60 days of this Order, the Bank shall submit to the Reserve Bank acceptable written asset/liability management policies and procedures designed to improve management of the Bank's sensitivity to interest rate risk. The policies and procedures shall conform to the guidelines established by the Interagency Policy Statement on Interest Rate Risk dated June 6, 1996 and shall, at a minimum, address, consider, and include:

- (a) identification of individuals responsible for measuring, monitoring, and controlling interest rate sensitivity;
- (b) appropriate oversight and review of interest rate risk by management and the board of directors;
- (c) annual review and approval by the board of directors of the Bank's foreign exchange policy;
- (d) enhancement of interest rate risk reporting to include trend data;
- (e) maintenance of documentation to support the validity and accuracy of assumptions used in measuring interest rate risk and to show periodic review of those assumptions;
- (f) parameters for controlling interest rate risk based on capital levels, earnings performance, equity value, and the risk tolerance of the Bank; and
- (g) action plans to reduce potential interest rate risk in the event that rate sensitivity results fall outside approved limits.

Internal Controls

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

- (a) management information systems that ensure that appropriate management personnel receive timely and accurate reports necessary to effectively manage business risks and correct weaknesses and deficiencies;

- (b) appropriate segregation of duties in all areas, including but not limited to the Bank's private banking operations and correspondent accounts;
- (c) procedures for the Bank's private banking operations and correspondent accounts that ensure the maintenance of complete and accurate information for each accountholder, and accurate, current records for each account and each transaction;
- (d) guidelines and procedures for review and approval of all transactions between the Bank and its institution-affiliated parties; and
- (e) corrective steps that address internal controls deficiencies noted in the Report of Examination of the Bank as of September 30, 2001 (the "Report of Examination").

Internal Audit

8. Within 60 days of this Order, the Bank shall submit to the Reserve Bank an acceptable written internal audit program. The program shall, at a minimum, address, consider, and include:

- (a) generally accepted auditing standards, including the scope and frequency of audits, and submission of periodic audit reports and written management responses to the board of directors or an appropriate committee of the board of directors;
- (b) guidelines and the designation of resources to ensure that internal audits are completed as scheduled and that audits are performed for all areas that have been designated as warranting attention; and
- (c) corrective steps that address the criticisms of audit scope in the Report of Examination.

Bank Secrecy Act and Regulation H Compliance

9. The Bank and its institution-affiliated parties shall not, directly or indirectly, violate the BSA or any rules or regulations issued pursuant thereto.

10. To assist the Bank to correct deficiencies and violations relating to the BSA, the rules and regulations issued thereunder, and Regulation H of the Board of Governors, and to develop policies and procedures designed to ensure future compliance with all applicable laws and regulations:

(a) Within 30 days of this Order, the Bank shall engage the services of one or more qualified independent firms (the "Consultant"), acceptable to the Reserve Bank, to conduct a comprehensive review of the Bank's anti-money laundering compliance and to make recommendations, as appropriate, for new policies and procedures to be implemented by the Bank, including new procedures to comply with USA PATRIOT Act provisions that amend the BSA with respect to foreign correspondent and private banking accounts. The comprehensive review shall include, at a minimum:

(i) a review of the Bank's policies and procedures for compliance with all aspects of the BSA and sections 208.62 and 208.63 of Regulation H of the Board of Governors;

(ii) a forensic review of the accounts and transactions of the Bank's private banking department for the time period January 1, 1999 through March 31, 2002, to determine whether any suspicious activity involving accounts or transactions at, by, or through the Bank was properly identified and reported by the Bank in accordance with applicable regulations; and

(iii) a forensic review of certain correspondent accounts maintained by the Bank for the time period January 1, 1999 through March 31, 2002, to determine whether any suspicious activity involving accounts or transactions at, by, or through the Bank was properly identified and reported by the Bank in accordance with applicable regulations.

(b) Within 10 days of the engagement of the Consultant, but prior to the commencement of the review, the Bank shall submit to the Reserve Bank for approval an engagement letter that delineates the scope of the review and its projected duration, not to exceed 90 days. The engagement letter shall acknowledge that the Consultant shall have access to all documents and records necessary to conduct the review and that all information including, but not limited to, work papers, programs and procedures related to the review shall be provided to the Reserve Bank by the Consultant upon request.

(c) Upon completion of the review, a copy of the Consultant's report detailing the findings, conclusions, and recommendations from the review shall be provided to the Reserve Bank.

(d) Upon completion of the review, the Bank shall ensure that all transactions previously required to be reported have been reported in accordance with applicable regulations and guidelines.

11. Within 45 days of the completion of the Consultant's report required by paragraph 10 hereof, the Bank shall submit to the Reserve Bank acceptable written procedures to ensure that the Bank's wire transfer function is in full compliance with the BSA. Such procedure shall include but not be limited to:

(a) the establishment and maintenance of a wire transfer log of all funds transfers through the Bank; and

(b) daily monitoring of the wire transfer log to identify and report any suspicious transactions.

12. Within 45 days of the completion of the Consultant's report required by paragraph 10 hereof, the Bank shall submit to the Reserve Bank an acceptable written plan designed to ensure that the Bank's private banking operations are conducted in accordance with the guidance set forth in the Board's supervision and regulation letter SR 01-03, dated January 16, 2001.

