

**#2014-109**

Also *Terminates* **#2011-149**

**UNITED STATES OF AMERICA  
DEPARTMENT OF THE TREASURY  
COMPTROLLER OF THE CURRENCY**

<b>In the Matter of:</b> National Bank of California Los Angeles, California	) ) )	AA-EC-14-79
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**CONSENT ORDER**

**WHEREAS**, the Comptroller of the Currency of the United States of America (“Comptroller” or “OCC”), through his authorized representative, has supervisory authority over National Bank of California, Los Angeles, California (“Bank”);

**WHEREAS**, the Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a “Stipulation and Consent to the Issuance of a Consent Order,” dated August 27, 2014, that is accepted by the Comptroller.

**WHEREAS**, by this Stipulation and Consent, which is incorporated by reference, the Bank has consented to the issuance of this Consent Order (“Order”) by the Comptroller.

**NOW, THEREFORE**, pursuant to the authority vested in it by the Federal Deposit Insurance Act, as amended, 12 U.S.C. § 1818, the Comptroller hereby orders that:

**ARTICLE I**

**COMPLIANCE COMMITTEE**

(1) Effective as of the date of this Order, the Board shall continue to maintain a Compliance Committee of three (3) or more Board members, of which no more than one (1) shall be employees of the Bank or any of its affiliates (as the term “affiliate” is defined in 12 U.S.C. § 371c(b)(1)), or a family member of any such person. The Board shall remain responsible for the Bank’s adherence to the

provisions of this Order and the appointment of the Compliance Committee shall not relieve the Board's compliance responsibilities. Upon appointment, the names of the members of the Compliance Committee and, in the event of a change of the membership, the name of any new member, shall immediately be submitted in writing to the Director for Special Supervision ("Director").

(2) The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Order and shall meet at least monthly.

(3) By no later than September 30, 2014, and within each calendar month thereafter, or at such time as the Director may require in writing, the Compliance Committee shall submit a written progress report ("Report") to the Board setting forth in detail:

- (a) a description of the actions needed to achieve full compliance with each article of this Order, time frames for completing those actions, and the names of Bank personnel responsible for implementing those corrective actions;
- (b) actions taken to comply with each article of this Order and a description of the specific written or other products evidencing actions taken; and
- (c) the status of those actions referenced in Subparagraph (a) above.

(4) The Report shall include copies of any reports prepared by or for the Bank or Board relating to compliance with the Bank Secrecy Act, as amended (31 U.S.C. §§ 5311 *et seq.*), the regulations promulgated thereunder at 31 C.F.R. Chapter X; and 12 C.F.R. § 163.177, and the rules and regulations of the Office of Foreign Assets Control ("OFAC") (31 C.F.R. Chapter V) (collectively referred to as the "Bank Secrecy Act" or "BSA")

(5) The Report, along with any additional comments by the Board, shall be submitted to the Director within ten (10) days of the Board's receipt of the Report, or such time as the Director may require in writing.

(6) Within ten (10) days of this Order, the Bank shall designate an officer to be responsible for coordinating and submitting to the OCC the written plans, reports, and other documents required to be submitted under the terms and conditions of this Order.

## **ARTICLE II**

### **BSA ACTION PLAN**

(1) Within ninety (90) days of the date of this Order, the Bank shall submit to the Director for a determination of no supervisory objection, an acceptable plan containing a complete description of the actions that are necessary and appropriate to achieve compliance with Articles III through VIII of this Order ("BSA Action Plan"). Following a written determination of no supervisory objection to the BSA Action Plan by the Director, the Bank shall not take any action that would constitute a significant deviation from, or material change to, the requirements of the BSA Action Plan, unless and until the Bank has received a prior written determination of no supervisory objection from the Director. In the event the Bank is asked to revise the BSA Action Plan, the Bank shall promptly make the requested revisions and resubmit the BSA Action Plan to the Director for written determination of no supervisory objection.

(2) The BSA Action Plan shall require, at a minimum:

- (a) a comprehensive review of the Bank's BSA systems and programs, including an analysis of the improvements needed to develop and maintain an adequate BSA compliance program; and
- (b) a detailed schedule for the timely correction of all deficiencies identified in the comprehensive review, including the technology deficiencies related to the Bank's suspicious activity monitoring and reporting.

(3) The Board shall ensure that the Bank achieves and thereafter maintains compliance with this Order, including, without limitation, successful implementation of the BSA Action Plan. The Board shall further ensure that, upon implementation of the BSA Action Plan, the Bank achieves and maintains an adequate BSA compliance program for compliance with the BSA. In order to comply with these requirements, the Board shall:

- (a) require the timely reporting by Bank management of the status of all such actions directed by the Board to be taken under this Order;
- (b) follow-up on any noncompliance with such actions in a timely and appropriate manner; and
- (c) require corrective action be taken in a timely manner for any noncompliance with such actions.

(4) Upon written request by the Director, the Bank shall modify the Action Plan to comply with any Matters Requiring Attention concerning BSA matters, or citations of violations of law concerning these matters, which the OCC may issue to the Bank following the effective date of this Order.

### ARTICLE III

#### **BANK SECRECY ACT OFFICER**

(1) By September 30, 2014, the Board shall ensure that the Bank has a permanent, qualified, and experienced BSA Officer who shall be vested with sufficient authority to fulfill the duties and responsibilities of the position. In the event that the position is vacated, the Board shall appoint a new BSA Officer within ninety (90) days of the vacancy.

