

AGREEMENT
By and Between
Borrego Springs Bank, N.A., Borrego Springs, California
and
The Comptroller of the Currency

Borrego Springs Bank, N.A., Borrego Springs, California (the “Bank”) and the Comptroller of the Currency of the United States of America (“Comptroller” or the “OCC”) 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.

On or about January 13, 2012, the OCC filed a Notice of Charges, No. AA-WE-11-99, to require the Bank to cease and desist from the unsafe and unsound practices specified in the Notice, and to take affirmative action to correct the conditions resulting from such practices. On February 8, 2012, the Bank filed its Answer to the Notice of Charges. On or about June 15, 2012, the Bank obtained an injection of new capital in the amount of \$2 million.

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 require the Bank to meet and maintain a specific capital level as described in 12 C.F.R. § 6.4(b)(iv).

Article II

Compliance Committee

(1) Within five (5) days of this Agreement, the Board shall appoint a Compliance Committee of at least four (4) members and, of which no more than one (1) shall 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 July 31, 2012, 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(s) 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, beginning with the third quarter of 2012.

(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
San Diego Field Office
1925 Palomar Oaks Way, Suite 202
Carlsbad, California 92008-6526

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

Article III

Capital and Strategic Plan

(1) The Bank shall not declare any dividend without receiving the prior written determination of no supervisory objection from the Assistant Deputy Comptroller.

(2) Effective as of the date of this Agreement, the Bank shall not increase:

- (a) the dollar amount of its unguaranteed SBA/USDA loans by more than ten percent (10%) above the dollar amount held as of March 31, 2012; and

(b) its concentration of unguaranteed SBA/USDA loans (expressed as a percentage of Tier 1 capital plus the Allowance for Loan and Lease Losses “Allowance”) above the level held as of March 31, 2012.

(3) Within fifteen (15) days of this Agreement, the Board shall revise, implement, and thereafter ensure, pursuant to Paragraph (4) of this Article, Bank adherence to a written, strategic and capital plan for the Bank. The revised plan shall be rolling and cover at least the next three years (hereafter the “Bank’s Revised Plan”), complete with specific time frames that incorporate the capital, strategic and other requirements of this Article. Upon revision and adoption by the Board, a copy of the Bank’s Revised Plan, and any subsequent amendments or revisions, shall be forwarded to the Assistant Deputy Comptroller for a written determination of no supervisory objection. 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 Plan.

(4) The Bank’s Revised Plan shall establish realistic 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, reduction in the volume of nonperforming assets, 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 that forms the framework for the establishment of strategic goals and objectives;
- (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, individual responsibilities, and accountability to ensure the Bank attains sustained earnings to support capital and liquidity;
- (d) an identification and analysis including risk assessment of the Bank's present and future product lines (assets and liabilities) and market segments that will be utilized to accomplish the strategic goals and objectives established in Subparagraph (c) of this Article;
- (e) 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;
- (f) specific plans for the maintenance of adequate capital that considers the risk profile of the Bank;
- (g) a dividend policy that only permits the declaration of a dividend in accordance with Paragraph (1) of this Article;
- (h) growth limitations designed to ensure compliance with Paragraph (2) of this Article;
- (i) specific plans for the reduction of compensation and asset diversification in accordance with the programs and other requirements of this Agreement;
- (j) specific plans for monitoring and reducing problem assets;
- (k) recognition that when offering or introducing new products or entering new market segments, the Bank must perform appropriate due diligence,

adopt and implement sound risk management practices, and comply with the requirements of Paragraphs (7) and (8) of this Article;

- (l) 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;
- (m) the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs;
- (n) contingency plans that identify alternative capital sources should the primary source(s) under subparagraph (m) not be available;
- (o) 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
- (p) systems to monitor the Bank's progress in meeting the plan's goals and objectives.

(5) At least monthly, the Board shall review financial reports and earnings analyses prepared by the Bank that evaluate the Bank's performance against the goals and objectives established in the Bank's Revised Plan, as well as the Bank's written explanation of significant differences between actual and projected balance sheets, income statements, and expense accounts, including descriptions of extraordinary and/or nonrecurring items. The Board shall maintain copies of the reports in the books and records of the Bank.

