

#2002-29

AGREEMENT BY AND BETWEEN
NORTH CASCADES NATIONAL BANK
CHELAN, WA
and
The Office of the Comptroller of the Currency

NORTH CASCADES NATIONAL BANK, CHELAN, WA (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, through his National Bank Examiner, has examined the Bank, and his findings are contained in the Report of Examination, dated January 28, 2002 (“ROE”).

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) 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:

Nancy E. Wilson
Assistant Deputy Comptroller
Seattle Field Office
1000 Second Avenue, Suite 3300
Seattle, WA 98104

Article II

COMPLIANCE COMMITTEE

(1) Within thirty (30) days, the Board shall appoint a Compliance Committee of at least three (3) directors, of which no more than one (1) shall be employees 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 shall be submitted in writing to the Assistant Deputy Comptroller. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement.

(2) The Compliance Committee shall meet at least monthly.

(3) Within sixty (60) days of the appointment of the Committee and every thirty (30) days thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) actions taken to comply with each Article of this Agreement; and
- (b) the results of those actions.

- (4) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller.

Article III

CREDIT MANAGEMENT AND STAFFING STUDY

(1) Within sixty (60) days, the Compliance Committee shall assess the capability of the current lending staff and determine the Bank's needs. The findings and recommendations of the Compliance Committee shall be set forth in a written report to the Board. At a minimum, the report shall contain:

- (a) the identification of present and future management and staffing requirements of the credit area of the Bank;
- (b) detailed written job descriptions;
- (c) an evaluation of each officer's qualifications and abilities and a determination of whether each of these individuals possesses the experience and other qualifications required to perform present and anticipated duties of his/her officer position;
- (d) recommendations as to whether management or staffing changes should be made, including the need for additions to or deletions from the current credit team;
- (e) objectives by which management's effectiveness will be measured;
- (f) a training program to address identified weaknesses in the skills and abilities of the Bank's staff and management team;

- (g) an evaluation of current lines of authority, reporting responsibilities and delegation of duties for all officers, including identification of any overlapping duties or responsibilities;
- (h) a recommended organization chart that clearly reflects areas of responsibility and lines of authority for all officers;
- (i) recommendations to expand the scope, frequency and sufficiency of information provided to the Board by management; and
- (j) recommendations to correct or eliminate any other deficiencies in the supervision or organizational structure of the credit area of the Bank.

(2) Copies of the Compliance Committee's written plan and the study shall be forwarded to the Assistant Deputy Comptroller. The Assistant Deputy Comptroller shall retain the right to determine the adequacy of the report and its compliance with the terms of this Agreement. In the event the written plan, or any portion thereof, is not implemented, the Board shall immediately advise the Assistant Deputy Comptroller, in writing, of specific reasons for deviating from the plan.

Article IV

NEW SENIOR CREDIT OFFICER

(1) Within one hundred and twenty (120) days, the Board shall appoint a new, capable Senior Credit Officer who shall be vested with sufficient executive authority to fulfill the duties and responsibilities of the position and ensure the safe and sound operation of the Bank.

(2) Prior to the appointment of any individual to the Senior Credit Officer position, the Board shall submit to the Assistant Deputy Comptroller the following information:

- (a) the information sought in the "Changes in Directors and Senior Executive Officers" booklet of the Comptroller's Corporate Manual, together with a legible fingerprint card for the proposed individual;
- (b) a written statement of the Board's reasons for selecting the proposed officer; and
- (c) a written description of the proposed officer's duties and responsibilities.

(3) The Assistant Deputy Comptroller shall have the power of veto over the employment of the proposed Senior Credit Officer. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed officer.

(4) The requirement to submit information and the prior veto provisions of this Article are based on the authority of 12 U.S.C. § 1818(b) and do not require the Comptroller to complete his review and act on any such information or authority within ninety (90) days.

Article V

LOAN PORTFOLIO MANAGEMENT

(1) The Board shall, within ninety (90) days, develop, implement, and thereafter ensure Bank adherence to a written program to improve the Bank's loan portfolio management.

