1	BEFORE THE DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION
2	OF THE STATE OF CALIFORNIA
3	In the Matter of
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5	BANK OF THE ORIENT, (Fin. Code, § 580)
6	Respondent)
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9	THE COMMISSIONER OF THE DEPARTMENT OF FINANCIAL PROTECTION AND
10	INNOVATION ("COMMISSIONER") FINDS THAT:
11	1. Bank of the Orient, San Francisco, California ("Bank" or "Respondent") is a
12	California-chartered bank that is a member of the Federal Reserve System;
13	2. In recognition of their common goal to maintain the financial soundness of
14	Respondent, the Department and the Respondent have mutually agreed to enter into this Order
15	("Order"); and
16	3. The Board of Directors of the Respondent ("Board"), at a duly constituted meeting,
17	adopted a resolution authorizing and directing the undersigned to enter into this Order on behalf of
18	Respondent, and consenting to compliance with each and every applicable provision of this Order by
19	Respondent.
20	BASED UPON THE FOREGOING, it is hereby ORDERED, that pursuant to Financial Code
21	section 580:
22	BOARD AND SENIOR MANAGEMENT OVERSIGHT
23	4. Within sixty (60) days of this Order, the Board shall submit a written plan to the
24	Commissioner to strengthen board oversight of the management and operations of Respondent. The
25	plan shall contain a timeline for full implementation as well as specific deadlines and identification
26	of the responsible party for each respective component of the plan. The plan shall address, consider,
27	and include:
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A. The actions the Board will take to improve Respondent's condition and 1 2 maintain effective supervision and control over Respondent's major operation and activities, 3 including but not limited to credit risk management, asset quality, capital, and earnings; and 4 B. The actions the Board will take to oversee the operations of the Respondent's 5 branch in Xiamen, China (the "Xiamen Branch") to ensure that Xiamen Branch management operates in accordance with safe and sound banking principles and in compliance with applicable 6 7 laws and regulation, including but not limited to: 8 (i) Conducting a portfolio-wide review of each loan in the Xiamen 9 Branch to identify any credit weaknesses and potential losses; 10 Reviewing and assessing the Board and management loan committees (ii) for independence, and ensuring the head office management has ultimate authority over Xiamen 11 12 Branch loan approvals; 13 Maintaining comprehensive Xiamen Branch reporting and (iii) 14 communication with the head office that is sufficient to appropriately manage credit risk; and 15 (iv) Implementing internal controls that ensure comprehensive, accurate, 16 and timely information is received from the Xiamen Branch. 17 5. Respondent shall have and retain qualified management. Each member of management shall have qualifications and experience commensurate with his or her duties and 18 19 responsibilities. Management shall include the following: 20 A. A chief executive officer with proven ability in managing a bank of 21 comparable size and risk profile; 22 Β. A chief financial officer with proven ability in all aspects of financial 23 management; and C. 24 A chief lending officer with significant lending, collection, and loan 25 supervision experience and experience in problem loan workouts. 26 6. Within sixty (60) days of this Order, the Board shall develop a succession plan to 27 address executive management turnover and identify successors. The succession plan should include 28 an analysis of, and support for, each identified successor.

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7. Respondent may not appoint any new director or senior executive officer, or change
 the responsibilities of any senior executive officer so that the officer would assume a different senior
 executive officer position, without the prior written approval of the Commissioner.