(2) Prior to the appointment of any individual to the BSA Officer position, from and after the date of this Order, the Board shall submit to the Director the following information:

- (a) the information sought in the "Changes in Directors and Senior Executive Officers" and "Background Investigations" booklets of the *Comptroller's Licensing Manual*, and upon request, legible fingerprint cards for the proposed individual;
- (b) a written statement of the Board's reasons for selecting the proposed officer; and
- (c) a written description of the proposed officer's duties and responsibilities.

(3) The Director shall have the power to disapprove the appointment of the proposed BSA Officer. However, the lack of disapproval of such individual shall not constitute an approval or endorsement of the proposed BSA Officer.

(4) The requirement to submit information and the prior disapproval provisions of this article are based on the authority of 12 U.S.C. § 1818(b) and do not require the Comptroller or the Director to complete his/her review and act on any such information or authority in less than ninety (90) days.

(5) By December 31, 2014, the Board shall ensure that the Bank has sufficient BSA staff with appropriate skills that are necessary to support the BSA Officer and the Bank's BSA compliance function and that they are vested with sufficient authority to fulfill their respective duties and responsibilities.

(6) In fulfilling the requirements of Paragraphs (1) and (2) of this article, the Board shall address any concerns or recommendations in the BSA audits and shall thereafter require, as part of its periodic external BSA audit, an assessment of the adequacy of the Bank's BSA Officer and staff. In the event that the external BSA audit determines that the staff levels or knowledge, skills or training of the BSA Officer or staff are not adequate, the Board shall take the necessary steps to correct the weakness within sixty (60) days of this determination.

#### **ARTICLE IV**

##### **BANK SECRECY ACT RISK ASSESSMENT**

(1) Within ninety (90) days of this Order, the Board shall review, update, and implement a written institution-wide, ongoing BSA/ AML Risk Assessment that accurately identifies the BSA risks posed to the Bank after consideration of all pertinent information (Risk Assessment). The Risk Assessment shall reflect a comprehensive analysis of the Bank's key vulnerabilities to money laundering and financial crimes activity and identify strategies to control risk and limit any identified vulnerabilities. The Risk Assessment methodology shall follow the risk assessment guidance set forth in the *2010 FFIEC Bank Secrecy Act/Anti-Money Laundering Examination Manual* (Rev. April 29, 2010) ("FFIEC BSA Examination Manual") and shall include:

- (a) the identification of activities and other elements that pose key BSA risks to the Bank, including the Bank's: (i) products and services; (ii) customers and entities; (iii) transactions; (iv) countries and geographic locations; and (v) methods that the Bank uses to interact with its customers (collectively, the "specific risk categories");
- (b) a detailed analysis of all pertinent data obtained regarding the specific risk categories, including but not necessarily limited to: (i) volumes and types of transactions and services by country or geographic location, and (ii) numbers of customers that typically pose higher BSA risk, both by type of risk and by geographic location, so as to permit the Bank to revise or develop, as necessary, and implement appropriate policies, processes, and procedures to monitor and mitigate the Bank's BSA risks within those risk categories. The analysis to be conducted shall include an evaluation of all relevant information obtained through the Bank's Customer Identification Program ("CIP"), Customer Due Diligence Program ("CDD") and Enhanced Due Diligence Program ("EDD");
- (c) an assessment of BSA risk both individually within the Bank's business lines and on a consolidated basis across all Bank activities and legal entities, so as to permit the Bank to accurately identify BSA risks and risk categories within and across specific lines of business and product categories;
- (d) a provision requiring that the Risk Assessment be updated at least every twelve (12) months so as to identify and respond to changes in the Bank's risk profile

- (such as when new products or services are introduced, existing products or services change, high-risk customers open or close accounts, or the Bank expands through mergers or acquisitions);
- (e) a provision requiring maintenance of appropriate documentation, including customer due diligence information, so as to be able to support the Risk Assessment's conclusions;
  - (f) a provision requiring testing to confirm the reasonableness of the Risk Assessment that may be undertaken after the ninety (90) day period stated above. The written results of the testing shall be completed not more than one hundred eighty (180) days after the effective date of this Order; and
  - (g) an assessment of the length of time that it takes to determine customer risk ratings at account opening or changes in customer ratings.

## **ARTICLE V**

### **BSA INTERNAL CONTROLS AND HIGH RISK ACCOUNT IDENTIFICATION**

- (1) Within one hundred twenty (120) days of the date of this Order, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program of policies and procedures ("BSA Program") to provide for compliance with the BSA, including 12 C.F.R. § 21.11(c) and 12 C.F.R. § 21.21(c) and for the appropriate identification and monitoring of transactions that pose greater than normal risk for compliance with the BSA. This BSA Program shall include the following:
- (a) enhanced policies and procedures for timely identification and monitoring of transactions that pose greater than normal risk for compliance with the BSA;



