#2014-031

Also Terminates **#2009-073 and #2009-213**

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

In the Matter of:	)	
Eastside Commercial Bank, N.A.	)	AA-EC-2014-24
Bellevue, Washington	)	

CONSENT ORDER

WHEREAS, the Comptroller of the Currency of the United States of America ("Comptroller"), through his authorized representative, has supervisory authority over Eastside Commercial Bank, N.A., Bellevue, Washington ("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 ("Stipulation and Consent"), dated March 20, 2014 that is accepted by the Comptroller through his duly authorized representative; and

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 him by the Federal Deposit Insurance Act, as amended, 12 U.S.C. § 1818, the Comptroller hereby orders that:

ARTICLE I

COMPLIANCE COMMITTEE

(1) The Board shall continue to maintain a Compliance Committee of at least three (3) directors, of which at least two (2) must not be employees, former employees, or controlling shareholders 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. In the event of a change of the

membership of the Compliance Committee, the name of any new member shall be immediately submitted in writing to the Director of 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) Within thirty (30) days of the date of this Order and quarterly thereafter, or within such other time period as the Director requires in writing, the Compliance Committee shall submit a written progress 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, Bank personnel responsible for implementing the corrective actions, and the timeframes for completion;

(b) actions taken to comply with each Article of this Order; and

(c) the results and status of those actions.

(4) The Board shall forward a copy of the Compliance Committee's progress reports, with any additional comments by the Board, to the Director within ten (10) days of receiving such reports.

ARTICLE II

STRATEGIC PLAN

(1) Within sixty (60) days of the date of this Order, the Board shall forward to the Director for his review, pursuant to paragraph (3) of this Article, a written updated Strategic Plan for the Bank that is acceptable to the Director, covering at least a three-year period. The Strategic Plan shall establish objectives 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 strategies to achieve those objectives, and it shall, at a minimum, include:

(a) a mission statement that forms the framework for the establishment of strategic goals and objectives;

(b) the strategic goals and objectives to be accomplished, including key financial indicators and risk tolerances;

(c) an assessment of the Bank's strengths, weaknesses, opportunities and threats that impact strategic goals and objectives;

(d) an identification and prioritization of initiatives and opportunities, including timeframes that take into account the requirements of this Order;

(e) a description of the processes in place to ensure the Bank has sufficient and adequate processes, personnel, succession programs and control systems to mitigate risks in the Bank's market(s);

(f) a description of the Bank's targeted market(s), competitive factors in its identified target market(s) and a description of control systems to mitigate risks in the Bank's market(s);

(g) an assessment of the present and planned product lines (assets and liabilities) and the identification of appropriate risk management systems to identify, measure, monitor, and control risks within the product lines;

(h) an assessment of the funding sources, including a wholesale and contingency funding plan, for present and planned product lines (assets and liabilities);

(i) assigned responsibilities and accountability for the strategic planning process; and

(j) a description of systems and metrics designed to monitor the Bank's progress in meeting the Strategic Plan's goals and objectives.

(2) If the Board's Strategic Plan under paragraph (1) of this Article includes a proposed sale or merger of the Bank, the Strategic Plan shall, at a minimum, address the steps that will be taken and the associated timeline to effect the implementation of such sale or merger.

(3) Prior to adoption by the Board, a copy of the Strategic Plan and any subsequent amendments or revisions shall be submitted to the Director for review and prior written determination of no supervisory objection. At the next Board meeting following the receipt of the Director's written determination of no supervisory objection, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the Strategic Plan and any amendments or revisions thereto.

(4) The Bank may not initiate any action that deviates significantly from the Strategic Plan without prior written determination of no supervisory objection from the Director. The Board must give the Director at least sixty (60) days advance written notice of its intent to deviate significantly from the Strategic 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 ("MIS"), internal controls, and written policies and procedures to identify, measure, monitor, and control the risks associated with the change in the Strategic Plan. For the purposes of this Article, changes that may constitute a significant deviation from the Strategic Plan include, but are not limited to, a change in the Bank's marketing strategies, products and services, marketing partners, underwriting practices

and standards, credit administration, account management, collection strategies or operations, fee structure or pricing, accounting processes and practices, or 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 or operations that may have a material impact on the Bank's operations or financial performance.