CREDIT RISK MANAGEMENT – XIAMEN BRANCH

8. Within sixty (60) days of this Order, the Board shall submit to the Commissioner an acceptable written credit risk management plan for the Xiamen Branch. The plan shall contain a timeline for full implementation as well as specific deadlines and identification of the responsible party for each respective component of the plan. The plan, at a minimum, shall include, but not be limited to:

10 A. Identifying strategies to minimize credit losses and reducing the level of
11 problem assets at the Xiamen Branch;

B. Providing timely and accurate identification and quantification of credit risk within the Xiamen Branch loan portfolio;

C. Performing and documenting a formal country risk assessment that identifies the risks posed by products and services offered in foreign countries, including China, by implementing a sound management structure and identifying Respondent's mitigating controls, and supporting a residual risk exposure that aligns with the Board's overall risk appetite;

D. Ensuring that the appraisal policy and procedures revised in accordance with provision 10 herein are fully understood and implemented by Xiamen Branch management and staff;

E. Ensuring that sufficient resources are in place to complete the analysis of adequacy of the allowance for loan and lease losses (ALLL) in a timely manner at the end of each quarter;

F. Ensuring that the quarterly ALLL analysis is presented to the Board in a
timely and consistent manner; and

G. Ensuring that the review and approval of the quarterly ALLL analysis is
consistently documented within board meeting minutes.

CREDIT POLICY – XIAMEN BRANCH

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9. Within sixty (60) days of this Order, the Board shall submit to the Commissioner an acceptable written credit policy that shall, at minimum, address, consider, and include: A. Guidelines for all permissible credit products extended at the Xiamen Branch; Β. Standards on credit monitoring practices for all loan types that are consistent with the structure and purpose of the credit; C. Standards that require documented analyses of the borrowers' and guarantors' cash flow: D. Guidelines for determining working capital needs and loan sizing; Guidelines for determining appropriate clean-up periods that are E. commensurate with borrower's trade cycle; F. Guidelines and procedures on legal recourse for borrowers unable to pay debt; G. Procedures addressing the perfection of collateral in China; H. Procedures to verify source of funding on principal pay downs; I. Detailed standards for accurate and timely translation of documents from Chinese to English, and vice versa, including minimum qualifications required for staff responsible for translations and an independent quality assurance process; J. Limits on geographic areas where the Xiamen Branch can lend in accordance with the Bank's overall strategic objectives and in consideration of credit and country risk; and Κ. A limit on the volume of loans made by the Xiamen Branch as a percentage of Respondent's capital. 10. Respondent shall not make any loans from the Xiamen Branch until the written credit policy is approved by the Commissioner. INTERNAL CONTROLS – XIAMEN BRANCH 11. Within sixty (60) days of this Order, the Board shall submit to the Commissioner an acceptable written program to strengthen internal controls at the Xiamen Branch. The plan, at a minimum, shall address, consider, and include: An effective loan review function to promptly and accurately identify loans A. with potential or well-defined weaknesses within the Xiamen portfolio, by consistent application of

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an effective risk grading system, and compliance with Respondent's policies and banking laws and 2 regulations.

Β. An independent and effective credit administration function that identifies misstatements and factual inaccuracies during the underwriting and credit monitoring process, and holds credit analysts and credit administrators accountable for the quality of their work;

C. Loan disbursement and repayment processes that are independent from the account officer; and

D. Implementation of internal controls that promote compliance with the enhanced appraisal program standards, including the use of the "abundance of caution" exception.

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MANAGEMENT INFORMATION SYSTEMS ("MIS") – XIAMEN BRANCH

12. Within sixty (60) days of this Order, the Board shall submit to the Commissioner an acceptable written plan to strengthen MIS to provide the Board and senior management with timely and accurate information, and a clear understanding of Respondent's business activities and risk exposures to the Xiamen Branch. The plan shall contain a timeline for full implementation, as well as specific deadlines and identification of the responsible party for each respective component of the plan. The plan shall, at a minimum, address, consider, and include:

A. Well-defined expectations for reporting to the head office, including timeframes;

Β. Payment histories that are legible to a third-party reviewer and clearly demonstrate principal and interest payments, and the remaining balance;

21 C. Documented reporting that includes more granular information on the Xiamen loan portfolio, including, but not limited to: 22

23 Loans not in compliance with financial covenants, and aggregated (i) covenant compliance metrics; 24

25 Loans approved or renewed with policy exceptions, and aggregated (ii) 26 policy compliance metrics;

> (iii) New extensions of credit, renewals, and restructured loans;

