

AGREEMENT BY AND BETWEEN
Merchants Bank of California, National Association
Carson, California
and
The Comptroller of the Currency

Merchants Bank of California, National Association, Carson, California (“Bank”) and the Comptroller of the Currency of the United States of America (“Comptroller”) wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller has determined that the Bank has engaged in unsafe and unsound banking practices relating to its Board and management oversight, strategic and capital planning, liquidity risk management, credit underwriting, credit administration, information security, and Bank Secrecy Act/Anti-Money Laundering compliance program.

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors (“Board”), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

Article I

JURISDICTION

(1) This Agreement shall be construed to be a “written agreement entered into with the agency” within the meaning of 12 U.S.C. § 1818(b)(1).

(2) This Agreement shall be construed to be a “written agreement between such depository institution and such agency” within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).

(3) This Agreement shall be construed to be a “formal written agreement” within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). See 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a “written agreement” within the meaning of 12 U.S.C. § 1818(u)(1)(A).

Article II

COMPLIANCE COMMITTEE

(1) Within five (5) days of this Agreement, the Board shall appoint a Compliance Committee of at least three (3) directors of which at least two (2) must not be an employee 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. 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 be submitted in writing to the Assistant Deputy Comptroller.

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

(3) By no later than April 30, 2009, and by the end of every calendar month thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) a description of the action needed to achieve full compliance with each Article of this Agreement;
- (b) actions taken to comply with each Article of this Agreement; and

(c) the results and status of those actions.

(4) The Board shall provide a summary report of the progress reached in attaining compliance with each Article of this Agreement to the Assistant Deputy Comptroller within fifteen (15) days of the end of each calendar quarter.

(5) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to the:

Assistant Deputy Comptroller
Southern California North Field Office
550 North Brand Blvd., Suite 500
Glendale, California 91203

(6) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the policies, procedures and programs required by this Agreement.

Article III

APPOINTMENT OF NEW DIRECTORS/VIOLATIONS OF LAW - 12 U.S.C. § 71a

(1) The Board shall immediately correct the violation of 12 U.S.C. § 71a and take the necessary steps to ensure that in the future, the Bank operates in compliance with this statute.

(2) The Board's compliance with Paragraph (1) of this Article shall include immediate action to add two independent external directors for an eventual total directorate of at least six. For purposes of this Paragraph, the term "independent external" means that the director may not be an employee 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.

(3) Prior to appointing any new director, the Bank must provide the Assistant Deputy Comptroller with written notice as required by 12 C.F.R. § 5.51 (notice forms and instructions in

the “Changes in Directors and Senior Executive Officers” and “Background Investigations” booklets of the Comptroller’s Licensing Manual).

(4) The Assistant Deputy Comptroller shall have the power to disapprove the appointment of the proposed new director. However, the lack of disapproval of such individual shall not constitute an approval or endorsement of the proposed director.

(5) If the Board is unable to identify any qualified director candidates within thirty (30) days, the Board shall document its efforts to locate such candidates, and notify the Assistant Deputy Comptroller in writing. Thereafter, the Board shall provide monthly reports to the Assistant Deputy Comptroller summarizing its continuing efforts to locate such candidates.

Article IV

MANAGEMENT AND BOARD SUPERVISION

(1) Within ninety (90) days of this Agreement, the Board shall take the necessary steps to eliminate the deficiencies in management leadership and Board oversight as described in the Report of Examination conducted as of June 30, 2008 (the “ROE”), to include specific actions for attaining the necessary management expertise, Board involvement, and the retention of necessary outside consultants to attain compliance with this Agreement, return the Bank to a safe and sound condition, and ensure compliance with all applicable laws, rules and regulations.

(2) Within ninety (90) days of this Agreement, the Board shall take the necessary steps to eliminate the deficiencies in corporate governance practices, including but not limited to:

- (a) the development of sound operating policies and procedures;
 - (b) procedures to ensure accurate regulatory and Board reporting;
 - (c) the development of sound internal controls to monitor policy adherence;
- and

(d) assigned accountability for these processes.

