

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

CALIFORNIA DEPARTMENT OF FINANCIAL INSTITUTIONS

SAN FRANCISCO, CALIFORNIA

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	)	
In the Matter of	)	
	)	CONSENT ORDER
STATE BANK OF INDIA (CALIFORNIA)	)	
LOS ANGELES, CALIFORNIA	)	FDIC-12-605b
	)	
(INSURED STATE NONMEMBER BANK)	)	
	)	
_____	)	

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for State Bank of India (California), Los Angeles, California ("Bank") under Section 3(q) of the Federal Deposit Insurance Act ("FDI Act"), 12 U.S.C. § 1813(q)(3). The California Department of Financial Institutions ("CDFI") is the appropriate State banking agency for the Bank under Division 1 and Division 1.1 of the California Financial Code ("CFC").

The Bank, by and through its duly elected and acting Board of Directors ("Board"), has executed a Stipulation to the Issuance of a Consent Order ("Stipulation"), dated March 6, 2013, that is accepted by the FDIC and the CDFI. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices relating to the June 18, 2012 Examination as detailed in the Report of Examination ("ROE"), to the issuance of this Consent Order ("Order") by the FDIC and the CDFI pursuant to Section 8(b)(1) of the FDI Act, and Section 580 of the CFC.

Having determined that the requirements for issuance of an order under Section 8(b) of

the FDI Act, 12 U.S.C. § 1818(b), and the CFC have been satisfied, the FDIC and the CDFI hereby order that:

**SAFETY AND SOUNDNESS**

1. The Bank shall have and retain qualified management.

(a) Each member of management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank and shall be provided appropriate written authority from the Board to implement the provisions of this Order.

Management shall include the following:

(i) a chief executive officer with proven ability in managing a bank of comparable size and risk profile;

(ii) a chief financial officer with proven ability in all aspects of financial management;

(iii) a chief credit officer with significant lending, collection, and loan supervision experience and experience in upgrading a low quality loan portfolio;

(iv) a President/Chief Operating Officer with proven ability in managing a domestic bank of comparable size and risk profile and knowledge of domestic banking laws, regulations, and regulatory guidance; and

(v) a Bank Secrecy Act ("BSA") Officer with experience in managing a BSA program in a high-risk institution with international activity.

(b) The qualifications of management shall be assessed on its ability to:

(i) comply with the requirements of this Order;

(ii) operate the Bank in a safe and sound manner;

(iii) comply with applicable laws and regulations; and

(iv) restore all aspects of the Bank to a safe and sound condition, including, but not limited to, asset quality, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market risk.

(c) Without limiting the generality of the foregoing, the Commissioner of the CDFI (“Commissioner”) and the Regional Director of the FDIC's San Francisco Regional Office (“Regional Director”) reserve the right to determine whether the current senior officers and directors of the Bank are qualified for purposes of this Order.

(d) During the life of this Order, the Bank shall notify the Regional Director and the Commissioner in writing when it proposes to add or replace any individual on the Board, or employ any individual to serve as a senior executive officer, or change the responsibilities of any existing senior executive officer to include the responsibilities of another senior executive officer position. The term “senior executive officer” shall have the same meaning ascribed to it in Part 303 of the FDIC’s Rules and Regulations, 12 C.F.R. § 303.101. The notification shall include a completed *Interagency Biographical and Financial Report* and *Interagency Change in Director or Senior Executive Officer* and must be received at least 30 days before the addition, employment or change of responsibilities is intended to become effective. The Regional Director and the Commissioner shall have the power under the authority of this Order to disapprove the addition, employment or change of responsibilities of any proposed officer or director. The requirement to submit information and the prior disapproval provisions of this paragraph are based upon the authority of 12 U.S.C. § 1818(b) and do not require the Regional Director and the Commissioner to complete their review and act on any such information or authority within 30 days, or any other timeframe. The Bank shall not add, replace, employ or change the responsibilities of any proposed director or senior executive officer until such time as the

Regional Director and the Commissioner have completed their review.