(iv) Information on loans adversely graded or specially mentioned;

1	(v) A listing of delinquent or non-accrual loans; and
2	(vi) Measurement of the portfolio stratified by loan type, exposure to
3	particular geographic areas or industry, and by collateral type.
4	<u>APPRAISALS – XIAMEN BRANCH</u>
5	13. Within sixty (60) days of this Order, the Board shall submit to the Commissioner an
6	acceptable written Xiamen Branch Appraisal Policy. The policy shall, at a minimum, address,
7	consider, and include:
8	A. The independence of the persons ordering, performing, and reviewing
9	appraisals or evaluations;
10	B. Selection criteria and procedures to evaluate and monitor the ongoing
11	performance of appraisers;
12	C. The receipt and review of the appraisal or evaluation report by senior
13	management and the Board in a timely manner to facilitate the credit decision;
14	D. Measures to ensure appraisals contain sufficient information to support credit
15	decisions; and
16	E. Criteria for monitoring collateral values.
17	ALLOWANCE FOR LOAN AND LEASE LOSSES
18	14. During the term of this Order, Respondent shall maintain an adequate ALLL.
19	A. The Board shall review the adequacy of the Bank's ALLL at least quarterly.
20	The minutes of the Board meeting at which such review is undertaken shall indicate the results of the
21	review, the amount of any increase in the ALLL, and the basis for determination of the amount of
22	the ALLL provided.
23	B. In determining the appropriateness of the ALLL, the Board shall consider,
24	among other things, the size and composition of the loan portfolio, the level of problem and past-due
25	loans, an estimate of loss potential in problem and past-due loans, and Respondent's history of loan
26	losses and current economic conditions.
27	C. Any deficiency in the ALLL shall be remedied in the calendar quarter in
28	which it is discovered, before Respondent's submission of the Report of Condition and Income (the

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"Call Report"), by way of charge to current operating earnings. Respondent's ALLL shall be satisfactory to the Commissioner as determined at subsequent examinations and/or visitations.

15. Within sixty (60) days of this Order, Respondent's management shall perform a review of the ALLL methodology for Xiamen Branch loans and:

A. Review the ASC 450 decision factors for Xiamen Branch loans to ensure Respondent is adequately identifying, measuring, and supporting historical loss rates and environmental factors; and

B. Review the ASC 310 analysis on Xiamen loans to ensure documentation of final collateral values is well-supported including, but not limited to, support for discount rates, selling costs, and legal fees.

<u>CAPITAL</u>

16. Within sixty (60) days of this Order, the Board shall submit to the Commissioner an acceptable written plan to maintain sufficient capital ("Capital Plan"). The Capital Plan shall, at a minimum, address, consider, and include:

A. Assessment of key risk exposures and measurement of their potential impact on capital through quantifiable methods, including stress testing;

B. Capital buffers and internal capital adequacy limits that are reasonable and well supported by the risk assessment;

C. An analysis of the risk impact to capital from the Xiamen Branch operations;

D. Expansion of the capital contingency plan contained within the Capital Plan to include specific, viable sources of capital that management and the Board would pursue if additional capital is needed; and

E. Measures to ensure that the capital risk assessment and Capital Plan are updated at least annually to reflect any changes in regulations, market conditions, and strategic direction that impact the institution's risk profile.

26 17. Respondent shall maintain tangible shareholders' equity to total tangible assets equal
27 to or greater than nine (9) percent.

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STRATEGIC PLAN AND BUDGET

18. Within sixty (60) days of this Order, the Board shall submit to the Commissioner a two-year strategic plan and budget to improve Respondent's profitability. The strategic plan and budget shall include, but not be limited to:

A. Identification of the major areas where, and means by which, the Board will seek to improve Respondent's operating performance;

 B.
 Risk appetite and tolerance accepted by the Board, including the Xiamen

 Branch in relation to its overall growth and targets;

C. A description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components;

D. Respondent's capital base, anticipated capital expenditures, desirable capital level, and external capital sources; and

E. A realistic and comprehensive budget for calendar year 2021, including income statement and balance sheet projections.