(3) Within forty-five (45) days of this Agreement, the Board shall take the necessary steps to appoint a Chief Operating Officer with the knowledge, skills, and abilities necessary to operate the Bank in a safe and sound manner.

(4) Prior to the appointment or employment of a Chief Operating Officer, or entering into any contract with any person for this position, the Bank must provide the Assistant Deputy Comptroller with written notice as required by 12 C.F.R. § 5.51 (notice forms and instructions in the “Changes in Directors and Senior Executive Officers” and “Background Investigations” booklets of the Comptroller’s Licensing Manual).

(5) The Assistant Deputy Comptroller shall have the power to disapprove the appointment of the proposed new executive officer. However, the lack of disapproval of such individuals shall not constitute an approval or endorsement of them.

(6) Within ninety (90) days of this Agreement, the Board shall ensure that it maintains qualified, competent management and staff to ensure the Bank operates in a safe and sound manner and in compliance with all applicable laws, rules and regulations.

(7) Within thirty (30) days of this Agreement, the Board shall develop, adopt, and thereafter adhere to a written policy designed to ensure that management effectively addresses adverse findings contained in compliance reviews, audits, and examinations. The policy shall include, at a minimum:

(a) a requirement that management responds to any audit or compliance criticisms, and regulatory Matters Requiring Attention (“MRAs”) with a written action plan that contains:

(i) corrective actions to be taken;

- (ii) deadlines for taking the corrective action; and
 - (iii) the individual 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 audit or compliance criticisms and MRAs are reported to the Board and corrected in a timely manner; and
 - (d) retention in the Bank's books and records of:
 - (i) all written responses to audit or compliance criticisms and MRAs; and
 - (ii) documentation of Board approval of the written responses.
- (8) A copy of the policy developed pursuant to Paragraph (7) of this Article shall be forwarded to the Assistant Deputy Comptroller within the month following its adoption by the Board.

Article V

CAPITAL AND STRATEGIC PLAN

- (1) Effective immediately, the Bank shall only declare dividends:
 - (a) when the Bank is in compliance with the Bank's Three-Year Plan as described below;
 - (b) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
 - (c) with the prior written approval from the Assistant Deputy Comptroller, which shall be granted or denied within thirty (30) days of the receipt of a dividend request from the Bank.

(2) Effective as of the date of this Agreement, the Bank shall not increase its total loans above the amount shown on its books and records as of March 31, 2009 by more than five percent (5%) per annum, until the Bank corrects the deficiencies in Asset Quality described in the Report of Examination conducted as of June 30, 2008 (the “ROE”), returns the Bank to a satisfactory condition, and the Bank receives a prior written determination of no supervisory objection from the Assistant Deputy Comptroller. For purposes of this Paragraph, the Bank’s total loans shall be defined as the amount reported in its Consolidated Report of Condition (“Call Report”).

(3) Within ninety (90) days of this Agreement, the Board shall develop a written strategic plan for the Bank covering at least the next three years (hereafter the “Bank’s Three-Year Plan”), complete with specific time frames that incorporate the strategic and other requirements of this Article. A copy of the Bank’s Three-Year Plan shall be forwarded to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection.

(4) The Bank’s Three-Year 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) an assessment of the Bank’s present and future operating environment;
- (b) the development of strategic goals and quantifiable measures with specific implementation dates to ensure the Bank attains sustained earnings to support capital and liquidity;