2. Within 90 days from the effective date of this Order, the Board shall obtain an independent study of the management and personnel structure of the Bank to determine whether the Bank is staffed by qualified individuals commensurate with its size and risk profile to ensure the safe and sound operation of the Bank.

(a) The independent study shall include, at a minimum:

(i) a review of the duties, responsibilities, qualifications, and remuneration of the Bank's officers;

(ii) an evaluation of management resources; and

(iii) recommendations regarding management and staffing in the context of the Bank's strategic plan.

(b) A copy of the study shall be submitted to the Regional Director and Commissioner within 30 days of its completion.

(c) The Board shall adopt a plan to implement the recommendations of the study. The plan and its implementation shall be satisfactory to the Regional Director and Commissioner as determined at subsequent examinations and/or visitations.

3. Beginning with the effective date of this Order, the Board shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives, and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of banks of comparable size. This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses; new, overdue, renewal, insider, charged-off, and recovered loans; investment activity; liquidity

and funds management activities; operating policies; individual committee actions. The Board shall monitor and ensure timely and adequate progress is made in addressing the recommendations contained in the June 18, 2012 Report of Examination. The Board minutes shall document these reviews and approvals, including the names of any dissenting directors. The Board shall document all meetings of the Board and the committees of the Board, including those of its Executive Committee. The Board shall improve attendance by the members of the Board (each a "Director") at meetings of the Board and take appropriate actions toward remediating attendance issues with Directors. Each Director shall attend a minimum of 75% of the meetings of the Board annually.

4. Within 30 days from the effective date of this Order, the Bank shall eliminate from its books, by charge-off or collection, all assets classified "Loss" in the ROE that have not been previously collected or charged-off. Elimination of these assets through proceeds of other loans made by the Bank is not considered collection for the purpose of this Paragraph.

5. Within 120 days from the effective date of this Order, the Bank shall have reduced adversely classified assets in the ROE that have not previously been charged off, to not more than 30 percent of the Bank's Tier 1 Capital and allowance for loan and lease losses. The requirements of this Paragraph are not to be construed as standards for future operations and, in addition to the foregoing; the Bank shall eventually reduce the total of all adversely classified assets. Reduction of these assets through proceeds of other loans made by the Bank is not considered collection for the purpose of this Paragraph. As used in this paragraph the word "reduce" means:

- (a) to collect;
- (b) to charge-off; or

(c) to sufficiently improve the quality of assets adversely classified to warrant removing any adverse classification, as determined by the FDIC and CDFI.

6. Beginning with the effective date of this Order, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been charged-off or classified, in whole or in part, "Loss" and is uncollected. This Paragraph shall not prohibit the Bank from renewing or extending the maturity of any credit in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification 470-60, formerly known as FASB Statement Number 15.

7. Beginning with the effective date of this Order, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower whose loan or other credit has been classified "Doubtful" or "Substandard" and is uncollected, unless at least a majority of the members of the Board at a duly called meeting of the Board have voted to adopt a written resolution, which finds that the extension of the additional credit would be in the best interest of the Bank and that failure to extend the additional credit would be detrimental to the best interest of the Bank, and which includes a statement of the facts that support the findings. The resolution and statement shall be placed in the appropriate loan file and in the minutes of the meeting of the Board.

8. Within 60 days from the effective date of this Order, the Bank shall develop a written plan, approved by the Board for systematically reducing the level of nonperforming assets and/or assets listed on the Bank's watch list to an acceptable level. The plan and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations. As used in this paragraph the word

“reduce” means:

- (a) to collect;
- (b) to charge-off; or
- (c) to sufficiently improve the quality of assets on the watch list to warrant

their removal from the list, as determined by the FDIC and the CDFI.

9. Within 120 days from the effective date of this Order, the Bank shall develop or revise, adopt, and implement a written plan addressing retention of profits, and setting forth a comprehensive budget covering the period January 2013 to December 2016.