- (b) enhanced policies and procedures for timely investigation and resolution of transactions that have been identified as posing greater than normal risk for compliance with the BSA;
- (c) enhanced policies and procedures for recording, maintaining, and recalling information about transactions that pose greater than normal risk for compliance with the BSA;
- (d) operating procedures for both the opening of new accounts and the monitoring of existing accounts, including collecting customers' identifying information, verifying customers' identification, maintaining identification records, and determining whether customers appear on any list of suspected terrorists or terrorist organizations; and
- (e) procedures ensuring the appropriate application of risk factors and characteristics to identify customers as "high-risk";
- (f) policies and procedures for maintenance of accurate systems for all Bank areas to produce and aggregate periodic reports designed to identify unusual or suspicious activity, including patterns of activity, to monitor and evaluate unusual or suspicious activity on a consolidated basis, and to maintain accurate information needed to produce these reports, to include at a minimum:
  - (i) periodic reports covering one day, a number of days, and monthly reports that differentiate transactions that pose a greater than normal risk for compliance with the BSA;

- (ii) periodic reports of all high-risk accounts that are newly-established, renewed, or modified; and
  - (iii) other periodic reports deemed necessary or appropriate by the BSA Officer or the Bank;
- (g) policies and procedures to provide for the application of appropriate thresholds for monitoring, both manually and using automated systems, all types of transactions, accounts, customers, products, services, and geographic areas that pose greater than normal risk for compliance with the BSA. At a minimum, this written program shall establish:
  - (i) meaningful thresholds for filtering accounts and customers for further monitoring, review, and analyses; and
  - (ii) periodic testing and monitoring of thresholds for their appropriateness to the Bank's customer base, products, services, and geographic area, including maintenance of documentation supporting the Bank's methodology establishing and developing the testing thresholds;
- (h) expanded account-opening procedures for all accounts that pose greater than normal risk for compliance with the BSA by requiring:
  - (i) identification of all account owners and beneficial owners in compliance with applicable rules, regulations, and regulatory guidance;
  - (ii) documentation for all deposit account customers that pose greater than normal risk for compliance with the BSA consistent with that required by

the FFIEC BSA Examination Manual addressing enhanced due diligence for higher risk customers; and

- (iii) any other due diligence required by this Order, the BSA Officer, or the Bank;
- (i) expanded due diligence reviews on existing “high risk” customers and any existing customers that are reclassified as “high risk” as a result of the requirements of this Order;
- (j) procedures to improve the collection and reporting of information related to currency transaction reports (“CTR”), and provide for additional controls in the secondary review process to ensure the accuracy of the CTRs; and
- (k) The Bank shall obtain the information required in the preceding subparagraph (h) of this article before renewing or modifying an existing customer’s account within the scope of the preceding subparagraph (h).

## **ARTICLE VI**

### **CUSTOMER DUE DILIGENCE**

(1) Within one hundred twenty (120) days of the date of this Order, the Board shall ensure that Bank management reviews and updates its risk-based processes to obtain and analyze appropriate customer due diligence information at the time of account opening and on an ongoing basis, and effectively uses this information to monitor for, and investigate, suspicious or unusual activity, that includes:

- (a) risk-based policy requirements regarding the identification of customers and the

- scope of due diligence information to be collected and documented;
- (b) for high-risk accounts, Bank management shall conduct and document its analyses of enhanced due diligence gathered to facilitate ongoing monitoring efforts including expectations for customer activities that are supported and periodically reviewed for reasonableness and are used as part of the ongoing monitoring process;
  - (c) periodic evaluations of employee knowledge of, and adherence to, Bank policies and procedures for identifying customers and for gathering, analyzing, and documenting due diligence in order to determine whether additional or enhanced training should be conducted;
  - (d) procedures to address cases where there is on-going suspicious activity to ensure appropriate management review and determination of whether the customer relationship should be continued.
  - (e) maintenance of an accurate and complete list of higher-risk customers using:
    - (i) CDD/EDD information, including normal and expected account activity;
    - (ii) the Bank's customer risk rating system; and
    - (iii) automated systems;
  - (f) a requirement for a detailed periodic review (no less than annually) of each higher-risk account that includes updating all relevant customer information to ensure customer profiles remain accurate and current, to include:
    - (i) the name of the customer;

- (ii) the officers, directors, and major shareholders of any corporate customer, and the partners of any partnership customer;
  - (iii) any other accounts maintained by the customer and, as applicable, its officers, directors, major shareholders, or partners;
  - (iv) any related accounts of the customer at the Bank;
  - (v) any action the Bank has taken on the account;
  - (vi) the purpose and balance of the account;
  - (vii) any changes in business activity to include, at a minimum, expansion into new geographies, new products and services, and growth; and
  - (viii) any unusual activity for each account or any significant deviations from expected activity as set forth in the Bank's CDD and EDD file; and
- (g) ongoing updates to customer profiles to include updating of current information and, if appropriate, the filing of SARs when observed activity is inconsistent with the customer's profile and is not satisfactorily explained after investigation.

(2) The term "related accounts," as referenced in this article, shall be broadly construed and shall include the following accounts:

- (a) all accounts for which there are common signatories, officers, directors, addresses, taxpayer identification numbers, or phone numbers that can be reasonably identified;

- (b) all accounts of a customer's immediate relatives by blood, marriage, or adoption (for example, spouses, children, parents, siblings, uncles, and aunts) that can be reasonably identified;
- (c) all accounts of any corporation, joint enterprise, partnership, or any enterprise whatsoever that can be reasonably identified as controlled by or operated substantially in the interest of any Bank customer (where "controlled" includes direct or indirect ownership of ten percent or more of the stock, capital, or equity of any such enterprise and "substantially in the interest" shall mean derivation in any manner of income of ten thousand dollars (\$10,000) or more per annum from it); and
- (d) all accounts where the Bank's customer can be reasonably identified as exercising control or authority over the account holder.