- (c) an evaluation of the Bank's internal operations, staffing requirements, Board and management information systems and policies and procedures for their adequacy and contribution to the accomplishment of the goals and objectives developed pursuant to this Article;
- (d) specific plans to establish responsibilities and accountability for the strategic planning process, new products, proposed changes in the Bank's operating environment, reduction of problem assets, and maintenance of adequate liquidity;
- (e) control systems to identify and reduce risk to earnings, capital, and liquidity, and risks associated with any proposed changes in the Bank's operating environment;
- (f) recognition that the Bank cannot offer or introduce new products or enter new market segments until it adopts an appropriate credit culture, implements sound liquidity management practices and sound risk management principles, and returns the Bank to a satisfactory condition;
- (g) growth limitations designed to comply with Paragraph (2) of this Article and actions to monitor, control and reduce, where appropriate, significant concentrations of credit;
- (h) specific plans for the maintenance of adequate capital as required by the Office of the Comptroller of the Currency (the "OCC") and sufficient to be well capitalized under 12 C.F.R. Part 6;
- (i) specific plans for the maintenance of adequate liquidity in accordance with the requirements of Article VI;

- (j) a dividend policy that only permits the declaration of a dividend in accordance with Paragraph (1) of this Article;
- (k) projections for capital and liquidity requirements based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
- (l) a financial forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the next three years that shall address or include consideration of the requirements of this Article; and
- (m) systems to monitor the Bank's progress in meeting the plan's goals and objectives.

(5) Upon receiving a written determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall immediately implement and thereafter ensure adherence to the Bank's Three-Year Plan.

Article VI

LIQUIDITY MANAGEMENT

(1) Within sixty (60) days of this Agreement, the Board shall develop and submit for a prior written determination of no supervisory objection, a written liquidity program to ensure the Bank maintains liquidity at a level that is sufficient to sustain the Bank's current operations and to withstand any anticipated or extraordinary demand against its funding base, to include at a minimum:

- (a) measures to increase and maintain sufficient on-balance sheet liquidity;

- (b) reduced reliance upon non-core funding sources, including brokered deposits and credit-sensitive wholesale borrowings;
- (c) the establishment of additional back-up funding sources;
- (d) policies and procedures to ensure the implementation of adequate liquidity planning tools, to include:
 - (i) a review of administrative policies and procedures to ensure they are consistent with the Board's guidance and risk tolerances;
 - (ii) specific balance sheet liquidity targets that are consistent with the tools used to measure performance;
 - (iii) reasonable risk limits to control the level of liquidity risk that incorporate forward-looking risk measurements and liability concentration limits such as limits on the amount of funds that may be sourced from any individual customer or groups of customers, or liability concentration limits by instrument; and
- (e) a contingency funding plan that ensures the Bank can remain liquidity solvent through stressed environments and that includes, at a minimum:
 - (i) management's best estimate of balance sheet changes that may result from a liquidity or credit event;
 - (ii) specific terms or events that trigger enactment of the plan;
 - (iii) necessary management information systems and reporting criteria for use in crisis situations;
 - (iv) management responsibilities for enacting the plan and for taking specific actions once enacted; and

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

(2) After the OCC has advised the Bank that it does not take supervisory objection to the liquidity program required by this Article, the Board shall immediately implement, and shall thereafter ensure adherence to its terms.

Article VII

CREDIT UNDERWRITING AND ADMINISTRATION

(1) Effective as of the date of this Agreement, the Board shall ensure that all lending officers comply with all laws, rules, regulations, Bank policies and procedures, safe and sound banking practices, and fiduciary duties.

(2) Effective as of the date of this Agreement, the Bank may not grant, extend, renew, modify or restructure any loan or other extension of credit equal to or exceeding two-hundred fifty thousand dollars (\$250,000), 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 waiving 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 as further described in Article X;
- (h) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable; and
- (i) obtaining the written approval of the Bank's Loan Committee or Board.

(3) Within thirty (30) days of this Agreement, the Board shall take the necessary steps to obtain current and satisfactory credit information on all loans lacking such information, including those listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(4) Within thirty (30) days of this Agreement, the Board shall ensure proper collateral documentation is maintained on all loans and correct each collateral exception listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(5) Within sixty (60) days of this Agreement, 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 Loan Policy. This includes at

a minimum, monthly Board monitoring of policy exception reports that track aggregate number and dollar amount of loans with material underwriting exceptions by type of loan and loan officer.