(5) At least quarterly, the Board shall prepare a written evaluation of the Bank's performance against the Strategic Plan that includes a description of the actions the Board will require the Bank to take to address any shortcomings, which shall be documented in Board meeting minutes. Upon completion of each of its evaluations, the Board shall submit a copy to the Director.

(6) The Board shall review the Strategic Plan at least annually and more frequently if necessary or if required by the Director in writing. If the Strategic Plan is updated with any significant deviation from the prior Strategic Plan, the Board shall submit a copy of the updated Strategic Plan pursuant to the requirements of paragraph (3) of this Article for the Director's review and prior written determination of no supervisory objection.

(7) Until the Strategic Plan required under this Article has received a written determination of no supervisory objection from the Director, the Bank shall not significantly deviate from the products, services, asset composition and/or size, funding sources, structure, operations, policies, procedures and/or market(s) of the Bank that existed before the date of this Order without first obtaining the Director's prior written determination of no supervisory objection to such significant deviation. Any request to the Director for prior written determination of no supervisory objection to a significant deviation must be submitted to the Director at least sixty (60) days in advance of the significant deviation, 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, MIS, internal controls, and written policies and procedures to identify, measure, monitor and control the risks associated with the change.

ARTICLE III

CAPITAL PLAN AND HIGHER MINIMUMS

(1) No later than June 30, 2014, the Bank shall meet and maintain the following capital ratios (as defined in 12 C.F.R. Part 3):

(a) Total risk-based capital ratio at least equal to eleven percent (11%); and

(b) Tier 1 capital to adjusted total asset ratio at least equal to nine percent (9%).

(2) The requirement in this Order to meet and maintain specific capital levels means that the Bank may not 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).

(3) 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 in no event be less than the requirements of paragraph (1) of this Article. The capital planning process shall be consistent with OCC Bulletin 2012-16 (June 7, 2012), *Guidance for Evaluating Capital Planning and Adequacy*, 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.

(4) Within ninety (90) days of the date of this Order, the Board shall forward to the Director for his review, pursuant to paragraph (6) of this Article, an acceptable written Capital Plan for the Bank, consistent with the Strategic Plan required by Article II of this Order, covering at least a three-year period. The Capital Plan shall, at a minimum:

(a) include specific plans for the achievement and maintenance of adequate capital, which may in no event be less than the requirements of paragraph (1) of this Article;

(b) identify and evaluate all material risks;

(c) determine the Bank's capital needs in relation to material risks and strategic direction, as set forth in the Strategic Plan;

(d) identify and establish a strategy to maintain capital adequacy and strengthen capital, and establish a contingency or back-up capital plan commensurate with the Bank's overall risk and complexity;

(e) include detailed quarterly financial projections; and

(f) 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.

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

(a) when the Bank is in compliance with the requirements of a Capital Plan that has received a written determination of no supervisory objection and would remain in compliance with its approved Capital Plan immediately following the declaration or payment of the dividend or the capital distribution;

(b) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60;

(c) when the Bank is in compliance with the minimum capital ratios set forth in paragraph (1) of this Article; and

(d) following the prior written determination of no supervisory objection by the Director.

(6) Prior to its adoption by the Board, a copy of the Capital Plan shall be submitted to the Director for a prior written determination of no supervisory objection. The Board shall review and update the Bank's Capital Plan at least annually and more frequently if necessary or if requested by the Director in writing. Revisions to the Bank's Capital Plan shall be submitted to the Director for a prior written determination of no supervisory objection. At the next Board meeting following receipt of the Director's written determination of no supervisory objection, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to the Capital Plan and any amendments or revisions thereto.