## **ARTICLE VII**

### **SUSPICIOUS ACTIVITY MONITORING AND REPORTS**

(1) By December 31, 2014, the Board shall ensure that the Bank has updated and expanded, and thereafter ensure the Bank's adherence to a written program to establish a system of internal controls and processes to ensure compliance with the requirements to file Suspicious Activity Reports (SARs) set forth in 12 C.F.R. § 21.11, as amended. This program shall be updated as necessary to address any findings or recommendations in any ROE, Suspicious Activity Review, or BSA audit. At a minimum, this written program shall be expanded to include:

- (a) procedures for identifying, monitoring and reporting suspicious activity, known or

suspected violations of Federal law, violations of the BSA, or suspicious transactions related to potential money laundering activity, including suspicious activity relating to the opening of new accounts, the monitoring of current accounts, and the transfer of funds through the Bank, including procedures for:

- (i) employee identification and referral of potentially suspicious activity;
  - (ii) handling of law enforcement inquiries and requests;
  - (iii) use of automated systems; and
  - (iv) the use of alternative monitoring systems for account activity that cannot be adequately monitored using the existing automated system, to include, at a minimum, foreign exchange transactions, internal account transfers, and international wire activity;
  - (v) timely investigation and resolution of transactions; and
  - (vi) recording, maintaining, and recalling information;
- (b) application of appropriate thresholds and filters for automated systems in monitoring all types of transactions, accounts, customers, products, services, and geographic areas that include, at a minimum:
- (i) meaningful thresholds and alert scenarios for filtering transaction activity and customers for further monitoring, review,
  - (ii) standards for analysis of customer or account follow-up research and investigation, and the standards for documenting the conclusions of such review and follow-up;

- (iii) validation of the thresholds and filters established by the Bank;
  - (iv) maintenance of documentation supporting the Bank’s methodology for establishing thresholds and filters; and
  - (v) a periodic independent assessment of the appropriateness of thresholds and filters relative to the Bank’s customer base, products, services, and geographies served;
- (c) procedures for reviewing and evaluating the transaction activity of subjects included in law enforcement requests (e.g., grand jury subpoenas, section 314(a) requests, or National Security Letters);
  - (d) procedures to improve the quality of SARs filed by the Bank by requiring the narrative section to be specific and clear and to include all of the information listed in the Bank’s most recent Report of Examination (“ROE”); and
  - (e) procedures requiring the Bank to file SARs every ninety (90) days for continuing suspicious activity.

## **ARTICLE VIII**

### **BANK SECRECY ACT INDEPENDENT TESTING AND AUDIT PROGRAM**

- (1) The Board shall ensure appropriate oversight of the BSA independent testing function.

This includes ensuring appropriate scope (whether independent testing is performed by the audit staff or an independent third party), timing, reporting and the reliability of reports, and sufficiency of follow-up testing. Within ninety (90) days of the date of this Order, the Board shall review and evaluate the level of service and ability of the independent testing function for BSA matters currently being provided by



any independent testing staff, including:

- (a) the Board's expectations of how its independent testing staff shall ensure the Bank's compliance with the BSA;
- (b) an assessment of prior reports and management's response to those reports, and any recommended changes;
- (c) an evaluation of the independent testing tools, including technology, available; and
- (d) an evaluation of the training, qualifications, and expertise of the Bank's audit staff to perform the independent testing function for BSA matters.

(2) By December 31, 2014, the Board shall revise, adopt, implement, and thereafter ensure Bank adherence to an effective, independent, externally-based, BSA audit program.

(3) In attaining compliance with Paragraph (1) of this article, the revised externally-based BSA audit shall address any findings or recommendations in any regulatory reports of examination, regulatory correspondence, BSA compliance review, and its scope, testing, documentation, and follow-up testing shall be sufficient to:

- (a) detect irregularities in the Bank's operations;
- (b) determine the Bank's level of compliance with all applicable laws, rules, regulations, regulatory guidance, and this Order;
- (c) evaluate the Bank's adherence to established policies, procedures and risk tolerance;

- (d) validate the Bank's automated system filters and thresholds for appropriateness and accuracy;
- (e) perform an appropriate level of testing to support the audit findings; and
- (f) ensure adequate audit coverage in all areas.

(4) The Board shall ensure that the external firm responsible for conducting the BSA audit program described in Paragraph (1) of this article reports directly to the Board, or a designated committee thereof, which shall have the sole power to direct the audit activities. All reports prepared by the external audit firm shall be filed directly with the Board, or a designated committee thereof, and not through any intervening party.

(5) All audit reports shall be provided in writing to the Board, and supported by adequate work papers that are available to the Bank upon request. The Board shall ensure that the Bank evaluates the reports of any party providing independent testing services to the Bank and assesses the impact on the Bank of any deficiencies cited in such reports. The Board, or a designated committee thereof, shall ensure the Bank takes immediate actions to remedy deficiencies cited in audit reports, and that the Board maintains a written record describing those actions.

