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Dec. 3, 2001 = effective date
SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made this 28th day of November 2001, and shall become effective upon its execution by the Office of Thrift Supervision (OTS), through its authorized representative whose name appears below (the date of such execution is the Effective Date), by and between San Luis Trust Bank, FSB (the Institution), having its principal office located at 1001 Marsh Street, San Luis Obispo, California 93401, and the OTS, an office within the U.S. Department of the Treasury, having its principal office located at 1700 G Street, N.W., Washington, D.C. 20552, acting through its West Regional Director, or his designee (Regional Director).

WHEREAS, the Institution is: (1) a "savings association" within the meaning of Section 3 of the Federal Deposit Insurance Act (FDIA), 12 U.S.C.A. § 1813(b), and Section 2 of the Home Owners' Loan Act, 12 U.S.C.A. § 1462(4) and, (2) an "insured depository institution," as that term is defined in Section 3(c) of the FDIA, as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183 (FIRREA), 12 U.S.C.A. § 1813(c);

WHEREAS, the OTS is the primary federal regulator of the Institution; and

WHEREAS, the OTS is of the opinion that the Institution has engaged in acts and practices that (a) are considered by the OTS to be unsafe and unsound and inconsistent with prudent operations, and (b) have resulted in violations of law or regulation, thereby providing grounds for the initiation of administrative enforcement proceedings against the Institution; and

WHEREAS, the OTS is of the opinion that grounds exist for the initiation of administrative enforcement proceedings against the Institution, but is willing to forbear at this

time from the initiation of such proceedings as long as the Institution is in compliance with the provisions of this Agreement and all applicable laws, regulations, and regulatory guidance; and

WHEREAS, the Institution neither admits nor denies that such grounds exist, except as to jurisdiction, which is admitted;

WHEREAS, the Institution, acting through its duly elected Board of Directors (the board), desires to cooperate with OTS and to evidence its intent to (i) comply with all applicable laws, regulations, and guidance, (ii) engage in safe and sound practices, and (iii) avoid the initiation of administrative enforcement proceedings.

NOW, THEREFORE, in consideration of the foregoing, the mutual undertakings set forth herein, the parties agree as follows:

I. CORRECTIVE PROVISIONS

A. POLICIES AND PROCEDURES

1. Internal Asset Review Policy

(a) Within 45 days of the Effective Date, the board shall approve and submit to the OTS Assistant Regional Director (ARD) for review and non-objection revised policies and procedures governing internal asset review (the IAR Policy). The IAR Policy shall address the internal asset review concerns identified in the Report of Examination dated April 9, 2001 (ROE), and provide for an effective, independent, and ongoing internal asset review system to review, at least quarterly, the Institution's loan and lease portfolios to assure the timely identification and categorization of problem credits. The system shall provide for a written report to be filed with the board after each review. Such reports shall, at a minimum, include conclusions regarding:

- (i) the overall quality of the loan and lease portfolios;
- (ii) the identification, type, rating, and amount of problem loans and leases;
- (iii) the identification and amount of delinquent loans and leases;
- (iv) credit and collateral documentation exceptions;
- (v) the identification and status of credit related violations of law, rule or regulation;
- (vi) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (ii) through (v) of this paragraph;
- (vii) concentrations of credit;
- (viii) loans and leases to executive officers, directors, and principal shareholders (and their related interests) of the Institution; and
- (ix) loans and leases not conforming with the Institution's Loan Policy, and exceptions to the Institution's Loan Policy.

(b) Further, the IAR Policy shall:

- (i) provide guidance to management on timely identification and classification of troubled collateral dependent loans and non-performing assets (NPAs);
- (ii) provide for adequate internal controls to ensure that senior executive management of the Institution timely reviews and classifies assets under the IAR Policy, and at all times complies with the IAR Policy; and
- (iii) require the loan underwriting, servicing, and purchasing functions to be segregated from the credit review function, except for common oversight of all functions by members of senior executive management.

2. Board Oversight Policy

Within 45 days of the Effective Date, the board shall approve and submit to the ARD for review and non-objection policies and procedures governing board oversight of the affairs of management and operation of the Institution (Board Oversight Policy). The Board Oversight Policy shall address the board oversight concerns identified in the ROE. At a minimum, the Board Oversight Policy shall address the board responsibilities outlined in Section 310 of the Thrift Activities Handbook and require that the Institution's regulatory reporting and financial record keeping functions be staffed with experienced, qualified personnel with sufficient resources to ensure timely and accurate record keeping and reporting.