(6) At least quarterly, the Board shall prepare a written evaluation of the Bank's performance against the Bank's Revised Plan, based on the Bank's monthly reports, analyses,

and written explanations of any differences between actual performance and the Bank's goals and objectives, and shall include a description of the actions the Board will require the Bank to take to address any shortcomings, which shall be documented in the Board meeting minutes. Within ten (10) days of completing its evaluation, the Board shall submit a copy to the Assistant Deputy Comptroller.

(7) The Board shall review and update the Bank's Revised Plan on a rolling basis at least annually or more frequently if necessary or if requested by the Assistant Deputy Comptroller. For the periods beyond those contained in the Bank's Revised Plan (e.g., year four, five, etc.), the updates must maintain and continue the growth limitations, lending diversification, the compensation controls and limitations, and the programs and requirements of this Agreement.

(8) The Bank may not initiate any action that deviates significantly from the Bank's Revised Plan without a prior written determination of no supervisory objection from the Assistant Deputy Comptroller. The Board must give the Assistant Deputy Comptroller advance, written notice of its intent to deviate significantly from, or to change, the Bank's Revised 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, internal controls, and written policies and procedures to identify, measure, monitor, and control the risks associated with the change in the Bank's Revised Plan.

(9) For the purposes of this Article, changes that may constitute a significant deviation from the Bank's Revised Plan include, but are not limited to, a change in the Bank's:

- (a) marketing strategies or marketing partners;

- (b) product or service offerings, including fee structure, pricing, and loan concentrations;
- (c) underwriting practices and standards, credit administration, account management, collection strategies or operations;
- (d) compensation practices;
- (e) accounting processes and practices; or
- (f) 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, operations, or external factors that may have a material impact on the Bank's operations or financial performance. For purposes of this paragraph, "personnel" shall include the President, Chief Executive Officer, Chief Administrative Officer, Chief Financial Officer, member of the Bank's Board of Directors, or any other position subsequently identified in writing by the Assistant Deputy Comptroller.

Article IV

Compensation

(1) Within thirty (30) days of this Agreement, the Board, or a designated independent committee thereof, shall develop and submit for a prior written determination of no supervisory objection to the Assistant Deputy Comptroller, a written program designed to ensure the Bank's salaries and other compensation are at safe and sound levels and ensure salaries and other compensation are proportionate to services rendered and supported by adequate documentation in the books and records of the Bank. At a minimum, the program shall include:

- (a) a detailed, written review and determination of whether the salary and other compensation paid to each business development officer and officer

with a title of senior vice-president or above is consistent with the market for comparable knowledge, skills and abilities;

- (b) specific plans to ensure the Bank's aggregate compensation is commensurate with peer banks and considers appropriate adjustments for the Bank's business model, locale, financial condition, and other appropriate criteria;
- (c) ongoing documentation that provides support to determine whether compensation for each business development officer and officer with a title of senior vice-president or above is reasonable and proportionate to services provided; and
- (d) incentives to ensure that commission-based compensation arrangements promote quality and long-term performance, including:
 - (i) recusals by any officer, employee, or director who may benefit directly or indirectly from the granting of the credit from any participation in the loan approval process;
 - (ii) compliance with sound underwriting standards prior to the payment of commissions, bonuses and other compensation as appropriate for the position;
 - (iii) commission, bonus and other compensation amounts that consider the quality and ongoing performance of loans generated, including financial statement exception levels as appropriate for the position; and

- (iv) claw-back provisions for incentive-based compensation arrangements that require substantial portions of the compensation be withheld and not paid in the event the loan is not sold, is returned by an investor, or becomes criticized within one year of its funding date.

(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, and the effectiveness of the program required by this Article.