(6) The audit staff shall have access to any records necessary for the proper conduct of its activities. The OCC shall have access to all reports and work papers of the audit staff and any other parties working on its behalf.

(7) The Bank shall not renew or enter into new contracts or engagements with a third party company, entity, or person to perform BSA audits for, or on behalf of, the Bank unless the engagements

are in compliance with OCC Bulletin 2013-29, Third-Party Relationships: Risk Management Guidance (Oct. 30, 2013).

## **ARTICLE IX**

### **VIOLATIONS OF LAW**

(1) The Board shall immediately take the necessary steps to ensure that Bank management corrects each violation of law, rule, or regulation, unsafe or unsound practice, or breach of fiduciary duty, cited in the Bank's most recent ROE and in any subsequent ROE or OCC correspondence. The monthly progress reports required by Article I of this Order shall include the date and manner in which each correction has been implemented during that reporting period.

(2) Effective as of the date of this Order, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations, practices, and breaches as cited in the ROE and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules, regulations and duties applicable to their areas of responsibility.

(3) Within sixty (60) days of receipt of any subsequent Report of Examination or other OCC correspondence which cites violations of law, rule, or regulation, unsafe or unsound practice, or breach of fiduciary duty, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future citations in any Report of Examination and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules, regulations, and duties applicable to their areas of responsibility.

## **ARTICLE X**

### **CAPITAL AND STRATEGIC PLAN**

- (1) The Bank shall maintain at all times the following minimum capital ratios:
- (a) tier 1 capital at least equal to eight percent (8%) of adjusted total assets; and
  - (b) total risk-based capital at least equal to twelve percent (12%) of risk-weighted assets.

(2) For purposes of this article, “Tier 1 capital,” “total risk-based capital,” “adjusted total assets,” and “risk-weighted assets” are as defined in 12 C.F.R. Part 3.

(3) The requirement in this Order to meet and maintain a specific capital level means that the Bank is not to be deemed to be “well capitalized” for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 6 pursuant to 12 C.F.R. § 6.4(b)(1)(iv).

(4) Excluding changes relating to the Bank’s fulfillment of the requirements of this Order, the Bank shall not significantly deviate from the products, services, asset composition and size, funding sources, structure, operations, policies, procedures, and markets of the Bank that existed before this Order without first obtaining the Director’s prior written determination of no supervisory objection to such significant deviation or to the Strategic and Capital Plan. Any request to the Director for prior written determination of no supervisory objection to a significant deviation must include an assessment of the impact of such change on the Bank’s condition.

(5) Within ninety (90) days of the date of this Order, the Board shall develop and implement an effective internal capital planning process to assess the Bank's capital adequacy in relation to its overall risks and to ensure maintenance of appropriate capital levels, which shall not be less than the

requirements of paragraph (1) of this article without the prior expression of no supervisory objection from the Director. The capital planning process shall be consistent with *OCC Bulletin 2012-16 (Guidance for Evaluating Capital Planning and Adequacy) (June 7, 2012)*, and shall ensure the integrity, objectivity, and consistency of the process through adequate governance. The Board shall document the initial capital planning process and thereafter review and document the capital planning process at least annually or more frequently if requested by the Director in writing.

(6) Within ninety (90) days of the date of this Order, the Board shall forward to the Director for his review, pursuant to paragraph (12) of this article, a written Strategic and Capital Plan for the Bank covering at least a two-year period.

(7) Capital information within the plan shall include:

- (a) specific plans for the maintenance of adequate capital at levels commensurate with the Bank's risk profile, business model and operations, which may not be less than the requirements of paragraph (1) of this article;
- (b) quarterly projections for growth and capital requirements based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
- (c) projections of the sources and timing of additional capital to meet the Bank's future needs; and
- (d) include specific plans detailing how the Bank will comply with restrictions or requirements set forth in this Order that will have an impact upon the Bank's capital.

(8) The Bank may pay a dividend or make a capital distribution only:

- (a) when the Bank is in compliance with the capital portion of its approved Strategic and Capital Plan and would remain in compliance immediately following the payment of any dividend or capital distribution;
- (b) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
- (c) following the prior written determination of no supervisory objection by the Director.

(9) The Strategic portion of the plan shall establish objectives and projections for the Bank's overall risk profile, earnings performance, growth expectations, balance sheet mix, off-balance sheet activities, liability structure, capital and liquidity adequacy, product line development and market segments that the Bank intends to promote or develop, together with specific strategies to achieve those objectives, that are specific, measurable, verifiable, and, at a minimum, address or include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) an assessment of the Bank's present and future operating environment
- (c) an assessment of the Bank's strengths, weaknesses, opportunities and threats that impact strategic goals and objectives;
- (d) a risk profile that evaluates credit, interest rate, liquidity, price, operational, compliance, strategic and reputation risks in relationship to capital, and present and future product line development and market segments that the Bank intends to develop or promote;
- (e) strategic goals and objectives to be accomplished, including key

- financial indicators and risk tolerances;
- (f) concentration and other limits that reflect the Board's objectives and limitations for the Bank's risk profile and Board's risk tolerance;
  - (g) the identification of appropriate risk management systems to identify, measure, monitor, and control risks (including but not limited to policies and procedures over the credit, investment, funding, pricing, operational, and accounting functions that are consistent with safe and sound banking practices) within the Bank's present and planned products and services;
  - (h) a forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the next two years that shall address or include consideration of the requirements of this article and which shall be consistent with capital information contained with the plan;
  - (i) a description of the assumptions used to determine financial projections and growth targets; and
  - (j) recognition that the Bank cannot offer or introduce new products, enter new market segments, or significantly expand any existing product unless it first develops appropriate systems, controls, and expertise to manage and control the associated risks.

