

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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In the Matter of	)	
	)	
PAN PACIFIC BANK	)	ORDER TO
FREMONT, CALIFORNIA	)	CEASE AND DESIST
	)	
(INSURED STATE NONMEMBER BANK)	)	Docket No. FDIC-07-194b
	)	
_____	)	

Pan Pacific Bank, Fremont, California ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law and/or regulations alleged to have been committed by the Bank and of its right to a hearing on the alleged charges under section 8(b)(1) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b)(1), and Section 1912 of the California Financial Code, and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with counsel for the Federal Deposit Insurance Corporation ("FDIC") and with counsel for the California Department of Financial Institutions (the "Department"), dated October 17, 2007 whereby solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices and violations of law and/or regulations, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC and the Department.

The FDIC and the Department considered the matter and determined that it had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had committed

violations of law and/or regulations. The FDIC and the Department, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED, that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns, cease and desist from the following alleged unsafe and unsound banking practices and alleged violations of law and/or regulation as more fully set forth in the FDIC's Report of Examination dated June 11, 2007:

- (a) operating with management whose policies and procedures are detrimental to the Bank and jeopardize the safety of its deposits;
- (b) operating with a board of directors which has failed to provide adequate supervision over and direction to the active management of the Bank;
- (c) operating in violation of section 326.8 of the FDIC Rules and Regulations, 12 C.F.R. § 326.8, regarding a satisfactory Bank Secrecy Act ("BSA") and Anti-Money Laundering ("AML") compliance program;
- (d) operating in violation of section 353.3 of the FDIC Rules and Regulations, 12 C.F.R. § 353.3, regarding procedures to identify, monitor, and report suspicious activities;
- (e) operating in violation of section 103.100(b)(2)(i) of the Rules and Regulations of the Department of the Treasury, 31 C.F.R. § 103.100(b)(2)(i), regarding the failure to conduct section 314(a) Information Sharing and Search requests within the prescribed time frames; and
- (f) operating in contravention of Appendix B to Part 364 of the FDIC's Rules and Regulations regarding adequate standards and safeguards to protect the security, confidentiality and integrity of Bank customers information.

IT IS FURTHER ORDERED, that the Bank, its institution-affiliated parties, and its successors and assigns, take affirmative action as follows:

1. Within 60 days, develop and adopt a written analysis and assessment of the Bank's management and staffing needs ("Management Plan"). Such Management Plan should be submitted for review to the Regional Director of the San Francisco Regional Office ("Regional Director") and the Commissioner of the California Department of Financial Institutions ("Commissioner"). The Management Plan shall include, at a minimum:

(a) identification of both the type and number of officer positions needed to properly manage and supervise the business affairs of the Bank;

(b) procedures to recruit and hire additional or replacement personnel with the requisite ability, experience and other qualifications, which the Board of Directors ("Board") determines are necessary, to:

(i) fill Bank officer or staff member positions consistent with the Management Plan ;

(ii) determine the staffing needs and resources to operate the Bank;  
and

(iii) to provide for an orderly succession of management should a disruption in the current chain of management occur.

(iv) Such Management Plan and its implementation shall be in a manner acceptable to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitation of the Bank.

2. Within 90 days, identify and conduct a review of all high-risk account transactions since March 2007 ("Transaction Review") and prepare and file Suspicious Activity

Reports (“SARs”) and Cancel Transaction Reports (“CTRs”) as necessary based upon the review. The Regional Director and the Commissioner may also extend the Transaction Review period if necessary based upon the results of the Transaction Review.

(a) Within 10 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 expertise and resources to be dedicated to the Transaction Review;

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

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

(b) Upon completion of the reviews required pursuant to the paragraphs above, the Bank shall submit the written findings of the review and copies of any additional SARs and CTRs filed to the Regional Director and the 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.

(d) Documentation supporting any determination made pursuant to the above paragraph 2 shall be retained in the Bank’s records for such period of time as may be required by any applicable rules or regulations.

3. 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.

4. Within 90 days of the effective date of this ORDER, the Bank shall correct all violations of law as set forth in the FDIC's Report of Examination dated June 11, 2007. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations.

5. 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 Bank's Board on a monthly basis. Such program and its implementation shall be in a manner acceptable to the Regional Director and the Commissioner and shall be implemented in a manner acceptable to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations of the Bank. 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 an annual basis and in accordance with the procedures described in the Federal Financial Institutions Examination Council BSA/AML guidance. 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, procedures, 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; and
- (xi) an assessment of the overall process for identifying and reporting suspicious activity, including a review of filed or prepared SARs to determine their accuracy, timeliness, completeness, and effectiveness of the Bank's policy.

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

(d) Ensure that the Bank's BSA compliance program is managed by a qualified officer who has the requisite authority, responsibility, training, resources, and management reporting structure to ensure compliance with the Bank's BSA/AML program and BSA – related regulations including, without limitation;

(i) 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;

(ii) monitoring the Bank's compliance and ensuring that full and complete corrective action is taken with respect to previously identified violations and deficiencies; and

(iii) identifying and developing BSA back-up personnel who are knowledgeable and trained to administer the BSA function on an interim basis, including planned absences of the BSA Officer, to ensure the continuity of the BSA compliance program.

(e) Provide and document training by competent staff and/or independent contractors of all board members 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.

6. Within 90 days of the effective date of this ORDER, the Bank shall develop, adopt and implement a written Customer Due Diligence (“CDD”) program. Such program and its implementation shall be in a manner acceptable to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations of the Bank. At a minimum, the CDD 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.

7. Within 90 days of the effective date of this ORDER, the Bank shall establish and implement policies and procedures to advise the Bank's Board of significant Suspicious Activity Reports (“SARs”). At a minimum, the Board shall be advised in detail of all SARs involving

employees, contractors, officers and directors. The policies and procedures shall also include guidelines to determine what SARs are significant.

8. Within 30 days of the effective date of this ORDER, the Bank shall revise, adopt and implement its BSA Policy to include provisions which implement the requirements of paragraphs 1-7 of this ORDER. The Bank's Board and management shall fully implement the provisions of the revised BSA Policy. The revised BSA Policy, and its implementation, shall be in a form and manner acceptable to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations of the Bank.

9. Following the effective date of this ORDER, the Bank's 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 the Commissioner when all of the above actions have been accomplished. All actions taken by the Board pursuant to this ORDER shall be duly noted in the minutes of its meetings. The committee shall receive reports from the qualified officer appointed in paragraph 5(d) regarding compliance with the BSA and Parts 326 and 353, at least monthly, and shall report to the Bank's Board at every meeting.

10. Within 30 days of the end of the first quarter following the effective date of this ORDER, and within thirty (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 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.

11. Following the effective date of this ORDER, the Bank shall send to its shareholders or otherwise furnish a description of this ORDER in conjunction with the Bank's next shareholder communication and also in conjunction with its 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, Accounting and Securities Section, Washington, D.C. 20429, at least 15 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.

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This ORDER will become effective upon its issuance by the FDIC and the Commissioner. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provisions of this ORDER shall have been modified, terminated, suspended, or set aside by the FDIC and the Department.

Pursuant to delegated authority.

Dated at San Francisco, California, this 18<sup>th</sup> day of October, 2007.

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Stan Ivie  
Acting Regional Director  
Division of Supervision and Consumer Protection  
San Francisco Region  
Federal Deposit Insurance Corporation

Dated at San Francisco, California, this 18<sup>th</sup> day of October, 2007.

Craig Carlson  
Chief Examiner  
California Department of Financial Institutions

By: \_\_\_\_\_  
Scott Cameron  
Deputy Commissioner