

AGREEMENT BY AND BETWEEN  
First National Bank of Southern California  
Riverside, California  
and  
The Comptroller of the Currency

First National Bank of Southern California, Riverside, 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 strategic and capital planning, and credit and liquidity risk management.

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).

(5) This Agreement shall not be construed to be a “written agreement, order, or capital directive” within the meaning of 12 C.F.R. § 6.4.

## 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 one (1) 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 February 28, 2010, 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 – South Field Office  
1925 Palomar Oaks Way, Suite 202  
Carlsbad, California 92008

(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

#### CAPITAL AND STRATEGIC PLAN

- (1) Effective immediately, the Bank shall only declare dividends when:
  - (a) the Bank is in compliance with the Bank's Three-Year Plan as described below;
  - (b) the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
  - (c) the Bank has received a prior written determination of no supervisory objection from the Assistant Deputy Comptroller.
- (2) Within sixty (60) 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.
- (3) 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) a Mission Statement;
- (b) an assessment of the Bank's present and future operating environment;
- (c) the development of strategic goals and quantifiable measures with specific implementation dates to ensure the Bank attains sustained earnings to support capital and liquidity;
- (d) 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;
- (e) 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;
- (f) 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;
- (g) recognition that the Bank cannot offer or introduce new products or enter new market segments until it adopts an appropriate credit culture, implements sound risk management principles, and returns the Bank to a satisfactory condition;

- (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;
- (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.

(4) 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 IV

### 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 asset liquidity;
- (b) the establishment of additional back-up funding sources;
- (c) 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; and
  - (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;

- (d) a plan to reduce reliance upon non-core funding sources, including brokered deposits, credit-sensitive wholesale borrowings and uninsured deposits, consistent with the Bank's liability concentration limits; and
- (e) a contingency funding plan ("CFP") 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 crises situations;
  - (iv) management responsibilities for enacting the plan and for taking specific actions once enacted;
  - (v) prioritization of all sources of funding for the various scenarios including asset side funding, liability side funding, and off-balance sheet funding; and
  - (vi) revisions to the CFP, when appropriate, based upon changes made to the liquidity program



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

## Article V

### CONCENTRATIONS OF CREDIT

(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 diversify the Bank's assets consistent with OCC Bulletin 2006-46, Interagency Guidance on CRE Concentration Risk Management (December 6, 2006). The program shall include, but not necessarily be limited to, the following:

- (a) a review of the balance sheet to identify any concentration of credit;
- (b) a written analysis of any concentration of credit identified above to identify and assess the inherent credit, liquidity, and interest rate risk;
- (c) policies and procedures to control and monitor concentrations of credit;  
and
- (d) an action plan approved by the Board to reduce the risk of any concentration deemed imprudent in the above analysis.

(2) For purposes of this Article, a concentration of credit is as defined in the “Loan Portfolio Management” booklet of the Comptroller’s Manual.

(3) The Board shall ensure that future concentrations of credit are subjected to the analysis required by subparagraph (b) and that the analysis demonstrates that the concentration will not subject the Bank to undue credit or interest rate risk.

(4) 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 VI

### PARTICIPATIONS PURCHASED

(1) Effective immediately, the Bank may not grant, purchase, assume or acquire in any manner, directly or indirectly, or as a fiduciary or nominee, any loan, loan participation, loan obligation or other asset, unless the Bank has documented in writing that such grant, purchase, assumption, or acquisition is consistent with:

- (a) the Bank’s policy;
- (b) safe and sound banking practices;
- (c) the guidelines set forth in Banking Circular 181 (Revised), dated August 2, 1984 (“BC-181”); and
- (d) the requirements of 12 C.F.R. Part 34.