(10) If the Bank's Strategic and Capital Plan is entirely or partially based on recapitalizing the Bank through a stock offering, the capital portion shall: (i) specify the amount of capital to be raised through the stock offering that is (either alone or combined with other sources of capital) consistent with

the capital levels in the Strategic and Capital Plan; (ii) provide an explanation of actions taken to comply with all applicable securities laws and to obtain any necessary shareholder approvals; and (iii) include a time line with specific and targeted deadlines for completing all steps necessary to successfully closing the offering.

(11) If the Bank's Strategic and Capital Plan outlines a sale or merger of the Bank, including a transaction pursuant to 12 U.S.C. § 215a-3, the Strategic and Capital Plan shall, at a minimum, address the steps that will be taken and the associated timelines to ensure that after the receipt of the Director's written determination of no supervisory objection to the Strategic and Capital Plan, a definitive agreement for the sale or merger is executed.

(12) Prior to adoption by the Board, a copy of the Strategic and Capital Plan shall be submitted to the Director for prior written determination of no supervisory objection. Upon receipt of a written determination of no supervisory objection from the Director, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to the Strategic and Capital Plan, and any subsequent amendments or revisions. The Board shall review and update the Bank's Strategic and Capital Plan on an annual basis; more frequently if warranted or if requested by the Director in writing. Copies of the reviews shall be submitted to the Director. Revisions to the Strategic and Capital Plan shall be submitted to the Director for a prior written determination of no supervisory objection. Upon receiving a determination of no supervisory objection to the revised Strategic and Capital Plan from the Director, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall implement and adhere to the Strategic and Capital Plan.



(13) The Bank may not initiate any action that deviates significantly from the Bank's Strategic and Capital Plan without a prior written determination of no supervisory objection from the Director. The Board must give the Director advance, written notice of its intent to deviate significantly from the Strategic and Capital Plan, along with an assessment of the impact of such change on the Bank's condition, including a profitability analysis and an evaluation of the adequacy of the Bank's organizational structure, staffing, management information systems, internal controls, and written policies and procedures to identify, measure, monitor, and control the risks associated with the change in the Bank's Strategic and Capital Plan. For the purposes of this article, changes that may constitute a significant deviation from the Bank's Strategic and Capital Plan include, but are not limited to a change in the Bank's:

- (a) strategic goals and objectives;
- (b) assumptions used in determining financial projections and growth targets;
- (c) product or service offerings, including fee structure or pricing;
- (d) underwriting practices and standards, credit administration, account management, collection strategies or operations;
- (e) accounting processes and practices; or
- (f) funding strategy;

any of which, alone or in aggregate, may have a material impact on the Bank's operations or financial performance; or any other changes in personnel, operations, or external factors that may have a material impact on the Bank's operations, financial performance, or compliance with the Bank Secrecy Act. For

purposes of this Paragraph, “personnel” shall include the Chief Operating Officer and Chief Credit Officer, or any other position subsequently identified in writing by the Director.

(14) At least quarterly, the Board shall prepare a written evaluation of the Bank's performance against the Strategic and Capital Plan and shall include a description of the actions the Board will require the Bank to take to address any deficiencies, which shall be documented in the Board meeting minutes. Upon completion of its evaluation, the Board shall submit a copy to the Director.

(15) If the Bank fails to maintain the level of capital required by paragraph (1) of this article, or fails to implement the Strategic and Capital plan to which the Director has provided a written determination of no supervisory objection, then the Bank may, at the Director’s sole discretion, be deemed to be undercapitalized for purposes of this Order and the Bank shall take such corrective measures as the OCC may direct in writing from among the provisions applicable to undercapitalized depository institutions under 12 U.S.C. § 1831o(e) and 12 C.F.R. Part 6. For purposes of this requirement, an action "necessary to carry out the purpose of this section" under 12 U.S.C. § 1831o(e)(5) shall include restoration of the Bank’s Tier 1 capital to the minimum levels required by this Order, and any other action deemed advisable by the OCC to address the Bank’s capital deficiency or the safety and soundness of its operations.

## **ARTICLE XI**

### **PROBLEM ASSET MANAGEMENT**

- (1) Effective as of the date of this Order, the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to a revised Problem Asset Reduction Plan (“PARP”). The PARP shall be designed to eliminate the basis of criticism of assets criticized in the

most recent ROE, in any subsequent ROE, by any internal or external loan review, or in any list provided to management by OCC examiners during any examination as “doubtful,”

“substandard,” or “special mention,” and shall include, at a minimum:

- (a) a description of the methods for reducing the level of criticized assets to established targets;
- (b) sufficient staff with the qualifications, skills, and experience to effectively manage and resolve problem assets;
- (c) adequate MIS to measure the status of problem assets; and
- (d) the development of Problem Asset Reports (“PARs”) identifying all credit relationships and other assets totaling in aggregate five hundred thousand dollars (\$500,000) or more, criticized as “doubtful,” “substandard,” or “special mention.”  
The PARs must be updated and submitted to the Board, or a committee thereof, monthly and to the Director quarterly.