3. Loan Policy

(a) Within 45 days of the Effective Date, the Board shall approve and submit to the ARD for review and non-objection policies and procedures governing maintenance of administration of all aspects of the Institution's lending activities (Loan Policy). The Loan Policy shall conform to 12 C.F.R. § 560.100, *et seq.*, and address the concerns identified in the ROE. At a minimum, the Loan Policy shall incorporate, but not necessarily be limited to, the following:

- (i) a description of acceptable types of loans;
- (ii) a provision that current and satisfactory information shall be obtained from each borrower;
- (iii) maximum ratio of loan value to appraised value or acquisition costs of collateral securing the loan;
- (iv) collection procedures, to include follow-up efforts, that are systematically and progressively stronger;

- (v) a pricing policy that takes into consideration costs, general overhead, and probable loan losses, while providing for a reasonable margin of profit;
 - (vi) a definition of the Institution's trade area;
 - (vii) guidelines and limitations for loans originating outside of the Institution's trade area;
 - (viii) a limitation on aggregate outstanding loans in relation to other balance sheet accounts;
 - (ix) distribution of loans by category;
 - (x) a limitation on the type and size of loans that may be made by loan officers without prior approval by the Board or a committee established by the Board for this purpose;
 - (xi) guidelines setting forth the criteria under which renewals of extensions of credit may be approved; and
 - (xii) charge-off guidelines, by type of loan or other asset, including REO, addressing the circumstances under which a charge-off would be appropriate and ensuring the recognition of losses within the quarter of discovery.
- (b) The Loan Policy shall also require that the Institution at all times comply with the requirements of 12 C.F.R. § 564.3 and the Institution's Appraisal Policy. Specifically, real property valuations shall be completed prior to loan closings by a qualified appraiser other than the originating loan officer. Commercial real estate evaluations completed by senior management shall contain sufficient documentation of assumptions used, identify sources of information used in the underwriting analysis and other data used to establish the value of the real estate, and provide a sufficiently detailed summary of the analysis

used to support the appraised value. Further, the Loan Policy shall require that all appraisal reviews be completed prior to loan funding.

(c) To achieve uniformity between loan officers, the Loan Policy shall be strictly followed. Exceptions to the Loan Policy may only be made if approved in writing by another senior executive officer and shall be reported to the board.

(d) The board shall ensure that the Institution has processes, personnel, and control systems to ensure implementation of and adherence to the Loan Policy.

4. Appraisal Policy

(a) Within 45 days of the Effective Date, the board shall approve and submit to the ARD for review and non-objection policies and procedures governing all aspects of the Institution's appraisal function (Appraisal Policy). The Appraisal Policy shall conform to 12 C.F.R. Part 564, and address the concerns identified in the ROE. At a minimum, the Appraisal Policy shall include:

(i) procedures to ensure appraiser qualification requirements for different types of property;

(ii) procedures to ensure the timely appraisal of real property that represents the primary collateral behind any extension of credit;

(iii) procedures to ensure new appraisals are obtained when:

(1) there has been material deterioration in market conditions or physical aspects of the property which would threaten the Institution's collateral protection; or

(2) there has been deterioration in the borrower's financial condition and/or credit standing;

(iv) the establishment of an effective appraisal review function to ensure appraisals comply with 12 C.F.R. Part 564 and the Appraisal Policy, and that the appraisers' assumptions are reasonable and properly supported; and

(v) regular review by the board of all exceptions to policy along with documentation to support the board's decision for waiving policy requirements.

All policy exceptions approved by the board shall be documented in the loan file of the affected borrower(s).

(b) Within ninety (90) days of the Effective Date, the Institution shall conduct a file search of all real estate related loans that exceed one hundred thousand dollars (\$100,000). Any file not containing an appraisal that conforms to the Appraisal Policy shall be reported to the ARD along with a plan of corrective action. The board shall ensure that such plans are implemented. Documentation of the plan and its implementation shall be preserved in the Institution's records.