Article V

Credit Risk Management

(1) Within thirty (30) days of this Agreement, the Board shall develop and submit for a prior written determination of no supervisory objection to the Assistant Deputy Comptroller, a written program to ensure appropriate credit risk management that includes, at a minimum:

- (a) a written program designed to manage and reduce the Bank's criticized assets that includes or addresses the following matters:
 - (i) aggregate reporting of criticized asset levels by type to the Board or a designated committee thereof every month;
 - (ii) specific plans for the reduction of criticized assets by asset type with target reductions by quarter; and
 - (iii) procedures for the quarterly review and preparation of written determinations by the Board or a designated committee thereof regarding the effectiveness of the efforts to eliminate the weaknesses in each criticized credit relationship or Other Real

Estate Owned (“OREO”) with a net principal exposure of one hundred thousand dollars (\$100,000) or more;

- (b) procedures to hold employees and officers accountable for non-compliance with the Bank’s lending policies and other underwriting requirements;
- (c) procedures and staff to ensure that loans are properly monitored to include periodic receipt, analysis and documentation of sufficient financial and operating information to measure and monitor the borrower’s and guarantor’s financial condition and repayment ability, to include at a minimum:
 - (i) the collection of financial statements and operating and collateral information no less than annually;
 - (ii) the addition of staff as necessary to ensure the Bank appropriately collects and obtains appropriate periodic financial statements, tax returns, rent rolls, and other financial information;
 - (iii) appropriate analysis of operating, financial and collateral information that considers the borrower’s industry, locale, guarantor dependency, revenue sources, global cash flow and other relevant factors;
 - (iv) immediate and ongoing training for the credit administration staff with respect to the application of Subparagraph (iii) of this Article;and

- (v) procedures to ensure that credit administration staff and management are held accountable for accurate financial analysis; and
- (d) policies and procedures to monitor and reduce lending concentrations of credit that include at a minimum:
 - (i) the establishment of safe and sound, formal risk limits (based upon the Bank's tier 1 capital plus the Allowance) for aggregate total unguaranteed SBA/USDA loans, aggregate total CRE and additional CRE sub-limits by industry type (multi-purpose CRE buildings, gas stations/convenience stores, and hotels/motels) and geographic location, where aggregate total CRE is defined as construction and land development loans, multifamily loans, nonfarm nonresidential loans (including owner-occupied and nonowner-occupied), and loans to finance CRE, construction and development, but not secured by real estate;
 - (ii) continuation of quarterly monitoring by the Board of the Bank's concentrations;
 - (iii) an action plan approved by the Board to reduce the Bank's concentrations in total unguaranteed SBA/USDA, total CRE and sub-limits to the levels established above; and
 - (iv) the performance of portfolio-level multi-factor stress testing and/or sensitivity analysis on homogeneous pools of loans (unguaranteed SBA/USDA, multi-purpose CRE buildings, gas

stations/convenience stores, and hotels/motels) to quantify the impact of changing economic conditions on asset quality, earnings, and capital. The sophistication of stress testing practices and sensitivity analysis should be consistent with the size, complexity, and risk characteristics of the CRE portfolio.

(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, and the effectiveness of, the program, policies and procedures required by this Article.

(3) The Board shall take the necessary steps to ensure the Bank obtains any missing credit or collateral information described in any OCC correspondence or report, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the examiners within thirty (30) days of its receipt.

Article VI

Credit Risk Ratings and Nonaccrual Recognition

(1) Effective immediately, the Board shall take the necessary steps to ensure that the risks associated with the Bank's loans are properly reflected and accounted for on the Bank's books and records, to include, at a minimum, the annual review of all credit relationships that equal or exceed a net principal exposure of one hundred thousand dollars (\$100,000) by responsible staff to ensure that:

- (a) the Bank's loans and other assets are appropriately and timely risk-rated and charged off, as appropriate, using a loan grading system that is based upon current facts, existing repayment terms and that is consistent with the

requirements set forth in Rating Credit Risk, A-RCR, of the *Comptroller's Handbook*; and

- (b) the Bank's loans and other assets are timely placed on nonaccrual in accordance with the instructions for the preparation of Consolidated Reports of Income and Condition (also known as a "Call Report").

(2) The Board shall ensure that the Bank complies with Paragraph (1) of this Article including at a minimum:

- (a) ongoing training for the lending staff and management with respect to the application of Subparagraphs (a)-(b) of Paragraph (1) of this Article;
- (b) adherence to procedures which ensure that loan officers, staff and management are held accountable for failing to appropriately and timely risk-rate and place loans on nonaccrual, including but not limited to, consideration of loan officer, staff and management failures in periodic performance reviews and compensation; and
- (c) adherence to procedures for the review and approval in advance of any return to accrual status, or risk-rating upgrade of any loan, or lending relationship, with a net principal exposure of one-hundred thousand dollars (\$100,000) or more, by a majority of the Board of Directors or a designated committee thereof that is supported by written documentation for the basis of the return to accrual status or upgrade that is maintained in the books and records of the Bank.