13. Within 45 days of the completion of the Consultant's report required by paragraph 10 hereof, the Bank shall submit to the Reserve Bank an acceptable enhanced customer due diligence program. The program shall be designed to reasonably ensure the identification and timely, accurate and complete reporting of known or suspected criminal activity against or involving the Bank to law enforcement and supervisory authorities as required by the suspicious activity reporting provisions of Regulation H of the Board of Governors (12 C.F.R. 208.62). The enhanced customer due diligence program shall include:

(a) A risk focused assessment of the customer base of the Bank to:

(i) identify the categories of customers whose transactions do not require monitoring because of the routine and usual nature of their banking activities; and

(ii) determine the appropriate level of enhanced due diligence necessary for those categories of customers that the Bank has reason to believe pose a heightened risk of illicit activities at or through the Bank.

(b) For those customers whose transactions require enhanced due diligence, procedures to:

(i) determine the appropriate documentation necessary to confirm the identity and business activities of the customer;

(ii) understand the normal and expected transactions of the customer; and

(iii) report suspicious activities in compliance with existing reporting requirements set forth in Regulation H of the Board of Governors (12 C.F.R. 208.62).

(c) Procedures to identify accounts that are involved in suspected significant illegal activity and, where appropriate, procedures for closing such accounts consistent with applicable law.

14. Within 45 days of the completion of the Consultant's report required by paragraph 10 hereof, the Bank shall submit to the Reserve Bank an acceptable internal BSA compliance program as required by Regulation H of the Board of Governors (12 C.F.R. 208.63). The program shall cover all areas of the Bank's operations, including but not limited to private banking, wire transfers, and correspondent banking and shall, at a minimum:

(a) establish a system of internal controls to ensure compliance with the BSA and the rules and regulations issued thereunder, including policies and procedures to

detect and monitor transactions to ensure that they are not being conducted for illegitimate purposes and that there is full compliance with all applicable laws and regulations;

(b) provide for independent testing of compliance with the BSA and the rules and regulations issued thereunder and ensure that compliance audits are performed frequently, are fully documented, and are conducted with the appropriate segregation of duties;

(c) ensure that the Bank's BSA compliance program is managed by a qualified officer who shall have responsibility for all BSA compliance and related matters, including, without limitation, (i) the identification and timely, accurate and complete reporting to law enforcement and supervisory authorities of unusual or suspicious activity or known or suspected criminal activity perpetrated against or involving the Bank, and (ii) monitoring the Bank's compliance and ensuring that full and complete corrective action is taken with respect to all previously identified violations and deficiencies; and

(d) provide appropriate training to all affected personnel, conducted by competent staff, which includes all relevant BSA and related requirements with a specific concentration on accurate recordkeeping, form completion and the detection and reporting of known or suspected criminal activity, and to ensure that the training is reviewed on a regular basis to ensure that all personnel have the most current and up to date information.

Effect and Terms of Order

15. The written plans, programs, policies, and procedures required by paragraphs 3, 5, 6, 7, 8, 10, 11, 12, 13, and 14, and the engagement letter required by paragraph 10 hereof shall be submitted to the Reserve Bank for review and approval. Acceptable plans, programs, policies, and procedures and an acceptable engagement letter shall be submitted

within the time periods set forth in this Order. The Bank shall adopt the approved plans, programs, policies, and procedures and the approved engagement letter within 10 days of approval by the Reserve Bank and then shall fully comply with them. During the term of this Order, the approved plans, programs, policies, and procedures and the engagement letter shall not be amended or rescinded without the prior written approval of the Reserve Bank.

16. Within 30 days after the end of each calendar quarter (June 30, September 30, December 31, and March 31) following the date of issuance of this Order, the Bank shall furnish a written progress report detailing the form and manner of all actions taken to secure compliance with this Order, and the results thereof, as well as management's responses to the audit reports on BSA prepared by internal or external auditors during the quarter, to the Reserve Bank.

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

Ernest Go
Chairman and Chief Executive Officer
Bank of the Orient
233 Sansome Street
San Francisco, CA 94104

Philip Ryan
Director, Financial Examinations
Federal Reserve Bank of San Francisco
101 Market Street
San Francisco, CA 94105

18. The provisions of this Order shall be binding on the Bank and each of its institution-affiliated parties in their capacities as such, and their successors and assigns.

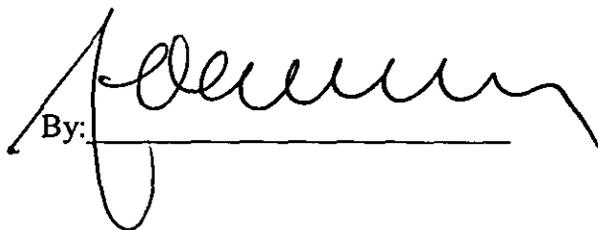
19. Each provision of this Order shall remain effective and enforceable until stayed, modified, terminated, or suspended by the Board of Governors.

20. Notwithstanding any provision of this Order, the Reserve Bank may, in its discretion, grant written extensions of time to the Bank to comply with any provision of this Order.

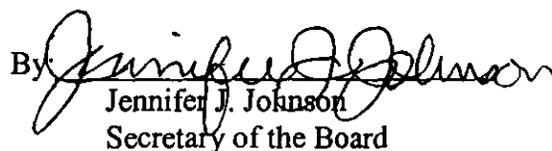
21. The provisions of this Order shall not bar, estop or otherwise prevent the Board of Governors or any other federal or state agency or department from taking any other action affecting the Bank or any of its current or former institution-affiliated parties.

BY ORDER of the Board of Governors of the Federal Reserve System, effective this 7th day of May, 2002.

BANK OF THE ORIENT
San Francisco, California

By: 

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By: 
Jennifer J. Johnson
Secretary of the Board