(2) Each PAR shall cover an entire credit relationship and other assets, and include, at a minimum, analysis and documentation of the following:

- (a) the origination date and any renewal or extension dates, amount, purpose of the loan or other asset, and the originating and current handling officer(s);
- (b) the expected primary and secondary sources of repayment, and an analysis of the adequacy of the repayment source;

- (c) the appraised value of supporting collateral, along with the date and source of the appraisal, and the position of the Bank's lien on such collateral, as well as other necessary documentation to support the current collateral valuation;
- (d) an analysis of current and complete credit information, including a global cash flow analysis where loans are to be repaid from operations;
  - (i) results of any impairment analysis;
  - (ii) accurate risk ratings consistent with the classification standards contained in the *Comptroller's Handbook* on "Rating Credit Risk;"
  - (iii) appropriate accrual status pursuant to the FFIEC Instructions for the Preparation of Consolidated Reports of Condition and Income;
  - (iv) significant developments, including a discussion of changes since the prior PAR, if any; and
  - (v) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment including, if appropriate, an exit strategy.

(3) The Bank shall not extend credit, directly or indirectly, including renewals, modifications or extensions, to a borrower whose loans or other extensions of credit are subject to a PAR, or are criticized in any ROE, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination, unless and until a majority of the Board, or a designated committee thereof, determines in writing that for all credit relationships totaling in the aggregate of one hundred thousand dollars (\$100,000) or more, each of the following conditions is met:

- (a) the extension of additional credit is necessary to promote the best interests of the Bank;
- (b) a written credit and collateral analysis is performed;
- (c) the PAR for that for that borrower, if applicable, will not be compromised by the extension of additional credit.

(4) A copy of the findings and approval of the Board or designated committee shall be maintained in the credit file of the affected borrower.

## **ARTICLE XII**

### **THIRD PARTY CONTRACTS INVOLVING SALE, MERGER, OR RECAPITALIZATION**

(1) The Bank shall not enter into any contract with a third party, to assist in the sale, merger, or recapitalization of the Bank that requires the payment of anything other than expenses prior to such sale, merger, or recapitalization, or that requires the Bank to pay, directly or indirectly, the cost of performing due diligence, or other services related to the transaction, unless the Bank first receives the Director's written determination of no supervisory objection.

(2) Any request for the Director's written determination of no supervisory objection shall include:

- (a) a description of the due diligence credit review, fairness opinion, or any other services to be performed by the third party, including a copy of the proposed contract or engagement;
- (b) a description of the Bank's due diligence process for agreeing to the services to be performed by a potential purchaser or merger partner; and

- (c) a determination by the Board that:
  - (i) the activities to be performed by the third party as part of the sale or merger requirements are fair and reasonable to the Bank;
  - (ii) the parties are able to perform under the contract or commitment;
  - (iii) the fees the Bank is required to pay to the third party are reasonable for the services provided; and
  - (iv) the contract is in the best interests of the Bank.

(3) Following any written determination of no supervisory objection by the Director, the Board shall regularly monitor the third party provider's performance to ensure that the third party provider is complying with the written contract or engagement. The Board shall immediately take appropriate action if the third party provider is not complying with the written contract or engagement and shall maintain documentation of any such actions.

### **ARTICLE XIII**

#### **OTHER PROVISIONS**

(1) Although the Bank is by this Order required to submit certain proposed actions and programs for the review or prior written determination of no supervisory objection of the Director, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) In each instance in this Order in which the Board is required to ensure adherence to and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (a) ensure that the Bank has sufficient processes, management, personnel, and control systems to ensure implementation of and adherence to the program developed

pursuant to this Order, and that Bank management and personnel have sufficient training and authority to execute their duties under this Order;

- (b) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Order;
- (c) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Order;
- (d) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (e) require corrective action be taken in a timely manner of any non-compliance with such actions.

(3) Each citation or referenced guidance included in this Order includes any subsequent guidance that replaces, supersedes, amends, or revises the cited law, regulation, or guidance.

(4) The provisions of this Order are effective upon issuance by the Comptroller through his authorized representative whose hand appears below, and shall remain effective and enforceable, except to the extent that, and until such time as, any provisions of this Order shall have been amended, suspended, waived, or terminated in writing by the Comptroller, through his authorized representative.

(5) Except as otherwise expressly provided herein, any time limitations imposed by this Order shall begin to run from the effective date of this Order.

(6) If the Bank requires a waiver or suspension of any provision or an extension of any timeframe within this Order, the Board shall submit a written request to the Director asking for relief.

Any written requests submitted pursuant to this article shall include a statement setting forth in detail, with relevant supporting documentation, the special facts and circumstances that support the waiver or suspension of any provision or an extension of a timeframe within this Order.

(7) The Director's decision concerning a request submitted pursuant to paragraph six (6) of this article is final and not subject to further review.

(8) This Order is intended to be, and shall be construed to be, a final order issued pursuant to 12 U.S.C. § 1818(b), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States.