5. Regulatory Reporting Policy

(a) Within 45 days of the Effective Date, the board shall approve and submit to the ARD for review and non-objection policies and procedures governing all aspects of the Institution's regulatory reporting (Regulatory Reporting Policy). The Regulatory Reporting Policy shall conform to 12 C.F.R. § 562.2(b), and address the concerns identified in the ROE. At a minimum, the Regulatory Reporting Policy shall provide for, but not necessarily be limited to, the following:

(i) preparation of accurate TFR worksheets and schedules, with correct and accurate underlying financial data, in accordance with the OTS TFR Instruction

Manual, specifically including accurate documentation of all classification data required by the OTS TFR Instruction Manual;

(ii) certification of the TFR in accordance with the TFR Instruction Manual (*see generally* TFR Instruction Manual – General Instructions, Section 8); and

(iii) establishment of a Financial Reporting Committee (the Committee) to be comprised entirely of outside directors. The Committee shall be responsible for reviewing and approving any reductions in the risk-weighting of assets greater than \$250,000 and ensuring that the Institution has sufficient documentation to support such a reduction.

(b) Within thirty (30) days of the Effective Date, and beginning with the TFR due for the 4th quarter of 2001, the Institution shall submit, as an appendix to each TFR, a board certification, signed by each individual member of the board, certifying that, based upon review by the board of reports of management, and upon diligent inquiry of management, to the best of each director's knowledge and belief, the TFR submitted contains accurate and timely information, and meets all regulatory requirements and the requirements outlined in this Agreement.

B. IMPLEMENTATION AND ADHERENCE TO POLICIES

1. Within 15 days of receipt of the ARD's notice of objection, if any, to any aspect of the foregoing Policies, the Institution shall submit a revised Policy to the ARD addressing any such objections or comments of the ARD.
2. Once the Policy is submitted pursuant to this Agreement and all objections from the ARD, if any, have been satisfactorily resolved, the Institution may not amend, suspend, or revoke the Policy without the prior written non-objection from the ARD.

3. Within 15 days of receiving notice of the ARD's non-objection to the Policy, the Institution shall implement the Policy and ensure that all directors, officers, employees and agents adhere to it.
4. Within 45 days following the end of each calendar quarter, the Board shall approve and submit a report to the ARD detailing its progress in implementing each of the foregoing Policies.

C. MANAGEMENT PLAN

1. Within 45 days of the Effective Date, the Board shall approve and submit to the ARD a written analysis and assessment of the Institution's management needs (Management Plan), which shall, at a minimum:
 - (a) identify both the type and number of officer positions needed to manage and supervise properly the affairs of the Institution;
 - (b) identify and establish the Institution committees needed to provide guidance and oversight to active management;
 - (c) establish a plan to recruit and hire any additional or replacement personnel with the requisite ability, experience, or other qualifications, which the board determines are necessary to fill officer or staff positions consistent with the board's analysis, evaluation and assessment as provided above. Particular attention should be provided to Treasury and Accounting, Regulatory Compliance, and Internal Auditing.

II. DIRECTOR RESPONSIBILITY

Notwithstanding the requirements herein that the Institution submit various matters to the Assistant Regional Director for purpose of review, such regulatory oversight does not derogate or supplant each individual director's continuing fiduciary duty. The Board shall have the ultimate

responsibility for overseeing the safe and sound operation of the Institution at all times, including compliance with any and all directives of the OTS.

III. COMPLIANCE WITH AGREEMENT

A. The board and senior management of the Institution shall cause the Institution to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Institution to continue to carry out the provisions of this Agreement.

B. The board, on a quarterly basis, shall adopt a resolution (the Compliance Resolution) formally resolving that, following a diligent review of relevant information (including reports of management and consultants, if any), to the best of its knowledge and belief, during the immediately preceding calendar quarter, the Institution has complied with each provision of this Agreement, except as otherwise stated. The Compliance Resolution shall specify in detail how, if at all, full compliance was found not to exist. The Compliance Resolution is in addition to, and not in lieu of, any other requirements of this Agreement for reporting compliance with certain provisions hereof.

C. The minutes of the meeting of the board shall set forth the following information with respect to the adoption of each Compliance Resolution:

1. the identity of each director voting in favor of its adoption; and
2. the identity of each director voting in opposition to its adoption or abstaining from voting thereon, setting forth each director's reasoning for such opposition or abstention.

D. Within 60 days of the end of each calendar quarter, beginning with the end of the first calendar quarter following the Effective Date, the Institution shall provide to the ARD a certified true copy of the Compliance Resolution. The board, by virtue of the Institution's submission of a certified copy of each such Compliance Resolution to the ARD, shall be deemed to have

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certified to the accuracy of the statements set forth in the Compliance Resolution, except as provided below. In the event that one or more directors does not agree with the representations set forth in a Compliance Resolution, such disagreement shall be noted in the minutes of the Institution.