Article VII

External Loan Review

(1) Effective immediately, the Board shall continue to employ a qualified, independent consultant or other qualified firm to perform semi-annual asset quality reviews of the Bank's loan portfolio, with the next loan review report due no later than December 31, 2012. The consultant or firm shall use a loan grading system consistent with Generally Accepted Accounting Principles ("GAAP") and the guidelines set forth in Rating Credit Risk, A-RCR, of the *Comptroller's Handbook* and include documentation, support, and analysis of the individual risk ratings and other information to support the conclusions reached in a written report to be filed with the Board at the end of each review. The loan review report shall, at a minimum, include the comments and conclusions of the consultant or firm regarding:

- (a) the identification, type, rating, and amount of all criticized loans;
- (b) the identification and amount of delinquent and nonaccrual loans;
- (c) the identification/status of credit related violations of law or regulation;
- (d) credit underwriting and documentation exceptions;
- (e) credit analysis and documentation of such analysis;
- (f) accuracy of internal risk ratings;
- (g) completeness and effectiveness of problem loan workout plans;
- (h) loans and other extensions of credit considered exceptions to, or not in conformance with, the Bank's lending policies and procedures;
- (i) the identity of the originating officer for each loan reported in accordance with subparagraphs (b) through (h) of the Article;
- (j) overall credit administration practices;

- (k) concentrations of credit;
- (l) the accuracy of the Bank's recognition of troubled debt restructurings;
- (m) the accuracy of specific allocations to the Allowance for Loan and Lease Losses;
- (n) an evaluation of the Bank's efforts to manage and account for its OREO in accordance with GAAP;
- (o) loans and leases to affiliates, insiders, and related parties; and
- (p) any recommendations for improvements.

(2) Prior to the appointment or employment of a new consultant or firm or entering into a new contract with any consultant or firm, the Board shall submit the name and qualifications of the proposed consultant or firm and the proposed scope and terms of employment to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection. After the OCC has advised the Bank that it does not take supervisory objection to the consultant or firm, and the scope of the review, the Board shall immediately engage the consultant or firm pursuant to the proposed terms of the engagement.

(3) The Board or a designated committee shall review the independent loan review reports and ensure that, if appropriate, immediate, adequate, and continuing remedial action, is taken upon the findings noted in each report.

(4) A copy of the loan review report submitted to the Board, as well as a summary of remedial actions taken and, if appropriate, planned, shall be documented and provided to the Assistant Deputy Comptroller within fifteen (15) days of receipt of each loan review report.

Article VIII

Allowance for Loan and Lease Losses

(1) The Board shall ensure the Bank maintains an appropriate Allowance in accordance with 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 validating the Allowance methodology;
- (b) 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) changes in the nature and volume of the Bank's loan portfolio(s);
 - (iii) the Bank's historical risk rating accuracy;
 - (iv) results of the Bank's external loan review;
 - (v) concentrations of credit in the Bank, present and prospective economic conditions;
 - (vi) the sufficiency of current financial and operating information; and
 - (vii) applicable experience, performance and sufficiency 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 Consolidated Reports of

Condition and Income (“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) The Board shall independently review and attest that the Allowance sufficiency is performed prior to the filing of each Call Report beginning with the quarter ending June 30, 2012.

Article IX

Liquidity Planning

(1) Effective as of the date of this Agreement, the Board shall continue to adhere to the revised liquidity policy and ensure the Bank maintains sufficient on-balance sheet liquidity to sustain the Bank’s operations.

Article X

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/

June 15, 2012

Steven J. Vander Wal
Assistant Deputy Comptroller
San Diego 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/

June 15, 2012

Kim M. Bactad

Date

/s/

June 15, 2012

Michael S. Keane

Date

/s/

June 15, 2012

Anthony R. Pico

Date

/s/

June 15, 2012

Umoja I. Richardson

Date

/s/

June 15, 2012

Frank V. Riolo

Date

/s/

June 15, 2012

William P. Ruhlman II

Date

/s/

June 15, 2012

David H. Van Cleve

Date