(6) Within sixty (60) days of this Agreement, 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 such exceptions in the periodic performance reviews and compensation of such loan officers.

Article VIII

COMMERCIAL REAL ESTATE RISK MANAGEMENT

(1) Within sixty (60) days of this Agreement, the Board shall prepare and submit to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection, a written program (including appropriate revisions to policies and procedures) designed to manage the risk in the Bank's commercial real estate ("CRE") loan portfolio in accordance with the guidelines in OCC Bulletin 2006-46, Concentration in Commercial Real Estate Lending, Sound Risk Management Practices (dated December 6, 2006), and the Commercial Real Estate and Construction Lending, A-CRE, of the *Comptroller's Handbook*. The written CRE program should, at a minimum, include:

- (a) the establishment of CRE concentration limits stratified by type, locality 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 established limits set in Subparagraph (a) of this Article;
- (d) portfolio-level multi-factor stress testing and/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) the establishment of Loan Policy CRE underwriting standards by CRE type that include specific requirements relating to:
 - (i) maximum loan amount 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 consistent with sound banking practices, guidelines set forth in Banking Circular 181 (Revised), dated 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 project;

- (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 in accordance with Article IX;
- (k) standards to ensure CRE loans are appropriately risk rated in accordance with Article X; and
- (l) required periodic reviews that encompass the stress-testing, global cash flow analysis, guarantor support, collateral evaluations and risk rating requirements of this Article;

(2) Upon receiving a written determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall immediately implement and thereafter ensure adherence to the program, policies and procedures required by this Article.

Article IX

APPRAISAL AND EVALUATION PROCESS

(1) Within sixty (60) days of this Agreement, the Board shall revise, adopt, implement and thereafter ensure Bank adherence to a written policy designed to ensure the Bank obtains real estate appraisals and evaluations in compliance with USPAP, 12 C.F.R. Part 34, Advisory Letter 2003-9, and OCC Bulletin 2005-6, to include at a minimum:

- (a) the establishment of criteria for obtaining updated appraisals, new appraisals, and evaluations;
- (b) the development of procedures to ensure that appraisals, updates and evaluations are ordered in a timely manner; and

- (c) the establishment of a tickler system for tracking when appraisals, updates and evaluations are received, reviewed and adjustments are made, as appropriate, to reflect FAS 114 impairment and changes in risk ratings.

Article X

CREDIT RISK RATINGS AND NONACCRUAL RECOGNITION

(1) Within sixty (60) days of this Agreement, the Board shall develop a program to ensure that the risk associated with the Bank's loans is properly reflected and accounted for on the Bank's books and records, to include, at a minimum, provisions requiring that:

- (a) the Bank's loans and other assets are appropriately and timely risk rated and charged off by the lending officers using a loan grading system that is based upon current facts, existing repayment terms and that is consistent with the guidelines set forth in Rating Credit Risk, A-RCR, of the *Comptroller's Handbook*;
- (b) the Bank's loans and other assets are timely placed on nonaccrual by the lending officers in accordance with the guidelines set forth in the Call Report;
- (c) loan officers are accountable for failing to appropriately and timely risk rate and/or place loans on nonaccrual; and
- (d) loan officer failure to properly risk rate and/or place loans on nonaccrual is considered in periodic performance reviews and compensation.

Article XI

PROBLEM LOAN MANAGEMENT

(1) Effective as of the date of this Agreement, the Board shall take immediate and continuing action to protect its interest in those assets criticized in the ROE, in any subsequent Report of Examination, by internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination.