IV. DEFINITIONS

All technical words or terms used in this Agreement, for which meanings are not defined or otherwise provided, shall insofar as applicable, have the meaning set forth in Chapter V of Title 12 of the Code of Federal Regulations (CFR). Any such technical words or terms used herein and undefined in said CFR shall have the meanings that accord with the best custom and usage in the thrift industry.

V. SUCCESSOR STATUTES, REGULATIONS, GUIDANCE, AMENDMENTS

Reference in this Agreement to provisions of statutes and regulations shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date and references to successor provisions as they become applicable.

VI. NOTICES

A. Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver, or other document provided for or permitted by the Agreement to be made upon, given or furnished to, delivered to or filed with the OTS or the Institution shall be in writing and delivered via first class mail, overnight courier, facsimile, or hand-delivered, and addressed as follows:

OTS: OTS-West Region
Attn: Michael Buting, ARD
1551 N. Tustin Ave., Suite 1050
Santa Ana, CA 92705-8635

Institution: San Luis Trust Bank
Attn: Chief Executive Officer
1001 Marsh St
San Luis Obispo, CA 93401

B. Any notice shall be deemed duly given when received by the addressee thereof. Any party to this Agreement may from time to time change its address for receiving Notices to the other party in the manner set forth above.

VII. DURATION, TERMINATION OR SUSPENSION OF AGREEMENT

A. This Agreement shall remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director or the Regional Director (including any authorized designee thereof).

B. The Regional Director, or his designee, in his or her sole discretion, may, by written notice, suspend or waive (temporarily or permanently) any or all provisions of this Agreement.

VIII. TIME LIMITS

Time limits for compliance with the terms of this Agreement run from the Effective Date, unless otherwise noted.

IX. EFFECT OF HEADINGS

The section headings herein are for convenience only and shall not affect the construction of this Agreement.

X. SEPARABILITY CLAUSE

In any case in which any provision of this Agreement is ruled to be invalid, illegal or unenforceable by the decision of any court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby, unless the Regional Director, or his designee, in his or her sole discretion determines otherwise.

XI. NO VIOLATIONS OF LAW, RULE, REGULATION OR POLICY STATEMENT AUTHORIZED

Nothing contained herein shall be construed as:

1. allowing or requiring the Institution to violate any law, rule, regulation, or policy statement to which it is subject; or
2. restricting or estopping the OTS from taking any action(s) it deems appropriate in fulfilling its lawful responsibilities.

XII. SUCCESSORS IN INTEREST/BENEFIT

A. The terms and provisions of this Agreement shall be binding upon and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Agreement, express or implied, shall give to any person or entity, other than the parties hereto, the Federal Deposit Insurance Corporation, and their successors, any benefit or any legal or equitable right, remedy or claim under this Agreement.

B. In the event the Institution is no longer subject to supervision or regulation by the OTS, the Federal Deposit Insurance Corporation (FDIC) shall be deemed the successor of the OTS for purposes of this Agreement.

XIII. PUBLIC INFORMATION

This Agreement is not considered confidential non-public OTS information as defined at 12 C.F.R. § 510.5. However, the Reports of Examination referenced herein remain confidential, non-public information.

XIV. SIGNATURE OF DIRECTORS

Each director signing this Agreement attests, by such act, that he or she voted in favor of the resolution, in the form attached to this Agreement, authorizing the execution of this Agreement by the Institution.

XV. ENFORCEABILITY OF AGREEMENT

The Institution represents and warrants that this Agreement has been duly authorized, executed and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Institution. The Institution acknowledges that this Agreement is a "written agreement" entered into with the OTS within the meaning of Section 8 of the Federal Deposit Insurance Act, as amended, 12 U.S.C. § 1818.

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IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director, or his designee, and the Institution, in accordance with a duly adopted resolution of its Board (copy attached hereto), hereby executes this Agreement on this the 3 day of December, 2001 (the Effective Date).

OFFICE OF THRIFT SUPERVISION

SAN LUIS TRUST BANK

By: /S/
Michael W. Buting
Assistant Regional Director

By: /S/
Chief Executive Officer

DIRECTORS OF THE INSTITUTION

/S/ 11-28-01
Director Director

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Director Director

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