(9) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon it by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Order shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(10) The terms of this Order, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements, or prior arrangements between the parties, whether oral or written.

(11) All reports or plans that the Bank or Board has agreed to submit to the Director pursuant to this Order shall be forwarded, by overnight mail or via email, to the following:

Director for Special Supervision *with a copy to:*

Comptroller of the Currency  
400 7th Street, S.W.  
Suite 3E-218,  
Mail Stop 8E-12  
Washington, D.C. 20219

OCC  
Los Angeles Field Office  
550 N. Brand Blvd  
Suite 500  
Glendale, CA. 90213



(12) The articles of the October 27, 2011 Consent Order are replaced and superseded in their entirety by this Order, and upon execution of the “Stipulation and Consent to the Issuance of a Consent Order,” dated August 27, 2014, the October 27, 2011 Order is hereby terminated. Provided, however, that the Bank and its institution-affiliated parties remain liable for any breach of the Order preceding its termination.

IT IS SO ORDERED.

\Signed

\_\_\_\_\_  
Steven D. Jacobs  
Director for Special Supervision  
Washington, DC

August 27, 2014

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Date

**UNITED STATES OF AMERICA**  
**DEPARTMENT OF THE TREASURY**  
**COMPTROLLER OF THE CURRENCY**

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**In the Matter of:**

National Bank of California  
Los Angeles, California

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AA-EC-14-79

**STIPULATION AND CONSENT TO THE ISSUANCE**  
**OF A CONSENT ORDER**

**WHEREAS**, the Comptroller of the Currency of the United States of America (“Comptroller”) intends to initiate cease and desist proceedings against National Bank of California, Los Angeles, California, (“Bank”) pursuant to 12 U.S.C. § 1818(b), through the issuance of a Notice of Charges, for unsafe or unsound banking practices and/or violations of rules, regulations and conditions imposed in writing relating to the Bank’s failure to comply with the Bank Secrecy Act and for failure to comply with the October 27, 2011 Consent Order.

**WHEREAS**, the Bank, in the interest of compliance and cooperation, and without admitting or denying any wrongdoing, consents to the issuance of a Consent Order, dated August 27, 2014 (“Order”) by executing this Stipulation and Consent to the Issuance of a Consent Order;

**NOW THEREFORE**, in consideration of the above premises, the Comptroller, through his authorized representative, and the Bank, through its duly elected and acting Board of Directors, hereby stipulate and agree to the following:

## ARTICLE I

### Jurisdiction

(1) The Bank is a national banking association chartered and examined by the Comptroller pursuant to the National Bank act of 1864, as amended, 12 U.S.C. § 1 et seq.

(2) The Comptroller is “the appropriate Federal banking agency” regarding the Bank pursuant to 12 U.S.C. §§ 1813(q) and 1818(b).

(4) The Bank is an “insured depository institution” within the meaning of 12 U.S.C. §§ 1813(c) and 1818(b)(1).

## ARTICLE II

### Agreement

(1) The Bank agrees that said Order shall be deemed an “order issued with the consent of the depository institution” as defined in 12 U.S.C. § 1818(h)(2), and consents and agrees that said Order shall become effective upon its issuance and shall be fully enforceable by the Comptroller under the provisions of 12 U.S.C. § 1818(i). Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his supervisory powers, including 12 U.S.C. § 1818(i), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract.

(2) The Bank agrees that the terms and provisions of this Stipulation and the Order shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Stipulation or the Order, express or implied, shall give to any person or

entity, other than the parties hereto, and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Stipulation or the Order.

(3) The Bank also expressly acknowledges that no officer or employee of the Comptroller has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller's exercise of his supervisory responsibilities.

### ARTICLE III

#### Waivers

- (1) The Bank, by signing this Stipulation and Consent, hereby waives:
- (a) the issuance of a Notice of Charges pursuant to 12 U.S.C. § 1818(b);
  - (b) any and all procedural rights available in connection with the issuance of the Order;
  - (c) all rights to a hearing and a final agency decision pursuant to 12 U.S.C. § 1818(i), 12 C.F.R. Part 19;
  - (d) all rights to seek any type of administrative or judicial review of the Order; and
  - (e) any and all rights to challenge or contest the validity of the Order.

### ARTICLE IV

#### Other Action

(1) The Bank agrees that the provisions of this Stipulation and Consent shall not inhibit, estop, bar, or otherwise prevent the Comptroller from taking any other action affecting

the Bank if, at any time, it deems it appropriate to do so to fulfill the responsibilities placed upon it by the several laws of the United States of America.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller as his representative, has hereunto set his hand on behalf of the Comptroller.

*/Signed*

*August 27, 2014*

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Steven D. Jacobs  
Director for Special Supervision  
Washington, DC

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Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

*/Signed*

*August 27, 2014*

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Daniel Dworsky

Date

*/Signed*

*August 27, 2014*

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Jerald Friedman

Date

*/Signed*

*August 27, 2014*

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Henry Homsher

Date

*/Signed*

*August 27, 2014*

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Joseph Kornwasser

Date

*/Signed*

*August 27, 2014*

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Mark Lainer

Date

*/Signed*

*August 27, 2014*

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Al Landolph

Date

*/Signed*

*August 27, 2014*

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Stanley Treitel

Date