(7) At least quarterly, the Board shall review financial reports and earnings analyses that evaluate the Bank's performance against the goals and objectives established in the written Capital Plan, as well as the Bank's written explanation of significant differences between the actual and projected balance sheet, income statement, and expense accounts, including descriptions of extraordinary and/or nonrecurring items. This review shall include a description of the actions the Board will require the Bank to take to address any deficiencies, which shall be documented in Board meeting minutes. Upon completion of its evaluation, the Board shall submit a copy to the Director within ten (10) days.

(8) If the Bank fails to maintain the capital ratios required by paragraph (1) of this Article, fails to submit a Capital Plan as required by paragraph (4) of this Article, or fails to implement a Capital Plan to which the Director has provided a written determination of no

supervisory objection, then the Bank may, in the Director's sole discretion, be deemed undercapitalized for the purposes of this Order. 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 national banks. 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 capital to the minimum ratios 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 IV

BOARD OVERSIGHT

(1) Within thirty (30) days of the date of this Order, the Board shall develop, adopt, and thereafter adhere to a written program (including appropriate policies and procedures) designed to ensure that management effectively addresses adverse findings contained in compliance reviews, audits, and examinations. The program shall include, at a minimum:

(a) a requirement that management responds to audit, compliance, and regulatory criticisms with a written action plan that contains:

(i) corrective actions to be taken;

(ii) deadlines for taking corrective action; and

(iii) the individual(s) responsible for making the corrective action;

(b) formal review and approval by the Board of management's proposed response;

(c) a tracking system that will ensure that applicable criticisms are reported to the Board and corrected in a timely manner; and

(d) retention of the Bank's books and records of:

(i) all written responses to audit, compliance, and regulatory criticisms; and

(ii) documentation of Board approval of the written responses.

(2) A copy of the program developed pursuant to this Article shall be forwarded to the Director within five (5) days of its adoption by the Board.

ARTICLE V

BOARD TO ENSURE EFFECTIVE MANAGEMENT

(1) The Bank shall appoint a qualified, capable, full-time and permanent President/CEO and Director. Pursuant to 12 U.S.C. § 1831i and 12 C.F.R. § 5.51, the Bank must receive a written notice of intent not to disapprove from the OCC before appointing an individual as permanent President/CEO and Director. Accordingly, by no later than June 30, 2014, the Bank shall conduct appropriate due diligence, identify a qualified candidate for President/CEO and Director, and provide the OCC with the prior written notice required by 12 U.S.C. § 1831i and 12 C.F.R. § 5.51.

(2) Within ninety (90) days of the date of this Order, the Board shall develop, adopt and implement corporate governance and decision-making processes to correct the Bank's deficiencies in management and Board oversight as described in the Bank's recent supervisory history, including the most recent Report of Examination ("ROE"). At a minimum, the Board shall ensure and document that:

(a) all Bank officers are capable of performing present and anticipated duties, factoring in each officer's past actual performance, experience, and qualifications compared to their position description, duties and responsibilities, with particular emphasis on their proposed responsibilities to execute the Strategic Plan and correct the concerns raised in the most recent ROE;

(b) clear lines of responsibility and authority exist for each officer;

(c) a management employment and succession program exists to promote the retention and continuity of capable management;

(d) sufficient policies, processes, personnel, and control systems exist to effectively implement and ensure adherence to all provisions of this Order, and to ensure that Bank personnel have sufficient training and authority to execute their duties and responsibilities under this Order;

(e) a process exists to evaluate, at least annually, the Bank's overall internal operations, staffing, Board and management oversight and information systems, policies, procedures and other risk management systems with time-sensitive strategies to address any deficiencies;

(f) a process exists to ensure that management appropriately responds to any audit, compliance, or regulatory deficiencies; and

(g) that the Board receives and reviews sufficient Bank information from management on the operation of the Bank and compliance with this Order to enable the Board to provide effective oversight and to enable each Director to fulfill his or her fiduciary duties and other responsibilities under law and as outlined in the OCC's *The Directors Book* and "Duties and Responsibilities of Directors" booklet of the *Comptroller's Handbook*.