(a) The plan shall contain formal goals, strategies and benchmarks, which are consistent with sound banking practices to improve the Bank's net interest margin, increase interest income, reduce discretionary expenses, and improve and sustain earnings of the Bank. It shall also contain a thorough description of the operating assumptions that forms the basis for, and adequately support, each major component of the plan. Such plan and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

(b) Following the end of each calendar quarter, the Board shall evaluate the Bank's actual performance in relation to the plan and shall record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Board meeting at which such evaluation is undertaken.

10. Within 90 days from the effective date of this Order, the Bank shall develop, adopt and implement policies and procedures to address the credit administration deficiencies identified in the ROE. Further, management shall ensure that the Bank's computer system generates accurate past due reports. Such policies and procedures shall establish adequate

processes for documenting and monitoring construction progress; documenting and establishing workout strategies; ensuring accounts receivable audit findings are addressed; ensuring documentation and oversight of problem credits; and establishing and ensuring compliance with a methodology for accurately calculating Debt Service Coverage Ratios and cash flow analysis.

11. Within 60 days from the effective date of this Order, the Bank shall establish a satisfactory audit program. The audit program, at a minimum, shall provide for a comprehensive risk assessment; provide for timely completion of audits; track all audit and regulatory findings; ensure that timely and appropriate corrective actions are implemented; ensure that all audit and regulatory findings are reported to the Board; and require and ensure that the audit manager submits all audit reports to the Audit Committee of the Board (“Audit Committee”) within 30 days of receipt.

12. Within 60 days from the effective date of this Order, the Bank shall develop or revise, adopt, and implement a policy for the operation of the Bank in such a manner as to provide adequate internal routine and control policies consistent with safe and sound banking practices. Such policy and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations. Such policy shall establish and implement policies and procedures for an effective certification program; ensure accurate and timely reconciliation of suspense accounts to remove stale items over 90 days old; and ensure compliance with the Bank’s vacation policy and report exceptions to policy to the Board for approval.

13. Within 60 days from the effective date of this Order, the Bank shall develop or revise, adopt, and implement a written policy governing transactions between the Bank and affiliates. Such policy and its implementation shall be satisfactory to the Regional Director and

the Commissioner as determined at subsequent examinations and/or visitations. The policy shall address the requirements of Federal Reserve Act Sections 23A and 23B and the Interagency Policy Statement on Tax Allocation in a Holding Company Structure promulgated by the FDIC, the Board of Governors of the Federal Reserve System, and the office of the Comptroller of the Currency and the Office of Thrift Supervision. The policy shall ensure that loans between affiliates and the Bank are secured in compliance with the regulation and pay interest at a market rate comparable to transactions with nonaffiliated entities.

14. Within 90 days from the effective date of this Order, the Bank shall eliminate and/or correct all violations of law, as more fully set forth in the ROE. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations.

15. During the life of this Order, the Bank shall file with the FDIC Reports of Condition and Income which accurately reflect the financial condition of the Bank as of the end of the period for which the reports are filed, including any adjustment in the Bank's books made necessary or appropriate as a consequence of any FDIC and/or CDFI examination of the Bank during that reporting period.

16. During the life of this Order, the Bank shall not establish any new branches or other offices of the Bank or enter into any new lines of business without the prior written consent of the Regional Director and the Commissioner.

#### **BANK SECRECY ACT**

17. Within 90 days of the effective date of this Order, the Bank shall comply in all material respects with the BSA and its rules and regulations.

18. Within 90 days of the effective date of this Order, the Bank shall develop, adopt, and implement a written compliance program, as required by the applicable provisions of Section

326.8 of the FDIC's Rules and Regulations, 12 C.F.R. § 326.8, designed to, among other things, ensure and maintain compliance by the Bank with the BSA and the rules and regulations issued pursuant thereto. The program shall ensure that clear and comprehensive BSA compliance reports are provided to the Board on a monthly basis. Such program and its implementation shall be in a manner acceptable to the Regional Director and Commissioner as determined at subsequent examinations and/or visitations. At a minimum, the program shall:

(a) Establish a system of internal controls to ensure compliance with the BSA and the rules and regulations issued pursuant thereto, including policies and procedures to detect and monitor all 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, all applicable rules and regulations related to the BSA, and the reporting of suspicious transactions required to be reported pursuant to Part 353 of the FDIC's Rules and Regulations, 12 C.F.R. Part 353. The independent testing shall be conducted on at least an annual basis and in accordance with the procedures described in the Federal Financial Institutions Examination Council BSA/Anti-Money ("BSA/AML") Laundering Examination Manual. The independent testing, at a minimum, should address the following:

(i) overall integrity and effectiveness of the BSA/AML compliance program, including policies, procedures, and processes;

(ii) BSA/AML risk assessment;

(iii) BSA reporting and recordkeeping requirements;

(iv) Customer Identification Program implementation;

(v) adequacy of customer due diligence policies, procedure, and

processes and whether they comply with internal requirements;

(vi) personnel adherence to the Bank's BSA/AML policies, procedures, and processes;

(vii) appropriate transaction testing, with particular emphasis on high-risk operations (products, service, customers, and geographic locations);

(viii) training adequacy, including its comprehensiveness, accuracy of materials, the training schedule, and attendance tracking;

(ix) integrity and accuracy of management information systems used in the BSA/AML compliance program;

(x) an evaluation of management's efforts to resolve violations and deficiencies noted in the previous tests or audits and regulatory examinations;

(xi) an assessment of the overall process for identifying and reporting suspicious activity, including a review of filed or prepared Suspicious Activity Reports ("SARs") to determine their accuracy, timeliness, completeness, and effectiveness of the Bank's policy; and

(xii) validation of data integrity and reasonableness of rules used in the automated suspicious activity monitoring system.

(c) Written reports shall be prepared which document the testing results and provide recommendations for improvement. Such reports shall be presented to the Board.

19. Within 90 days of the effective date of this Order, the Bank shall ensure that the its BSA compliance program is managed by a qualified officer who has the required authority, responsibility, training, resources, and management reporting structure to ensure compliance with BSA program requirements and BSA-related regulations, including without limitation: the identification of 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 monitoring the Bank's compliance and ensuring that full and complete corrective action is taken with respect to previously identified violations and deficiencies.

20. Within 90 days of the effective date of this Order, the Bank shall provide and document training by competent staff and/or independent contractors for all of the Directors and all appropriate personnel, including, without limitation, senior management, tellers, customer service representatives, lending officers, private and personal banking officers and all other customer contact personnel, in all aspects of regulatory and internal policies and procedures related to the BSA, with a specific concentration on accurate recordkeeping, form completion and the detection and reporting of known and/or suspected criminal activity. Training shall be updated on a regular basis to ensure that all personnel are provided with the most current and up-to-date information.

21. Within 60 days of the effective date of this Order, the Bank shall develop, adopt, and implement a written customer due diligence program and enhanced due diligence program. Such program and its implementation shall be in a manner acceptable to the Regional Director and Commissioner as determined at subsequent examinations and/or visitations of the Bank. At a minimum, the customer due diligence program shall provide for the following:

(a) A risk focused assessment of the customer base of the Bank to 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) 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 Part 353 of the FDIC's Rules and Regulations, 12 C.F.R. Part 353.

22. Within 90 days of the effective date of this Order, the Bank shall complete a comprehensive written assessment with supporting documentation of potentially suspicious non-account holder transactions to determine if the transactions are suspicious. Upon completion of the review, the Bank shall submit the comprehensive written assessment and supporting documentation to the Regional Director and Commissioner.

23. Within 90 days of the effective date of this Order, the Bank shall establish and implement policies and procedures for non-account holders to ensure that SARs are filed within 30 days of identifying a suspect or unusual and suspicious activity (or a total of 60 days if a suspect is unknown or once per quarter for ongoing transactions). Such a program must also ensure that timely identification of suspicious activity occurs; that timely investigation into unusual activity is undertaken; that related accounts are considered and discussed in the SARs filing; and that a detailed, accurate, comprehensive, and readable narrative description of the activity is included in the SARs filing. The adequacy of such investigations shall be determined at the next regulatory examination/visitation

24. Beginning with the effective date of this Order, the Audit Committee shall oversee the Bank's compliance with the BSA and Parts 326 and 353 of the FDIC's Rules and Regulations. The Audit Committee shall receive reports from the BSA Officer required by Paragraph 1 (a)(v) of this Order regarding compliance with the BSA and Parts 326 and 353, at least monthly, and shall report to the Board at every meeting of the Board.