The program shall include, but not be limited to:

- (a) procedures to ensure satisfactory and perfected collateral documentation;
- (b) procedures to ensure that extensions of credit are granted, by renewal or otherwise, to any borrower only after obtaining and analyzing current and satisfactory credit information;
- (c) procedures to ensure conformance with loan approval requirements;

- (d) procedures to ensure accurate and timely risk ratings of credits;
- (e) a system to track and analyze exceptions;
- (f) procedures to ensure conformance with Call Report instructions on nonaccrual loans;
- (g) procedures to ensure the accuracy of internal management information systems, particularly to determine the adequacy of the Allowance for Loan and Lease Losses and each quarter end;
- (h) a performance appraisal process, including performance appraisals, job descriptions, and incentive programs for loan officers, which adequately ensures timely risk ratings of all credits, including deteriorating pass credits, and ensures officer accountability for credit quality and risk rating accuracy;
- (i) development of effective problem loan action plans;
- (j) procedures to ensure Board loan committee approval of all new, renewed, modified and extended credits *with aggregate liability* ("with aggregate liability" was deleted) greater than \$100,000; and
- (k) procedures to track and analyze concentrations of credit, significant economic factors, and general conditions and their impact on the credit quality of the Bank's loan and lease portfolios.

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

Article VI

MANDOLIN TECHNOLOGY, INC. MANAGEMENT AND STAFFING PLAN

(1) Within *thirty (30) days* ("thirty (30) days" changed to "sixty (60) days") the Compliance Committee shall assess the capability of the current management and staff of Mandolin Technology, Inc. ("Mandolin"). The findings and recommendations of the Compliance Committee shall be set forth in a written report to the Board. At a minimum, the report recommendations shall include the followings:

- (a) A process to ensure that the Mandolin management team has appropriate technical expertise, understanding of risk, and leadership necessary to guide Mandolin now and in the future;
- (b) A strategy for Mandolin's technical staffing needs and determination of what staffing level is necessary to satisfactorily address regulatory and client obligations. This includes the need for an independent and qualified Information Security Officer;
- (c) A process to ensure the methodology used to certify that staffing levels are proactively addressed in both the new staffing plan and all future project planning processes; and
- (d) Job description(s)/work level expectation(s) for the position(s) identified above with specific information detailing the knowledge and experience required to fill the position(s).

(2) Within ninety (90) days, the Board shall ensure the appointment of a Mandolin Information Security Officer (ISO). This ISO should be familiar with financial institution information system risks, regulations and industry security standards. Furthermore, the Board

shall allot the ISO sufficient executive authority to fulfill the duties and responsibilities of the position. The ISO will oversee the security of all information technology functions. The ISO will maintain independence by functioning separate from the implementation and maintenance of the operating environment. The Board should also ensure ISO independence by virtue of appropriate reporting lines.

(3) The Board shall forward a copy of the management study and staffing plan upon completion and approval to the Assistant Deputy Comptroller for review. Upon obtaining a notice of no objection from the Assistant Deputy Comptroller, the Bank shall immediately cause adoption, implementation, and adherence to the plan.

Article VII

NETWORK ARCHITECTURE

(1) Within sixty (60) days, the Board shall adopt and implement a plan to address network architecture weaknesses and shall ensure that confidential and critical data is suitably safeguarded. At a minimum the plan shall include:

- (a) Configuring the network so it meets the minimum industry standards for security based on the size and complexity of Mandolin's operation;
- (b) Reviewing network hardware that hosts more than one function to ensure that it is set up in a secure manner;
- (c) Minimizing the possibility of open and opportunistic ports available to malicious hackers or internal intruders; and
- (d) Determining the intrusion detection needs of the network, and implementing the appropriate solutions.

(2) Upon completion of network changes, Management shall update policies, procedures, risk assessments and contingency/resumption plans to reflect all changes to the network. The Board shall review and approve all policy and procedural changes. Management shall also provide updated contingency/resumption plans to clients if changes are material to them.

(3) The Board shall forward a copy of the network architecture plan or network schematic upon completion and approval to the Assistant Deputy Comptroller for review. Upon obtaining a notice of no objection from the Assistant Deputy Comptroller, the Bank shall immediately cause adoption, implementation, and adherence to the plan.