(3) The Board shall establish, at least annually, the objectives by which each Bank officer's effectiveness shall be measured.

(4) The Board shall establish procedures to prepare an annual written performance appraisal for each Bank officer that evaluates that officer's performance according to the description and responsibilities for his or her position. If necessary and as appropriate, the Board shall engage a qualified independent third party to assist the Board in preparing the written performance appraisals. Each annual written performance appraisal must also address the following as it applies to each officer:

(a) effectiveness in implementing and adhering to objectives established by the Board;

(b) effectiveness in implementing and adhering to Board-approved policies and procedures;

(c) adherence to the Board-approved Strategic and Capital Plans;

(d) effectiveness in developing and successfully implementing action plans to remedy issues raised in Reports of Examination or audit reports; and

(e) compliance with laws, regulations, and regulatory guidance.

(5) The Board shall ensure that the Bank addresses any performance deficiencies identified pursuant to paragraphs (3) and (4) of this Article.

ARTICLE VI

CREDIT UNDERWRITING AND ADMINISTRATION

(1) Effective as of the date of this Order, the Bank may not grant, extend, renew, modify or restructure any loan or other extension of credit, or purchase any loan participation, equal to or exceeding one hundred thousand dollars ($100,000), without:

(a) documenting the specific reason or purpose for the extension of credit;

(b) identifying the expected source of repayment in writing;

(c) structuring the repayment terms to coincide with the expected source of repayment;

(d) obtaining current and satisfactory credit information, including performing and documenting analysis of credit information and a detailed cash flow analysis of all expected repayment sources;

(e) determining and documenting whether the loan complies with the Bank's Loan Policy and, if it does not comply, providing identification of the exception and justification to support the policy exception;

(f) making and documenting the determinations made regarding the customer's ability to repay the credit on the proposed repayment terms;

(g) providing an accurate risk assessment grade and proper accrual status for each credit;

(h) documenting, with adequate support material, the value of collateral and properly perfecting the Bank's lien on the collateral, where applicable;

(i) ensuring that any participations purchased are consistent with sound banking practices, guidelines set forth in Banking Circular 181 (Revised) (August 2, 1984), and the requirements of 12 C.F.R. Part 34; and

(j) obtaining the written approval of the Bank's Loan Committee or Board.

(2) Within thirty (30) days of the date of this Order, the Board and management shall take the necessary steps to obtain current and satisfactory credit information on all loans lacking such information, including those listed in the most recent ROE. The Board shall thereafter take

the necessary steps to obtain current and satisfactory credit information on any such loans listed in any subsequent ROE, in any internal or external loan review, or in any listing of loans lacking such information provided to management by OCC Examiners at the conclusion of an examination within thirty (30) days of the Board's receipt of such report, loan review or listing.

(3) Within thirty (30) days of the date of this Order, the Board shall ensure proper collateral documentation is maintained on all loans and correct each collateral exception listed in the most recent ROE. The Board shall thereafter correct each collateral exception listed in any subsequent ROE, in any internal or external loan review, or in any listing of loans lacking such information provided to management by the OCC Examiners at the conclusion of an examination within thirty (30) days of the Board's receipt of such report, loan review or listing.

(4) Within sixty (60) days of the date of this Order, the Board shall revise, adopt, implement and thereafter ensure Bank adherence to a written program of policies and procedures designed to aggregate and track exceptions to the Bank's Loan Policy. This includes, at a minimum, monthly Board monitoring of policy exception reports that track aggregate number and dollar amounts of loans with material underwriting exceptions by type of loan and loan officer.

(5) Within sixty (60) days of the date of this Order, the Board shall take the necessary steps to eliminate credit, collateral, and Bank Loan Policy exceptions, to include, at a minimum, the development of a program that makes loan officers accountable for such exceptions and considers the exceptions in the periodic performance reviews and compensation of such loan officers.