(2) In order to ensure compliance with paragraph (1) of this Article, the Bank shall establish, and the Board shall ensure adherence to, a loan participation policy that is consistent with BC-181 and 12 C.F.R. Part 34, and includes, at a minimum:

- (a) a prohibition from purchasing loans where Bank personnel lack the expertise to appropriately analyze or supervise the credit;
- (b) risk limits over the total amount of participations purchased for the Bank as a whole;
- (c) a concentration limit for participations purchased specified as a percentage of the Bank's capital; and
- (d) ongoing monitoring requirements, including:
  - (i) periodic financial review and global cash flow analysis;
  - (ii) periodic review of the value and lien status of the collateral;
  - (iii) updated collateral valuation as required by 12 C.F.R. Part 34; and
  - (iv) receipt of timely credit information on an obligor.

(3) Upon completion, a copy of the loan participation policy developed pursuant to this Article shall be forwarded to the Assistant Deputy Comptroller for review.

## Article VII

### 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, including adequate documentation to support the impairment analysis, consistent with FASB Statement of Financial Accounting Standards No. 114 (“FAS 114”), Accounting by Creditors for Impairment of a Loan, including, but not limited to, troubled debt restructure. For purposes of this paragraph, on collateral dependent loans, the fair value of the collateral must be reflective of current market conditions;

- (b) procedures for performing the FAS 114 analysis of impaired loans each quarter with any charge-offs recognized, if applicable, in the appropriate quarter;
- (c) procedures for segmenting the loan portfolio and estimating loss on groups of loans, including, but not limited to loans risk graded special mention and substandard, consistent with FASB Statement of Financial Accounting Standards No. 5, Accounting for Contingencies;
- (d) procedures for determining the reserve for unfunded commitments;
- (e) procedures for validating the Allowance methodology; and
- (f) procedures to ensure that the estimation of credit losses considers the relevant qualitative and environmental factors, and documentation to include narrative support of adjustments made to these factors, with particular focus on the following:
  - (i) trends in the Bank's internal risk ratings, and 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.

(3) A copy of the Allowance program shall be forward to the Assistant Deputy Comptroller within fifteen (15) days of approval by the Board of Directors.

## Article VIII

### EXTERNAL LOAN REVIEW

(1) Effective immediately, the Board shall continue to employ a qualified consultant to perform semi-annual asset quality reviews of the Bank. The external loan review shall provide for a written report to be filed with the Board and shall use a loan and lease grading system consistent with the guidelines set forth in Rating Credit Risk of the *Comptroller's Handbook*. Such reports shall, at a minimum, include comments and conclusions regarding:

- (a) the loan review scope and coverage parameters;
- (b) the overall quality of the loan and lease portfolios;
- (c) the identification, type, rating, and amount of problem loans and leases including grading differences;

- (d) the identification and amount of delinquent loans and leases;
- (e) the number and type of credit and collateral documentation exceptions;
- (f) the identification and status of credit related violations of law, rule or regulation;
- (g) the identity of the loan officer who originated each loan reported in accordance with Subparagraphs (b) through (f) of the Article;
- (h) the adequacy of the Allowance balance and methodology and reserve for unfunded commitments, including compliance with GAAP and applicable regulatory guidance;
- (i) the adequacy of the Bank's identification of and review of troubled debt restructues;
- (j) concentrations of credit;
- (k) loans and leases to affiliates and related parties;
- (l) loans and leases not in conformance with the Bank's Loan Policy, and exceptions to the Bank's Loan Policy;
- (m) the Bank's compliance with BC-181; and
- (n) any recommendations for improvements.

(2) Prior to the change in the appointment or employment of any individual to perform the required loan reviews or entering into any contract with a consulting firm for such services, the Board shall submit the name and qualifications of the proposed individual or firm

and the proposed scope and terms of employment to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection.

## Article IX

### 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 his hand on behalf of the Comptroller.

/s/

2/23/2010

\_\_\_\_\_  
Steven J. Vander Wal  
Assistant Deputy Comptroller  
Southern California – South 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/

2/23/2010

\_\_\_\_\_  
John Clayton

\_\_\_\_\_  
Date

/s/

2/23/2010

\_\_\_\_\_  
David M. Hyduke

\_\_\_\_\_  
Date

/s/

2/23/2010

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Millicent Johnson

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Date

/s/

2/23/2010

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Don Murray

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Date

/s/

2/23/2010

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Richard Skay

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Date

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Date

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Date

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Date