Article VIII

INFORMATION TECHNOLOGY AUDIT

(1) Within thirty (30) days, the Board shall adopt and implement a comprehensive Information Technology (IT) audit plan for Mandolin. At a minimum, the audit program shall be performed by an independent and qualified entity. Moreover, the program shall incorporate fundamental audit elements. The purpose of the plan is to ensure that independent, qualified auditors conduct suitable audits with appropriate scope and frequency to adequately address IT risk in the Mandolin environment. At a minimum, the plan must include:

- (a) A comprehensive audit schedule that appropriately evaluates IT controls;
- (b) A process for providing detailed corrective action responses and timelines to all audit and regulatory findings and recommendations; and
- (c) A process that includes regular and comprehensive Board follow-up of progress in correcting all findings in paragraph (b).

(2) The Board shall engage the auditor *no later than July 1, 2002* to complete the first full scope IT operations and controls audit. (Sentence was changed from: "The Board shall engage the auditor to complete the first full scope IT operations and control audit no later than July 1, 2002.") This engagement shall include a presentation of audit findings directly to the Board.

(3) The Board shall engage a penetration testing entity to complete the first full scope penetration test immediately following the rebuilding of the new network, and then after any significant network change or at least annually thereafter. The scope of this penetration test should match a realistic threat scenario for Mandolin, and contain adequate documentation of methods and tools used, and contain findings that are stratified by level of risk. All results and findings should be clearly supported and documented. This engagement shall include a presentation of findings directly to the Board.

(4) The Bank shall, within thirty (30) business days of the receipt of the audit and penetration test report, submit a copy of the respective report and management response to the Assistant Deputy Comptroller.

Article IX

PROJECT MANAGEMENT

(1) Within thirty (30) days, the Board shall adopt and implement a comprehensive project planning process. The process shall require that all future expansion and conversions contain necessary security controls. The written plan should address the following elements:

- (a) Identification of areas that will be impacted by the proposed project or change;
- (b) Realistic and comprehensive cost estimations, including projected budget

and balance sheet impact:

- (c) A progress review process to monitor Management's progress in both planning and implementation;
- (d) A description of the operating assumptions that form the basis for major components and expenses;
- (e) Information on how this project fits in with the risk tolerance of the Board, complete with a risk assessment of the project;
- (f) Projections for growth and capital requirements based upon a detailed analysis of the Bank and Mandolin's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
- (g) The primary resource(s) from which Mandolin will use to complete the project and any foreseen staffing changes; and
- (h) A timeline for the project from planning through to implementation, complete with contingency plans in the event of a conflict or problem.

(2) The Board shall forward a copy of the written plan to the Assistant Deputy Comptroller.

Article X

INFORMATION SECURITY PROGRAM

(1) Within thirty (30) days, the Board shall ensure the creation and adoption of an Information Security Program that meets the requirements of 12 C.F.R. Part 30, Appendix B, and is commensurate with the size, complexity, and risk environment of Mandolin. Key components of this Program include Board involvement; risk assessment; risk controls; vendor management program; process for adjusting the Program as necessary; and, an annual report to the Board on

the overall status of the Program and compliance with 12 C.F.R. Part 30, Appendix B. No later than July 1, 2002, the Board shall review and approve all aspects of Mandolin's Information Security Program. Within five (5) days of Board approval, the Board shall provide the Assistant Deputy Comptroller information sufficient to document complete compliance with all of the requirements outlined in 12 C.F.R. Part 30, Appendix B.

Article XI

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or approval, 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/her 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.

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

/s/ Nancy E. Wilson
Nancy E. Wilson
Assistant Deputy Comptroller
Seattle Field Office

4-8-02
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.

Signed	4/08/02	
Arthur C. Campbell		Date
Signed		4-8-02
Dinh E. Corrigan		Date
Signed		4-8-02
Robert A. Kiesz		Date
Signed		4/8/02
Shannon L. Kollmeyer		Date
		4/8/02
Signed		
John D. McQuaig		Date
Signed		4/8/02
Henry A. Precht		Date
		4/8/02
Signed		
Sandra L. Scribner		Date
		4-8-02
Signed		
Gregory M. Stafford		Date
		4-8-02
Signed		
Craig Tedmon		Date