ARTICLE VII

LIQUIDITY MANAGEMENT

(1) Within sixty (60) days of the date of this Order, the Board or a designated committee thereof shall update and adopt, and the Bank, subject to Board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to a comprehensive written Liquidity Risk Management Program that is consistent with the "Liquidity" booklet (June 2012) of the *Comptroller's Handbook.* This Program must include assessing, on an ongoing basis, the Bank's current and projected funding needs and ensuring that sufficient funds or access to funds exist to meet those needs and are appropriate in light of the Bank's risk profile, the Strategic Plan required by Article II of this Order, and the Capital Plan required by Article III of this Order.

(2) Within sixty (60) days of the date of this Order, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to a comprehensive Bank-specific written Contingency Funding Plan ("CFP") consistent with the guidelines set forth in the "Liquidity" booklet (June 2012) of the *Comptroller's Handbook.* The CFP shall, at a minimum, include:

(a) a description of specific stress scenarios, quantified projected effects of the various stress scenarios on cash flows, and specific action plans to be enacted in the case of each scenario;

(b) management's best estimate of balance sheet changes that may result from each of the stress scenarios and corresponding action plans;

(c) specific terms or events that alert management to potential problems and trigger enactment of the CFP;

(d) necessary MIS and reporting criteria for use in crisis situations;

(e) management responsibilities for enacting the CFP and for taking specific actions once enacted;

(f) prioritization of all sources of funding for the various stress scenarios including asset side funding, liability side funding, and off-balance sheet funding; and

(g) testing of all liquidity sources at least annually.

(3) Upon adoption, the Board shall forward to the Director copies of the Liquidity Risk Management Program required by paragraph (1) of this Article and the CFP required by paragraph (2) of this Article.

(4) At least annually, the Board shall revise the Bank's Liquidity Risk Management Program and CFP to fit with the Bank's Strategic and Capital Plans.

ARTICLE VIII

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within thirty (30) days of the date of this Order, the Board shall adopt and thereafter ensure that the Bank implements and adheres to written policies and procedures to maintain an adequate Allowance for Loan and Lease Losses ("ALLL") in accordance with generally accepted accounting principles ("GAAP"). The Bank's ALLL policies and procedures shall be consistent with the guidance set forth in OCC Bulletins 2001-37 (July 20, 2001) and 2006-47 (December 13, 2006) and with the "Allowance for Loan and Lease Losses" booklet of the *Comptroller's Handbook*, and shall include:

(a) accurate internal loan risk ratings;

(b) results of the Bank's independent loan review;

(c) criteria for determining which loans will be reviewed under Accounting Standards Codification ("ASC") Topic 310, how impairment will be determined, and procedures to ensure that the analysis of loans complies with ASC 310 requirements;

(d) criteria for determining loan pools under ASC 450 and an analysis of those loan pools;

(e) recognition of non-accrual loans in conformance with GAAP and regulatory guidance;

(f) loan loss experience;

(g) trends of delinquent and non-accrual loans;

(h) concentrations of credit in the Bank; and

(i) present and projected economic and market conditions.

(2) The policies and procedures shall provide for a quarterly review of the ALLL. Any deficiency in the ALLL shall be corrected in the quarter it is discovered, prior to the filing of the Call Report, by additional provisions from earnings. Written documentation of the factors considered and conclusions reached by the Board in determining the adequacy of the ALLL shall be maintained.

(3) A copy of the Board's ALLL policies and procedures, and any subsequent revisions, shall be submitted to the Director.

