

AGREEMENT BY AND BETWEEN  
Prime Pacific Bank, N.A.  
Lynnwood, Washington  
and  
The Office of the Comptroller of the Currency

Prime Pacific Bank, N.A., Lynnwood, Washington (“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 (“ROE”), dated March 11, 2002.

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:

Nancy E. Wilson  
Assistant Deputy Comptroller  
Seattle Field Office  
1000 2<sup>nd</sup> Avenue, Suite 3300  
Seattle, Washington 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 none 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 quarterly 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

### ASSET/LIABILITY MANAGEMENT POLICY

(1) Within thirty (30) days, the Board shall revise the Bank's liquidity, asset and liability management policy. Within that thirty (30) day period, the Board shall implement, and thereafter ensure, Bank adherence to the policy. In revising this policy, the Board shall refer to the Comptroller's Handbook for National Bank Examiners, Section 405, and to the Liquidity booklet, L-L, of the Comptroller's Handbook. The policy shall provide for a coordinated asset/liability management strategy and at a minimum, address:

- (a) adequate management reports that enable the Board and management to monitor the Bank's liquidity position and maintain liquidity at an adequate level;
- (b) specific procedures for daily, weekly, and monthly management of the Bank's liquidity position;
- (c) projected funding needs based on anticipated growth and market conditions;
- (d) the liquidity, maturity, and pledging requirements of the investment portfolio;
- (e) development of a liquidity contingency plan that identifies and prioritizes alternative funding sources and contains triggers for the activation of the contingency plans and describes the actions to be taken by management in these situations;
- (f) guidelines concerning the nature, extent, and purpose of the Bank's use of brokered deposits consistent with the Bank's overall funds management strategies;
- (g) the nature, extent and purpose of Bank borrowings;

- (h) limits on concentrations of funding sources; and
- (i) periodic review of the Bank's adherence to the policy.

(2) Upon adoption, a copy of the written policy shall be forwarded to the Assistant Deputy Comptroller for review.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the policy developed pursuant to this Article.

#### ARTICLE IV

##### INTEREST RATE RISK POLICY

(1) Within ninety (90) days, the Board shall revise its interest rate risk policy. Within that ninety (90) day period the Board will adopt, implement, and thereafter ensure Bank adherence to the written interest rate risk policy. In formulating this policy, the Board shall refer to the Interest Rate Risk booklet, L-IRR, of the Comptroller's Handbook. The policy shall provide for a coordinated interest rate risk strategy and, at a minimum, address:

- (a) the establishment of adequate management reports on which to base sound interest rate risk management decisions;
- (b) establishment and guidance of the Bank's strategic direction and tolerance for interest rate risk;
- (c) implementation of effective tools to measure and monitor the Bank's performance and overall interest rate risk profile;
- (d) prudent limits on the nature and amount of interest rate risk that can be taken;  
and
- (e) periodic review of the Bank's adherence to the policy.

(2) Upon adoption, a copy of the written policy shall be forwarded to the Assistant Deputy Comptroller for review.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the policy developed pursuant to this Article.

## ARTICLE V

### STAFFING PLAN AND PERFORMANCE MANAGEMENT PROGRAM

(1) Within sixty (60) days, the Board shall develop a staffing plan that is consistent with the goals and objectives established in the Bank's strategic plan and with the overall risk profile established for the Bank. While the staffing plan shall cover all areas of Bank operations, special emphasis will be placed on lending and credit administration. At a minimum, the plan will consist of the following:

- (a) identification of the skills and expertise needed to develop, market, and administer the products and services identified in the strategic plan;
- (b) identification of the skills and expertise of the Bank's current staff; and
- (c) a comparison of the current staff's skills and expertise to those skills and expertise identified as necessary to develop, market, and administer the products and services identified in the strategic plan.

(2) Within sixty (60) days of the development of the staffing plan, the Board will implement the plan and direct any changes necessary to provide the Bank with a staff that possesses the skills and expertise identified in Section (1)(a) of this Article. Thereafter the Board will ensure that the Bank adheres to the staffing plan.

(3) Within sixty (60) days, the Board shall develop a formal written senior officer performance appraisal program. The program shall, at a minimum, include:

- (a) an assessment of each senior officer's performance compared to his/her job description, duties and responsibilities; and
- (b) an assessment of each senior officer's performance as measured against established Bank goals and objectives.