(2) The Board's compliance with Paragraph (1) of this Article shall include the development of procedures for the monthly submission and review of problem asset reports for all criticized credit relationships totaling two-hundred fifty thousand dollars (\$250,000) or above, that require, at a minimum, analysis and documentation of the following:

- (a) an identification of the expected sources of repayment and an analysis of their adequacy;
- (b) the appraised value of supporting collateral and the position of the Bank's lien on such collateral where applicable as well as other necessary documentation to support the collateral valuation;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations;
- (d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment;
- (e) trigger dates for positive borrower actions or for loan officers to reassess the strategy and enact collection plans;
- (f) a determination of whether the loan is impaired and the amount of the impairment, consistent with FASB Statement of Financial Accounting

Standards No. 114, Accounting by Creditors for Impairment of a Loan;
and

(f) for criticized relationships totaling two-hundred fifty thousand dollars (\$250,000) or above that were made for the purpose of constructing or developing CRE, the reports 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) Effective as of the date of this Agreement, the Bank may not extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination and whose aggregate loans or other extensions exceed two-hundred fifty thousand dollars (\$250,000), unless each of the following conditions is met:

- (a) the Board or a designated committee thereof finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, extending or capitalizing any additional credit, a majority of the Board or a designated committee thereof approves the credit extension and documents in writing, the reasons that such extension is necessary to promote the best interests of the Bank; and
- (b) the Board's formal plan to collect or strengthen the criticized asset will not be compromised by the extension of credit.

Article XII

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within sixty (60) days of this Agreement, the Board shall adopt, implement, and thereafter ensure adherence to written policies and procedures for maintaining an adequate Allowance for Loan and Lease Losses ("Allowance") in accordance with Generally Accepted Accounting Principles ("GAAP"). The Allowance policies and procedures shall be consistent with the guidance set forth in the Federal Financial Institutions Examination Council's "Interagency Policy Statement on the Allowance for Loan and Lease Losses" dated December 13, 2006 (OCC Bulletin 2006-47), and July 20, 2001 (OCC Bulletin 2001-37), and shall at a minimum include:

- (a) procedures for determining whether a loan is impaired and measuring the amount of impairment, consistent with FASB Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan;

- (b) procedures for segmenting the loan portfolio and estimating loss on groups of loans, consistent with FASB Statement of Financial Accounting Standards No. 5, Accounting for Contingencies;
- (c) procedures for validating the Allowance methodology;
- (d) procedures to ensure that the estimation of credit losses considers the relevant qualitative and environmental factors, with particular focus on the following:
 - (i) trends in the Bank's internal risk ratings, delinquent and nonaccrual loans;
 - (ii) results of the Bank's external loan review;
 - (iii) concentrations of credit in the Bank;
 - (iv) present and prospective economic conditions; and
 - (v) applicable experience of the Bank's lending staff.

(2) The program shall provide for a process for summarizing and documenting, for the Board's review and approval, the amount to be reported in the Call Reports for the Allowance. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Call Report, by additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

Article XIII

CONSUMER COMPLIANCE PROGRAM

(1) Within ninety (90) days of this Agreement, the Board shall adopt, implement, and thereafter ensure adherence to a written consumer compliance program designed to ensure that the Bank is operating in compliance with all applicable consumer protection laws, rules, and regulations. This program shall include at a minimum:

- (a) a written description of the duties and responsibilities of the Compliance officer;
- (b) adequate internal controls to ensure compliance with consumer protection laws, rules, and regulations;
- (c) the preparation of a policies and procedures manual covering all consumer protection laws, rules, and regulations for use by appropriate Bank personnel in the performance of their duties and responsibilities and specifically tailored to your deposit and lending practices;
- (d) timely updates of the written policies and procedures manual to ensure it remains current;
- (e) a formalized risk assessment process and annual audit plan to use in determining the frequency and scope of ongoing compliance monitoring and audit;
- (f) a comprehensive independent audit program to adequately test for compliance with consumer protection laws, rules and regulations;
- (g) procedures to ensure that exceptions noted in the audit reports are corrected and responded to by the appropriate Bank personnel;

- (h) the education and training of all appropriate Bank personnel in the requirements of all applicable federal and state consumer protection laws, rules and regulations;
- (i) procedures for the dissemination of changes in laws, rules, regulations and OCC policy changes to affected Bank personnel; and
- (j) periodic reporting of the results of the consumer compliance audit to the Board or a committee thereof.