ARTICLE IX

COMMERCIAL REAL ESTATE RISK MANAGEMENT

(1) The Board shall continue to implement and ensure ongoing adherence to the Bank's written commercial real estate ("CRE") risk management program, designed to manage the risk in the Bank's CRE loan portfolio in accordance with the guidelines in OCC Bulletin

2006-46 (December 6, 2006) and the “Commercial Real Estate and Construction Lending” booklet of the *Comptroller’s Handbook*. The written CRE program shall, at a minimum, continue to include:

(a) an overall CRE reduction strategy that includes CRE concentration limits stratified by type, locality (including those loans and participations located out-of-area) and other meaningful measures supported by written analysis;

(b) monthly monitoring of concentration reports that stratify the CRE portfolio by product type, locality and other meaningful measures;

(c) strategies and procedures to manage and reduce CRE concentrations to conform with the established limits of subparagraph (a) of this Article;

(d) periodic portfolio-level, multi-factor stress testing or sensitivity analysis to quantify the impact of changing economic conditions on asset quality, earnings, and capital;

(e) significant individual loan stress testing and/or sensitivity analysis to quantify the impact of changing economic conditions on asset quality, earnings, and capital;

(f) Loan Policy CRE underwriting standards by CRE type that include specific requirements relating to:

(i) maximum loan amounts and maturity by type of property;

(ii) approval authorizations;

(iii) minimum file documentation and analysis;

(iv) minimum requirements for initial investment and maintenance of hard equity;

(v) minimum standards for borrower net worth, property cash flow/debt service, collateral coverage, and guarantor support;

(vi) the performance of global cash flow analysis to evaluate the repayment ability of borrowers with multiple projects;

(vii) standards for ensuring a complete and accurate assessment of guarantor support;

(viii) standards for ensuring that CRE loans have appropriate minimum loan covenants;

(ix) minimum standards for the acceptability for using, and defined limits for, soft cost and/or interest reserve financing;

(x) maximum amortization periods and minimum principal curtailment for CRE and construction projects that are not meeting original projections; and

(xi) procedures for loan closing and disbursement processes, including the supervised disbursement of construction loan proceeds;

(g) requirements to ensure participations purchased are underwritten and monitored in a manner that is consistent with safe and sound banking practices, the guidelines set forth in Banking Circular 181 (Revised) (August 2, 1984), and the requirements of 12 C.F.R. Part 34;

(h) maintenance of proper collateral margins in loans made for the purpose of constructing or developing real estate, including, but not limited to, procedures for ensuring that:

(i) periodic, meaningful, well-documented inspections are performed on all construction projects;

(ii) draw requests are advanced in accordance with construction progress and budget;

(iii) documentation is maintained of project completion versus amount advanced;

(iv) lien waivers are obtained from contractors and sub-contractors; and

(v) borrower's hard equity is tracked by product;

(i) standards for when CRE Loan Policy exceptions are appropriate, what factors should exist to mitigate exceptions, and how the level and trend of exceptions should be documented, tracked and reported to the Board;

(j) standards for appraisal ordering and review processes; and

(k) standards to ensure CRE loans are appropriately risk rated.

ARTICLE X

PROBLEM ASSET MANAGEMENT

(1) The Board shall continue to review, update, monitor, and ensure ongoing adherence to a written program designed to eliminate the basis of criticism of those assets criticized as "doubtful," "substandard," or "special mention" in the most recent ROE, in any subsequent ROE, by any internal or external loan review, or in any list provided to management by the OCC Examiners during any examination. The program shall, at a minimum, include:

(a) sufficient staff having the qualifications, skills, and experience to effectively manage and resolve problem assets, who will be held accountable by the Bank's Board to successfully execute their assigned duties;

(b) an adequate credit MIS, consistent with the "Management Information Systems" booklet of the *Comptroller's Handbook*, to measure the status of workout plans on each problem asset; and

(c) the development of Problem Asset Reports ("PARs") identifying all credit relationships and other assets, including Other Real Estate, totaling in aggregate one hundred thousand dollars ($100,000) or more, criticized as "doubtful," "substandard," or "special mention." The PARs must be updated and submitted to the Board or a committee designated by the Board monthly and to the Director quarterly.