(4) Upon completion, the Board shall implement and adhere to the senior officer appraisal program and submit a copy to the Assistant Deputy Comptroller for review.

(5) Within sixty (60) days of the end of each calendar year, the Board shall evaluate, in writing, the performance of senior management in accordance with the standards adopted pursuant to Section (3) of this Article. The Board shall submit a copy of this evaluation to the Assistant Deputy Comptroller for review.

## ARTICLE VI

### ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) The Board shall review the adequacy of the Bank's Allowance for Loan and Lease Losses (Allowance) and shall establish a program for the maintenance of an adequate Allowance. This review and program shall be designed in light of the comments on maintaining a proper Allowance found in the Allowance for Loan and Lease Losses booklet, A-ALLL, of the Comptroller's Handbook, and shall focus particular attention on the following factors:

- (a) results of the Bank's internal loan review;
- (b) results of the Bank's external loan review;
- (c) an estimate of inherent loss exposure on each significant credit;
- (d) loan loss experience;

- (e) trends of delinquent and nonaccrual loans;
- (f) concentrations of credit in the Bank; and
- (g) present and prospective economic conditions, including risks posed by weaknesses in the local and regional economies.

(2) The program shall provide for a review of the Allowance by the Board at least once each calendar quarter. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, 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 Board's program shall be submitted to the Assistant Deputy Comptroller for review and prior determination of no supervisory objection.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

## ARTICLE VII

### INTERNAL CONTROLS

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to an independent, internal audit program sufficient to:

- (a) detect irregularities in the Bank's operations;
- (b) determine the Bank's level of compliance with all applicable laws, rules and regulations;
- (c) evaluate the Bank's adherence to established policies and procedures;

- (d) ensure adequate audit coverage in all areas; and
- (e) establish an annual audit plan using a risk based approach sufficient to achieve these objectives.

(2) As part of this audit program, 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.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

(4) All audit reports shall be in writing. The Board shall ensure that immediate actions are undertaken to remedy deficiencies cited in audit reports, and that auditors maintain a written record describing those actions.

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

## ARTICLE VIII

### RISK MANAGEMENT

(1) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written risk management program. The risk management program shall be consistent with the Bank Supervision Process booklet, EP-Sup, of the Comptroller's Handbook and shall include, at a minimum, the following:

- (a) identification of existing credit, interest rate, liquidity, transaction, compliance, strategic, and reputation risks, and a written analysis of those risks;



- (b) action plans and time frames to reduce risks where exposure is high or increasing, particularly with regard to credit and liquidity risks, which impacts directly on compliance, strategic, and reputation risks, as more fully discussed in the Report of Examination;
- (c) policies, procedures or standards which limit the degree of risk the Board is willing to incur, consistent with the strategic plan and the Bank's financial condition. This includes analyzing and limiting the risks associated with any new lines of business which the Board decides to undertake;
- (d) systems to measure and control risks within the Bank. Measurement systems should provide timely and accurate risk reports by customer, by department or division, and bank-wide as appropriate; and
- (e) procedures to ensure that Bank employees have the necessary skills to supervise effectively the current and the new business risks within the Bank, and procedures to describe the actions to be taken to address deficiencies in staff levels and skills.

(2) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

## ARTICLE IX

### BUDGETING PROCESS

- (1) Within ninety (90) days, the Bank shall develop a budgeting process that includes, at a minimum, the following elements:
  - (a) identification of the major areas in and means by which the Board will seek to improve the Bank's operating performance;
  - (b) realistic and comprehensive budgets, including projected balance sheets and year-end income statements;
  - (c) a budget review process to monitor both the Bank's income and expenses, and to compare actual figures with budgetary projections;
  - (d) a description of the operating assumptions that form the basis for major projected income and expense components; and
  - (e) appropriate monthly allowance for loan and lease loss provisions.
- (2) Upon completion, the Bank shall implement and adhere to the budgeting process and submit a description of the process to the Assistant Deputy Comptroller for review.