(2) Upon adoption, a copy of the program shall be forwarded to the Assistant Deputy Comptroller.

Article XIV

BSA PROGRAM

(1) To provide for compliance with the Bank Secrecy Act, as amended (31 U.S.C. §§ 5311 et seq.), the regulations promulgated thereunder at 31 C.F.R. Part 103, as amended, and 12 C.F.R. Part 21, Subparts B and C, and the rules and regulations of the Office of Foreign Assets Control (“OFAC”) (collectively referred to as the “Bank Secrecy Act” or “BSA”), the Board shall, within forty-five (45) days of this Agreement, prepare and submit for a prior written determination of no supervisory objection, a revised BSA program to include, at a minimum:

- (a) the identification of the risks associated with the Bank’s products, services, customers, and geographies served;
- (b) an evaluation of existing internal controls to mitigate the identified risks;
- (c) policies and procedures for the appropriate identification and monitoring of transactions that pose greater than normal risk for compliance with the Bank Secrecy Act;

- (d) a comprehensive training program for all appropriate operational and supervisory personnel to ensure their awareness of their specific assigned responsibilities for compliance with the requirements of the Bank Secrecy Act;
- (e) policies and procedures to provide for the Bank's monitoring of suspicious cash, monetary instruments, wire transfers, and other activities for all types of transactions, accounts, customers, products, services, and geographic areas;
- (f) policies and procedures for expanded account-opening procedures for all accounts that pose greater than normal risk for compliance with the Bank Secrecy Act;
- (g) policies and procedures for the maintenance of an integrated, accurate system for all Bank areas to produce periodic reports designed to identify unusual or suspicious activity, including patterns of activity, to monitor and evaluate unusual or suspicious activity, and to maintain accurate information needed to produce these reports;
- (h) periodic independent reviews, not less than each calendar year, of all account documentation for all high risk customers and accounts and the related accounts of those customers at the Bank to determine whether the account activity is consistent with the customer's business or occupation and the stated purpose of the account; and

(i) an independent, internal audit program designed to ensure compliance with the Bank Secrecy Act in all areas of the Bank, to including scope, testing, and documentation.

(2) Upon receiving a written determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall immediately implement and thereafter ensure adherence to the Bank's revised BSA program.

Article XV

INFORMATION TECHNOLOGY

(1) Within sixty (60) days of this Agreement, the Board shall revise the Bank's written information security program to ensure compliance with the requirements of Gramm-Leach-Bliley Act 501(b) ("GLBA") and the Interagency Guidelines Establishing Standards for Information Security ("Guidelines"). At a minimum, the Bank's security information program shall include the following additional provisions:

- (a) annual testing, including vulnerability assessment and penetration testing.
- (b) required procedures for independently reviewing and documenting testing activities and Board reporting of test results;
- (c) a training program that includes required specific, periodic training, the designation of a person responsible for training, and required documentation to evidence attendance;
- (d) appropriate due diligence for existing third-party relationships, and upon entering a third-party relationship, a methodology that provides effective oversight and controls as defined in OCC 2001-47 Risk Management Principles – Third Party Relationships;

- (e) periodic reviews of vendor contracts to ensure that appropriate GLBA language is included;
- (f) periodic tests of vendor activities to ensure that the vendor is meeting the terms of the contract;
- (g) ongoing information risk assessments that consider:
 - (i) changes in technology;
 - (ii) the sensitivity of the Bank's customer information;
 - (iii) any perceived or actual internal or external threats to information; and
 - (iv) changes to the Bank's business environment, such as mergers, acquisitions, alliances, partnerships, and outsourcing arrangements;
- (h) a response program to address unauthorized access to or use of customer information that could result in substantial harm or inconvenience to a customer; and
- (i) annual reporting of all key components of the guidelines represented in the Bank's information security program to the Bank's Board.