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

(a) the origination date, any renewal or extension dates, amount, and purpose of each loan or other asset, and the originating and current handling officer(s) for each loan or other asset;

(b) the expected primary and secondary sources of repayment, and an analysis of the adequacy of the repayment source(s);

(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;

(e) results of any impairment analysis as required under ASC 310;

(f) accurate risk ratings consistent with the classification standards contained in the *Comptroller's Handbook* on "Rating Credit Risk";

(g) appropriate accrual status pursuant to the FFIEC Instructions for the Preparation of Call Reports;

(h) significant developments, including a discussion of changes since the prior PAR, if any;

(i) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment, including, if appropriate, an exit strategy; and

(j) for criticized relationships of one hundred thousand dollars ($100,000) or more that were made for the purpose of constructing or developing CRE, the PARs shall also include:

(i) the initial scheduled maturity date of the loan, number of extensions and/or renewals, and current maturity date;

(ii) project development status;

(iii) a comparison of development costs to the budgeted amount;

(iv) a comparison of sales activity to the original sales projections;

(v) amount of initial interest reserve and the amount of any subsequent additions to the reserve;

(vi) an assessment of the borrower's global cash flow;

(vii) an assessment of any guarantor's global cash flow; and

(viii) any other significant information relating to the project.

(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

criticized in any ROE, in any internal or external loan review, or in any list provided to management by the OCC Examiners, and whose aggregate loans or other extensions of credit equal or exceed one hundred thousand dollars ($100,000) or more, unless and until a majority of the Board, or a designated committee thereof, determines in writing that each of the following conditions are met:

(a) the extension of credit is necessary to promote the best interests of the Bank;

(b) a written credit (financial) and collateral analysis is performed; and

(c) the PAR for that borrower will not be compromised by the extension of credit.

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

ARTICLE XI

INFORMATION TECHNOLOGY

(1) Within sixty (60) days from the date of this Order, the Board and management shall take all steps necessary to improve the management of the Bank's information technology ("IT") and information security activities to ensure the safety and soundness of its operations and the Bank's compliance with 12 C.F.R. Part 30, Appendix B, "Safeguarding Customer Information," and to correct each deficiency cited in the most recent ROE, or any supervisory or audit communication.

(2) Within sixty (60) days from the date of this Order, the Board shall develop and implement a written information security program and IT corporate governance guidelines consistent with the requirements of 12 C.F.R. Part 30, Appendix B to require, at a minimum:

(a) a review of the IT management oversight structure to ensure it is effective, has qualified personnel, and appropriate controls in place;

(b) updated job descriptions to clearly define roles, responsibilities, accountabilities, and reporting relationships for the IT function;

(c) establishment of an IT audit plan that includes an IT audit universe, a risk assessment methodology, and a risk-assessed audit plan that provides for sufficient audit coverage of high-risk areas. The audit universe should include areas such as IT governance, IT security administration, business continuity planning, security incident response, and vendor management;

(d) enhanced IT reports to the Board on the overall status of the information security program and the status of compliance with regulatory requirements. The IT reports should discuss material matters related to the Bank's program, addressing issues such as: the IT audit plan and risk assessment, risk management and control decisions, service provider arrangements, results of testing, security breaches or violations, recommendations for changes in the program, the status of outstanding IT issues, and management's responses and timeframes for corrective actions;

(e) appropriate and ongoing IT training for Bank employees; and

(f) Board review and approval of all policies related to IT on an annual basis.

(3) Within sixty (60) days from the date of this Order, the Board shall update and implement a business continuity plan ("BCP") that provides contingency planning for both the recovery of critical systems and the resumption of key business unit functions. The BCP should address applicable guidelines in the FFIEC IT Business Continuity Booklet dated March 2008.

(4) The Board shall submit, upon the Director's request, copies of the written information security program and IT corporate governance guidelines required by paragraph (2) of this Article and the updated BCP required by paragraph (3) of this Article.