## ARTICLE X

### CAPITAL PLAN

- (1) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a three-year capital program. The program shall include:
  - (a) specific plans for the maintenance of adequate capital to meet existing and future needs consistent with the strategic plan;

- (b) projections for growth and capital requirements based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
- (c) projections of the sources and timing of additional capital to meet the Bank's current and future needs;
- (d) the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs;
- (e) contingency plans that identify alternative methods should the primary source(s) under (d) above not be available; and
- (f) a dividend policy that permits the declaration of a dividend only:
  - (i) when the Bank is in compliance with its approved capital program; and
  - (ii) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60.

(2) Upon completion, the Bank's capital program shall be submitted to the Assistant Deputy Comptroller for prior determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Bank shall implement and adhere to the capital program. The Board shall review and update the Bank's capital program on an annual basis, or more frequently if necessary. Copies of the reviews and updates shall be submitted to the Assistant Deputy Comptroller.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

## ARTICLE XI

### BANK INFORMATION SYSTEMS RESUMPTION AND CONTINGENCY PLAN

(1) Within one hundred twenty (120) days, the Bank shall develop and test a formal Bank Information Systems Resumption and Corporate Contingency Plan which, at a minimum, complies with the policies set forth in OCC 97-23, “FFIEC Interagency Statement on Corporate Business Resumption and Contingency Planning” (May 16, 1997).

(2) Within one hundred twenty (120) days, and at least annually thereafter, the Board shall review its Bank Information Systems Resumption and Contingency Planning and perform a test of all necessary programs and system applications using its backup location, or recovery operations center, to ensure the continuation of operations in the event of a disaster. The Board shall document the results of this review and test in its meeting minutes.

(3) A copy of the plan and test results shall be forwarded to the Assistant Deputy Comptroller for review.

## ARTICLE XII

### INFORMATION SECURITY PROGRAM

(1) Within sixty (60) days, the Board shall ensure the 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 the Bank. 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 thirty (30) days thereafter, the Board shall review and approve all aspects of the 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 XIII

#### RESTRICTIONS ON ASSET GROWTH

(1) The Bank shall restrict total loan growth to five (5) percent per annum, measured quarterly, until Articles II through XII have been found by the Assistant Deputy Comptroller to be in compliance.

### ARTICLE XIV

#### PRODUCTS AND SERVICES - EXISTING OR NEW

(1) Prior to the Bank's involvement in any new products or services, the Board shall prepare a written analysis of said product or service. The analysis shall, at a minimum, include the following:

- (a) an assessment of the risks and benefits of the product or service to the Bank;
- (b) an explanation of how the product or service is consistent with the Bank's strategic plan;
- (c) an evaluation of the adequacy of the Bank's organizational structure, staffing, MIS, internal controls and written policies and procedures to identify, measure, monitor, and control the risks associated with the product or service;
- (d) a profitability analysis, including growth projections and interest rate risk; and

(e) an assessment of the impact of the new product or service on the Bank's capital and liquidity.

(2) Prior to the Bank's involvement in the new product or service, a copy of the analysis shall be submitted to the Assistant Deputy Comptroller for review.

## ARTICLE XV

### 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 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) 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 OCC or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the OCC may enforce any of the commitments or obligations herein undertaken by the Bank under its 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 OCC has any intention to enter into a contract. The Bank also expressly acknowledges that no OCC officer or employee has statutory or other authority to bind the United States, the U.S. Treasury Department, the OCC, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the OCC's exercise of its supervisory responsibilities. The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or arrangements, or negotiations between the parties, whether oral or written.

(6) 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: (i) 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; (ii) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement; (iii) follow-up on any noncompliance with such actions in a timely and appropriate manner; and (iv) require corrective action be taken in a timely manner of any noncompliance with such actions.

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

6-12-02  
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	6-12-02
_____ David A. Bolin, Jr.	_____ Date
Signed	6-12-02
_____ Dianna L. Clay	_____ Date
Signed	6-12-02
_____ Norman P. Goodwin	_____ Date
Signed	6-12-02
_____ Gary M. Hopper	_____ Date
Signed	6/12/02
_____ Timothy J. McMahon	_____ Date
Signed	6/12/02
_____ John R. Pfeifer	_____ Date
Signed	6-12-02
_____ Linda C. Schoener	_____ Date
Signed	6/12/02
_____ Harry E. Truitt	_____ Date
Signed	6-12-02
_____ Roger D. Werner	_____ Date