25. Following the effective date of this Order, the Board shall monitor and confirm the completion of actions taken by management to comply with the terms of this Order. The Board shall certify in writing to the Regional Director and Commissioner when all of the above actions have been accomplished. All actions taken by the Board pursuant to this Order shall be duly recorded in the minutes of its meetings.

26. Within 30 days of the effective date of this Order, the BSA Officer shall develop a plan to review all high-risk accounts and high-risk transactions ("Transaction Review"), including but not limited to the Bank's large currency transaction reports ("CTRs"), cash purchases of monetary instruments, wire transfer activity, and foreign exchange services for the six-month period immediately preceding the effective date of this Order (the "Transaction Review Period"), and shall prepare and file any additional CTRs and SARs necessary based upon the review. Based upon the results of the review, the Regional Director and the Commissioner may extend the Transaction Review Period if necessary.

(a) Within 30 days of preparing a plan for the Transaction Review, but prior to commencement of the Transaction Review, the Bank shall submit to the Regional Director and the Commissioner a written plan for approval that sets forth:

(i) the scope of the Transaction Review, including the types of accounts and transactions to be reviewed;

(ii) the methodology for conducting the Transaction Review, including any sampling procedures to be followed;

(iii) the expertise and resources to be dedicated to the Transaction Review;

(iv) the anticipated date of completion of the Transaction Review; and

(v) a commitment that any interim reports, draft reports or workpapers associated with the Transaction Review will be made available to the Regional Director and Commissioner upon request.

(b) On completion of the Transaction Review, the Bank shall submit the written findings of the review and copies of any additional SARs and CTRs filed to the Regional Director and Commissioner.

(c) Throughout the Transaction Review, the Bank shall ensure that all matters or transactions required to be reported that have not previously been reported are reported in accordance with applicable rules and regulations.

Documentation supporting any determination made pursuant to the paragraphs above, shall be retained in the Bank's records for such period of time as may be required by any applicable rules or regulations.

27. Following the effective date of this Order, the Bank shall provide a copy of the Order or otherwise furnish a description of the Order to its shareholder(s) in conjunction with the Bank's next shareholder communication, and the notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe the Order in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Division Risk Management Supervision, Accounting and Securities Disclosure Section,

550 17th Street, N.W., Washington, D.C. 20429, at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

28. Within 30 days of the end of the first quarter following the effective date of this Order, and within 30 days of the end of each quarter thereafter, the Bank shall furnish written progress reports to the Regional Director and the Commissioner detailing the form and manner of any actions taken to secure compliance with this Order and the results thereof. Such reports shall include a copy of the Bank's Reports of Condition and Income. Such reports may be discontinued when the corrections required by this Order have been accomplished and the Regional Director and the Commissioner have released the Bank in writing from making further reports.

29. The Bank shall notify the Regional Director and the Commissioner no less than one business day in advance of making a planned public announcement or notification regarding changes in the Bank's financial condition, executive management or Board.

The provisions of this Order shall not bar, estop, or otherwise prevent the FDIC, the CDFI, or any other federal or state agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties, as that term is defined in Section 3(u) of the FDI Act, 12 U.S.C. § 1813(u).

This Order will become effective upon its issuance by the FDIC and the CDFI.

The provisions of this Order shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this Order shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside

by the FDIC and the CDFI.

Violation of any provisions of this Order, will be deemed to be conducting business in an unsafe or unsound manner, and will subject the Bank to further regulatory enforcement action.

Issued pursuant to delegated authority

Dated this 20<sup>th</sup> day of March, 2013.

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/s/  
Kathy L. Moe  
Deputy Regional Director  
Division of Risk Management Supervision  
San Francisco Region  
Federal Deposit Insurance Corporation

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/s/  
Scott D. Cameron  
Chief Examiner  
California Department of Financial  
Institution