ARTICLE XII

OTHER PROVISIONS

(1) Although the Bank is required by this Order 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 and the completeness and accuracy of the Bank's documents, books and records.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United States of America to undertake any action affecting the Bank or its institution-affiliated parties (as defined by 12 U.S.C. § 1813(u)), nothing in this Order shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Each citation or referenced guidelines included in this Order includes any subsequent guidance that replaces, supersedes, amends, or revised 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 duly 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 (6) of this Article is final and not subject to further review.

(8) In each instance in this Order in which the Board or a Board committee is required to ensure adherence to and undertake to perform certain obligations of the Bank, it is intended to mean that the Board or Board committee 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 that corrective action be taken of any non-compliance with such actions in a timely and appropriate manner.

(9) 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.

(10) 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 e-mail, to the following:

Director for Special Supervision
Comptroller of the Currency
400 7th Street, SW
Suite 3E-218, MS 8E-12
Washington, DC 20219

with a copy to:
San Francisco Field Office
Comptroller of the Currency
One Front Street, Suite 1000
San Francisco, California 94111

(11) 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.

(12) The Bank entered into a Formal Agreement dated April 21, 2009 and the OCC imposed a Capital Directive dated December 22, 2009. This Order replaces and supersedes the Formal Agreement and Capital Directive in their entirety and, therefore, the Formal Agreement and Capital Directive are hereby terminated.

IT IS SO ORDERED, this 20th day of March, 2014.

/s
Henry Fleming
Director
Special Supervision Division

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

In the Matter of: Eastside Commercial Bank, N.A. Bellevue, Washington	)))	AA-EC-2014-24

STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER

WHEREAS, the Comptroller of the Currency of the United States of America ("Comptroller" or "OCC") intends to initiate cease and desist proceedings against Eastside Commercial Bank, N.A., Bellevue, Washington ("Bank"), pursuant to 12 U.S.C. § 1818, through the issuance of a Notice of Charges, for unsafe and unsound banking practices relating to strategic planning, capital levels, management oversight, credit risk management, and for failure to comply with the Bank's Formal Agreement with the Comptroller, dated April 21, 2009, and the Capital Directive, dated December 22, 2009;

WHEREAS, the Bank, in the interest of compliance and cooperation, consents to the issuance of a Consent Order, dated March 20, 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).

(3) The Bank is an "insured depository institution" within the meaning of 12 U.S.C. § 1818(b)(1).

ARTICLE II

AGREEMENT

(1) The Bank, without admitting or denying any wrongdoing, hereby consents and agrees to the issuance of the Order by the Comptroller.

(2) The Bank further 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).

(3) 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.

(4) The Bank declares that no separate promise or inducement of any kind has been made by the Comptroller, or by his agents or employees, to cause or induce the Bank to consent to the issuance of this Order and/or execute the Order.

(5) The Bank also expressly acknowledges that no officer or employee of the Comptroller has statutory or other authority to bind the United States, the Department of the Treasury, 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.

(6) The terms and provisions of the 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 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.

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) and 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 ACTIONS

(1) The provisions of this Stipulation and the Order shall not inhibit, estop, bar, or otherwise prevent the Comptroller from taking any other action affecting the Bank or its institution-affiliated parties (as defined by 12 U.S.C. § 1813(u)) if, at any time, the Comptroller

deems it appropriate to do so to fulfill the responsibilities placed upon him 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.

/s________________________________	3/20/2014
Henry Fleming	Date
Director	
Special Supervision Division	

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.

“Deceased”	N/A
Donald W. Benson	Date
/s	3/20/2014
Kent P. Chaplin	Date
/s	3/20/2014
Stanley R. Drake	Date
/s	3/20/2014
David T. Ducharme	Date
/s	3/20/2014
Richard J. Ducharme	Date
/s	3/20/2014
Mary Jo Lanzer	Date
/s	3/20/2014
Leroy Miller	Date