(2) The Board shall submit a copy of the Bank's revised information security program to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection. Within five (5) days of the receipt of no supervisory objection to the revised information security program, the Board shall adopt, implement and thereafter ensure adherence to the revised program.

(3) Within ninety (90) days of this Agreement, the Bank shall adopt, implement, and thereafter ensure Bank adherence to a written, qualified and independent information technology (“IT”) audit program. The IT audit program should consider the Bank’s risk assessment discussed in Paragraph (1)(g) of this Article and ensure appropriate use of vulnerability assessments and penetration tests.

(4) Prior to the employment of any individual or company to perform the IT audit, the Board shall submit the name and qualifications of the proposed auditor and the proposed scope and terms of employment to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection.

(5) The Board shall not engage in internet banking until and unless:

- (a) the IT information security program has been successfully implemented;
- (b) an IT audit has been completed in accordance with Paragraph (3) of this Article; and
- (c) the Bank has obtained a prior written determination of no supervisory objection from the Assistant Deputy Comptroller.

Article XVI

INTERNAL AUDIT

(1) Within sixty (60) days of this Agreement, the Board shall adopt, implement, and thereafter ensure Bank adherence to an independent and comprehensive internal audit program that:

- (a) includes procedures to assist in completing internal operations audits;
- (b) detects irregularities and weak practices in the Bank’s operations;

- (c) determines the Bank's level of compliance with all applicable laws, rules and regulations;
- (d) assesses and reports the effectiveness of policies, procedures, controls, and management oversight relating to accounting and financial reporting;
- (e) evaluates the Bank's adherence to established policies and procedures;
- (f) establishes a line of communication for audit reporting issues between the internal auditor, audit committee, and board of directors;
- (g) ensures audit work papers and documentation of conclusions provide a meaningful audit trail and validation for findings and recommendations;
- (h) ensures timely management responses and corrective actions on identified weaknesses; and
- (i) establishes an annual audit plan using a risk-based approach sufficient to achieve these objectives.

(2) The Board's compliance with Paragraph (1) of this Article shall include the development of an audit policy and the performance of a Bank-wide risk assessment to guide the Bank's development of the audit scope and annual coverage.

(3) As part of the audit program required by this Article, the Board shall evaluate the audit reports of any party providing services to the Bank, and shall assess the impact on the Bank of any audit deficiencies cited in such reports.

(4) The Board shall ensure that the audit function is supported by an adequately staffed department or outside firm, with respect to both the experience level and number of the individuals employed.

(5) The Board shall ensure that the audit program is independent. The persons responsible for implementing the internal audit program described above shall report directly to the Board, which shall have the sole power to direct their activities. All reports prepared by the audit staff shall be filed directly with the Board and/or Board Audit Committee (comprised of at least two external directors) and not through any intervening party.

(6) Upon adoption, a copy of the internal audit program shall be promptly submitted to the Assistant Deputy Comptroller.

Article XVII

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or prior written determination of no supervisory objection, the Board has the ultimate responsibility for proper and sound management of the Bank.

(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, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are

amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

(5) In each instance in this Agreement 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) 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 Agreement;
- (b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (c) follow up on any noncompliance with such actions in a timely and appropriate manner; and
- (d) require corrective action be taken in a timely manner of any noncompliance with such actions.

(6) This Agreement is intended to be, and shall be construed to be, a supervisory “written agreement entered into with the agency” as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States. 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(b)(1), 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. The Bank also expressly acknowledges that no officer or employee of the Office of the Comptroller of the Currency 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. The terms of this Agreement, 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.

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

/s/

3/31/2009

Dorothy A. Sander-Ziegler
Assistant Deputy Comptroller
Southern California-North Field Office

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.

/s/

3/31/09

Rod Garza

Date

/s/

3/31/09

Janice Hall

Date

/s/

3/31/09

Daniel Roberts

Date

/s/

3/31/09

Theodore K. Roberts

Date

/s/

3/31/09

Philip W. Scott

Date