19. A budget for each calendar year subsequent to 2021 shall be submitted to the Commissioner at least thirty (30) days prior to the beginning of each calendar year.

CAPITAL CONSERVATION

20. Respondent shall not declare or pay dividends, or make any distribution representing interest, principal, or other sums, such as trust preferred securities or subordinated debentures, without the prior written approval of the Commissioner. All requests for prior approval shall be received at least thirty (30) days prior to the earlier of the proposed declaration, payment, or distribution date, or required notice of deferral and shall contain, but not be limited to:

A. The purpose of the proposed dividend, payment, or distribution;

B. Identification of the source(s) of funds for the proposed dividend, payment, or distribution;

C. Information on consolidated earnings for the most recent annual and interim
period;

D. Current and projected information on cash flow, Respondent's capital levels,
asset quality, and allowance for loan and lease losses; and

1	E. Confirmation that the proposed dividend payment, or distribution with respect
2	to the entity making the proposed dividend or distribution:
3	(i) Is covered by Respondent's operating earnings;
4	(ii) Conforms to Respondent's dividend policy; and
5	(iii) Complies with all applicable state and federal law.
6	DEBT AND STOCK REDEMPTIONS
7	21. Respondent shall not, directly or indirectly, incur, renew, increase, or guarantee any
8	debt without the prior written approval of the Commissioner. All requests for prior written approval
9	shall be received at least thirty (30) days prior to the proposed transaction date and contain, but not
10	be limited to, a statement regarding the purpose of the debt, the terms of the debt, the planned source
11	(s) of debt repayment, and an analysis of the cash flow resources available to meet such debt
12	repayment.
13	22. Respondent shall not purchase, redeem, or otherwise acquire, directly or indirectly,
14	any of its stock without the prior written approval of the Commissioner. All requests for prior
15	written approval shall be received at least thirty (30) days prior to the proposed transaction date.
16	APPROVAL, IMPLEMENTATION, AND PROGRESS REPORTS
17	23. Within the applicable time periods set forth in this Order, the Board shall submit to
18	the Commissioner the required items for approval in paragraphs 6, 8, 9, 11, 12, 13, and 16.
19	A. Within 10 days of approval by the Commissioner, the Board shall adopt the
20	approved item(s). Respondent shall promptly implement the approved item(s), and thereafter fully
21	comply with each item.
22	B. Any approved matter shall not be amended or rescinded without the prior
23	written approval of the Commissioner.
24	24. Within thirty (30) days after the end of each calendar quarter (March 31, June 30,
25	September 30, December 31) following the effective date of this Order, the Board shall submit to the
26	Commissioner a written progress report, which shall set forth in detail:
27	A. Actions taken to comply with each provision of this Order, results of those
28	actions, and a description of the actions needed to achieve full compliance with each provision.

B. Year-to-date income statement and balance sheet compared to budget,
 including an analysis of variances in performance.

C. Such quarterly progress reports shall be continued until the Commissioner has released Respondent in writing from making further progress reports.

The provisions of this Order shall not bar, estop, or otherwise prevent the Commissioner, or any other federal or state agency or department from taking any other action against Respondent or any of Respondent's current or former institution-affiliated parties. This Order is effective immediately upon its issuance by the Commissioner and shall remain effective and enforceable except to the extent that and until such time as the Commissioner shall have amended, suspended or terminated this Order. The provisions of this Order shall be binding upon Respondent, its institutionaffiliated parties, and any successors and assigns thereof. Violation of any provision of this Order will be deemed to be conducting business in an unsafe or unsound manner and will subject Respondent to further regulatory enforcement action.

Dated: March __, 2021

AARON PROSPERI DEPUTY COMMISSIONER DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION