

AGREEMENT BY AND BETWEEN
HomeTown National Bank
Longview, Washington
and
The Office of the Comptroller of the Currency

HomeTown National Bank, Longview, Washington (“Bank”) and the Acting 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 her National Bank Examiner, has examined the Bank, and her findings are contained in the Report of Examination for the examination that commenced on November 15, 2004.

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 her 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:

Assistant Deputy Comptroller
San Francisco Field Office
One Front Street, Suite 1000
San Francisco, California 94111

ARTICLE II

COMPLIANCE COMMITTEE

(1) Within thirty (30) days, the Board shall appoint a Compliance Committee of three (3) directors, none of whom 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. Prior to their appointment, the names of the members of the Compliance Committee shall be submitted in writing to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection.

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

(3) Effective April 30, 2005, and every thirty (30) days after quarter end thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) actions taken since the prior progress report to comply with each Article of this Order;
- (b) the results of those actions; and
- (c) a description of the actions needed to achieve full compliance with each Article of this Order.

(4) The progress reports shall also include any actions initiated by the Board and the Bank pursuant to criticisms and comments in the November 15, 2004 Report of Examination or in any future Report of Examination.

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

ARTICLE III

ACTION PLAN

(1) Within thirty (30) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written action plan detailing the Board's assessment of what needs to be done to address and correct the deficiencies noted in the November 15, 2004 Report of Examination, and in any list provided to management by the National Bank Examiners during the November 15, 2004 examination. The action plan shall specify:

- (a) how the Board will implement the plan;
- (b) the Board and/or management member responsible for each item; and
- (c) a timetable for the implementation of each item.

(2) Upon completion of the plan, the Bank shall submit the plan to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection.

(3) The plan shall be implemented pursuant to the time frames set forth within the plan unless events dictate modifications to the plan. Where the Board considers modifications appropriate, those modifications shall be submitted to the Assistant Deputy Comptroller for prior written 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 plan developed pursuant to this Article.

ARTICLE IV

MANAGEMENT AND STAFFING PLAN

(1) Within forty-five (45) days, the Board shall submit to the Assistant Deputy Comptroller a written management and staffing plan, including but not limited to:

- (a) an identification of present and future management and staffing requirements for each area of the Bank, with particular emphasis given to the lending area;
- (b) detailed, written job descriptions for all executive officer positions;
- (c) an evaluation of the qualifications and experience for all persons either acting as, or being considered to act as, an executive officer, with particular emphasis on the qualifications and experience necessary to improve the current condition of the Bank;
- (d) recommendations as to whether management or staffing changes should be made, including the need for additions to, or deletions from, the current management 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 management and staff;
- (g) a recommended organization chart that clearly reflects areas of responsibility and lines of authority for all officers, including the Bank's president and chief executive officer;
- (h) description of the composition, duties, and responsibilities for all Board committees; and
- (i) an assessment of the Board's strengths and weaknesses along with a director education program designed to strengthen identified weaknesses.

(2) The Board shall not approve or implement the management and staffing plan until receiving prior written determination of no supervisory objection from the Assistant Deputy Comptroller. If the Assistant Deputy Comptroller has supervisory objections to all or part of the management and staffing plan, then within thirty (30) days, the Board shall employ an independent, external management consultant to conduct a management and staffing study.

(3) The Board shall not add or replace any member of the board of directors, employ any person as a senior executive officer, or change the responsibilities of any senior executive officer so that person would assume a different executive officer position until complying with the procedures set forth in 12 C.F.R. § 5.51 and receiving written notice of intent not to disapprove from the Assistant Deputy Comptroller.

(4) Prior to the appointment or employment of any consultant or entering into any contract with a consultant, the Board shall submit the name and qualifications of the proposed consultant and the proposed terms of employment to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection.

(5) The requirement to submit information and the provision for a prior written determination of no supervisory objection in paragraph four (4) are based on the authority of 12 U.S.C. § 1818(b) and do not require the Comptroller or the Assistant Deputy Comptroller to complete the review and act on any such information or authority within ninety (90) days.

(6) Within thirty (30) days of engagement, the Consultant shall complete a study of current management and Board supervision being provided to the Bank, the Bank's management structure, and its staffing requirements in light of the Bank's present condition. The findings and recommendations of the Consultant shall be set forth in a written report to the Board. Within five (5) days of its completion, a copy of the report shall be provided to the Assistant Deputy Comptroller. At a minimum, the report shall contain:

- (a) an identification of present and future management and staffing requirements of each area of the Bank, with particular emphasis given to the lending area;
- (b) detailed, written job descriptions for all executive officers;
- (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 management 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, including the Bank's president and chief executive officer;
- (i) an assessment of the Board's strengths and weaknesses along with a director education program designed to strengthen identified weaknesses;
- (j) an assessment of whether Board members are receiving adequate information on the operation of the Bank to enable them to fulfill their fiduciary responsibilities and other responsibilities under law;
- (k) recommendations to expand the scope, frequency, and sufficiency of information provided to the Board by management;
- (l) an evaluation of the extent of responsibility of current management and/or the Board for present weaknesses in the Bank's condition; and
- (m) recommendations to correct or eliminate any other deficiencies in the supervision or organizational structure of the Bank.

(7) Within thirty (30) days of completion of this study, the Board shall develop, implement, and thereafter ensure Bank adherence to a written plan, with specific time frames that will correct any deficiencies that are noted in the study. Within five (5) days of its completion, the Board shall submit a copy of the written plan for the Assistant Deputy Comptroller.

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

(9) The Assistant Deputy Comptroller shall retain the right to determine the adequacy of the report and the written plan and their compliance with the terms of this Order. 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 V

INSIDER TRANSACTIONS

- (1) The Bank shall not enter into any transaction with an Insider¹ unless it is:
- (a) made on terms and under circumstances that are substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with or involving other companies or individuals who are not Insiders;
 - (b) made, in the absence of comparable transactions, on reasonable commercial terms entered into in good faith and reflecting comparable service fees;
 - (c) preceded by a finding by the Board, and documented in your official Board meeting minutes, that the primary purpose of the transaction is to further the best interests of the Bank; and
 - (d) approved in advance by a majority of the entire Board, not merely a quorum thereof, with any interested Insider abstaining from voting and

¹ The term "Insider" shall have the same definition as contained in 12 C.F.R. § 215.2(h).

participating directly or indirectly in the deliberations or presentations regarding the approval.

(2) The Board shall immediately designate as “executive officers” for purposes of Regulation O, 12 C.F.R. Part 215, all persons who participate in major policymaking functions of the Bank, regardless of whether such persons have a title at, or receive a salary from, the Bank.

ARTICLE VI

INSIDER POLICY

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written, comprehensive insider policy applicable to the Bank’s and the Bank’s holding company’s Insiders. At a minimum, the policy shall address:

- (a) code of conduct for Insider activities, including criteria for the appointment and retention of qualified Board members;
- (b) procedures defining and preventing conflicts of interest and breaches of fiduciary duty, and the appearance of conflicts of interest;
- (c) procedures for consultation with bank or personal legal counsel before entering into or approving transactions involving the bank and an Insider;
- (d) procedures for ensuring that transactions between the bank and Insiders are fully documented, including but not limited to: independent appraisals of property securing Insider loans, information demonstrating that an Insider loan is comparable with specific loans made by the bank to non-insiders; Board minutes reflecting both the Loan Committee's and the

Board's deliberations regarding Insider loans; and Board actions approving or denying Insider loans.

- (e) disclosure of actual and potential conflicts of interest to the Board, and periodic disclosure of "related interests" as defined by 12 C.F.R. Part 215; and
- (f) disclosure of any Insider's material interest in the business of a borrower, an applicant, or other customer of the Bank.

(2) Upon adoption, a copy of the insider policy shall be forwarded to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection.

(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 VII

VIOLATIONS OF LAW

(1) The Board shall immediately take all necessary steps to ensure that Bank management corrects each violation of law, rule or regulation cited in the ROE and in any subsequent Report of Examination. The quarterly progress reports required by Article XIX of this Order shall include the date and manner in which each correction has been effected during that reporting period.

(2) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the ROE and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance

management that incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(3) Within thirty (30) days of receipt of any subsequent Report of Examination that cites violations of law, rule, or regulation, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management that incorporate internal control systems and education of employees regarding laws, rules, and regulations applicable to their areas of responsibility.

(4) Upon adoption, a copy of these procedures shall be promptly forwarded to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection.

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

ARTICLE VIII

LOAN REVIEW CONSULTANT

(1) Within forty-five (45) days, the Board shall employ an independent, external consultant to perform an ongoing asset quality review of the Bank.

(2) Prior to the appointment, employment, or entering into any contract with a loan review consultant, the Board shall submit the name and qualifications of the proposed consultant, the proposed terms of employment, and the proposed scope of the loan review to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection.

(3) The requirement to submit information and the provisions for prior written determination of no supervisory objection in this Article are based on the authority of 12 U.S.C. § 1818(b) and do not require the Comptroller or the Assistant Deputy Comptroller to complete his review and act on any such information or authority within ninety (90) days.

(4) The findings and recommendations of the Loan Review Consultant shall be set forth in a written report to the Board. Within five (5) days of its completion, a copy of the report shall be provided to the Assistant Deputy Comptroller.

(5) The Board shall ensure that immediate actions are undertaken to remedy deficiencies cited in any report and shall maintain a written record describing those actions in the loan files.

ARTICLE IX

LENDING POLICY

(1) Within sixty (60) days, the Board shall review and revise the Bank's written loan policy. In revising this policy, the Board shall refer to the Loan Portfolio Management booklet, A-LPM, of the Comptroller's Handbook. This policy shall incorporate, but not necessarily be limited to, the following:

- (a) a description of acceptable types of loans;
- (b) a provision that current and satisfactory credit information will be obtained on each borrower;
- (c) maturity scheduling related to the anticipated source of repayment, the purpose of the loan, and the useful life of the collateral;
- (d) maximum ratio of loan value to appraised value or acquisition costs of collateral securing the loan;

- (e) collection procedures, to include follow-up efforts, that are systematically and progressively stronger;
- (f) a pricing policy that takes into consideration costs, general overhead, and probable loan losses, while providing for a reasonable margin of profit;
- (g) a definition of the Bank's trade area;
- (h) guidelines and limitations for loans originating outside of the Bank's trade area;
- (i) a limitation on aggregate outstanding loans in relation to other balance sheet accounts;
- (j) distribution of loans by category;
- (k) a prohibition regarding the use of brokered deposits to fund loan growth or support criticized loans;
- (l) guidelines for loans to insiders, including a statement that such loans will not be granted on terms more favorable than those offered to similar outside borrowers;
- (m) guidelines and limitations on concentrations of credit;
- (n) a limitation on the type and size of loans that may be made by loan officers without prior approval by the Board or a committee established by the Board for this purpose;
- (o) measures to correct the deficiencies in the Bank's lending procedures noted in any Report of Examination;

- (p) guidelines designed to improve Board oversight of the loan approval process, specifically with regard to credits exhibiting significant risk. At a minimum, the policy shall:
 - (i) establish dollar limits on extensions of credit to any one borrower, above which the prior approval of the Board, or a committee thereof, would be required;
 - (ii) establish dollar limits on aggregate extensions of credit to any one borrower, above which any new extensions of credit to that borrower, regardless of amount, would require the prior approval of the Board, or a committee thereof; and
 - (iii) require that all credits which deviate from the Bank's normal course of business, including all credits which deviate from the Bank's written strategic plan, receive the prior approval of the Board, or a committee thereof.
- (q) guidelines consistent with Banking Circular 255, setting forth the criteria under which renewals of extensions of credit may be approved. At a minimum the policy shall:
 - (i) ensure that renewals are not made for the sole purpose of reducing the volume of loan delinquencies; and
 - (ii) provide guidelines and limitations on the capitalization of interest;
- (r) charge-off guidelines, by type of loan or other asset, including Other Real Estate Owned, addressing the circumstances under which a charge-off

would be appropriate and ensuring the recognition of losses within the quarter of discovery; and

- (s) guidelines for periodic review of the Bank's adherence to the revised lending policy.

(2) Upon adoption, the policy shall be implemented, the Board shall thereafter ensure Bank adherence to the policy, and a copy of the policy shall be forwarded to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection.

(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 X

LOAN PORTFOLIO MANAGEMENT

(1) The Board shall, within sixty (60) 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) a system to track and analyze exceptions;
- (e) procedures to ensure conformance with Call Report instructions;

- (f) procedures to ensure the accuracy of internal management information systems;
- (g) an adequate training program for all loan officers to ensure that the Bank maintains adequate, qualified staff in all loan administration areas;
- (h) a performance appraisal process, including performance appraisals, job descriptions, and incentive programs for loan officers, which adequately consider their performance relative to policy compliance, documentation standards, accuracy in credit grading, and other loan administration matters; and
- (i) 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 and prior written determination of no supervisory objection.

(3) Within thirty (30) days, the Board shall develop, implement, and thereafter ensure Bank adherence to systems that provide for effective monitoring of:

- (a) early problem loan identification to assure the timely identification and rating of loans and leases based on lending officer submissions;
- (b) statistical records that will serve as a basis for identifying sources of problem loans and leases by industry, size, collateral, and individual lending officer;
- (c) previously charged-off assets and their recovery potential;

- (d) compliance with the Bank's lending policies and laws, rules, and regulations pertaining to the Bank's lending function;
- (e) adequacy of credit and collateral documentation; and
- (f) concentrations of credit.

(4) Beginning thirty (30) days after the effective date of this Order, and on a monthly basis thereafter, management will provide the Board with written reports including, at a minimum, the following information:

- (a) the identification, type, rating, and amount of problem loans and leases;
 - (b) the identification and amount of delinquent loans and leases;
 - (c) credit and collateral documentation exceptions;
 - (d) the identification and status of credit related violations of law, rule or regulation;
 - (e) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (a) through (d) of this Article and Paragraph;
 - (f) an analysis of concentrations of credit, significant economic factors, and general conditions and their impact on the credit quality of the Bank's loan and lease portfolios;
 - (g) the identification and amount of loans and leases to executive officers, directors, principal shareholders (and their related interests) of the Bank;
- and

- (h) the identification of loans and leases not in conformance with the Bank's lending and leasing policies, and exceptions to the Bank's lending and leasing policies.

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

ARTICLE XI

CREDIT RISK MANAGEMENT

(1) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program to reduce the high level of credit risk in the Bank. The program shall include, but not be limited to:

- (a) procedures to strengthen credit underwriting, particularly in the commercial lending portfolio;
- (b) procedures to strengthen management of credit risk operations and to maintain an adequate, qualified staff in all loan administration areas;
- (c) procedures for strengthening collections; and
- (d) an action plan to control asset growth.

(2) The Board shall submit a copy of the program to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection.

(3) At least quarterly, the Board shall prepare a written assessment of the Bank's credit risk, which shall evaluate the Bank's progress under the aforementioned program. The Board shall submit a copy of this assessment to the Assistant Deputy Comptroller.

(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 XII

CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in the November 15, 2004 Report of Examination, in any subsequent Report of Examination, by internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination.

(2) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written program designed to eliminate the basis of criticism of assets criticized in the November 15, 2004 Report of Examination, in any subsequent Report of Examination, or by any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination as "doubtful," "substandard," or "special mention." This program shall include, at a minimum:

- (a) an identification of the expected sources of repayment;
- (b) the appraised value of supporting collateral and the position of the Bank's lien on such collateral where applicable;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and
- (d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

(3) Upon adoption, a copy of the program for all criticized assets equal to or exceeding twenty-five thousand dollars (\$25,000) shall be forwarded to the Assistant Deputy Comptroller.

(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.

(5) The Board, or a designated committee, shall conduct a review, on at least a quarterly basis, to determine:

- (a) the status of each criticized asset or criticized portion thereof that equals or exceeds twenty-five thousand dollars (\$25,000);
- (b) management's adherence to the program adopted pursuant to this Article;
- (c) the status and effectiveness of the written program; and
- (d) the need to revise the program or take alternative action.

(6) A copy of each review shall be forwarded to the Assistant Deputy Comptroller on a quarterly basis (in a format similar to Appendix A, attached hereto).

(7) The Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in the November 15, 2004 Report of Examination, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination and whose aggregate loans or other extensions exceed twenty-five thousand dollars (\$25,000) only if each of the following conditions is met:

- (a) the Board or designated committee finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, extending or capitalizing any additional credit, a majority of the full Board (or designated committee) approves the credit extension and

records, in writing, why such extension is necessary to promote the best interests of the Bank; and

- (b) a comparison to the written program adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised.

(8) A copy of the approval of the Board or of the designated committee shall be maintained in the file of the affected borrower.

ARTICLE XIII

CREDIT AND COLLATERAL EXCEPTIONS

(1) Within sixty (60) days, the Board shall obtain current and satisfactory credit information and collateral documentation on all loans lacking such information, including those listed in the November 15, 2004 Report of Examination, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(2) Effective immediately, the Bank may grant, extend, renew, alter or restructure any loan or other extension of credit only after:

- (a) documenting the specific reason or purpose for the extension of credit;
- (b) identifying the expected source of repayment in writing;
- (c) structuring the repayment terms to coincide with the expected source of repayment;
- (d) obtaining and analyzing current and satisfactory credit information, including cash flow analysis, where loans are to be repaid from operations;

- (i) Failure to obtain the information in (3)(d) shall require a majority of the full Board (or a delegated committee thereof) to certify in writing the specific reasons why obtaining and analyzing the information in (3)(d) would be detrimental to the best interests of the Bank.
- (ii) A copy of the Board certification shall be maintained in the credit file of the affected borrower(s). The certification will be reviewed by this Office in subsequent examinations of the Bank; and
- (e) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable.

ARTICLE XIV

CONCENTRATIONS OF CREDIT

(1) Within thirty (30) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written asset diversification program consistent with OCC Banking Circular 255.

The program shall include, but not necessarily be limited to, the following:

- (a) a review of the balance sheet to identify any concentrations of credit;
- (b) a written analysis of any concentration of credit identified above in order to identify and assess the inherent credit, liquidity, and interest rate risk;
- (c) policies and procedures to control and monitor concentrations of credit, including setting limits for each concentration of credit as a percentage of capital; 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 Section 216 of the Comptroller's Handbook for National Bank Examiners.

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

(4) The Board shall forward a copy of any analysis performed on existing or potential concentrations of credit to the Assistant Deputy Comptroller immediately following the review.

(5) 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 XV

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 external loan review;
- (b) an estimate of inherent loss exposure on each credit;
- (c) loan loss experience;
- (d) trends of delinquent and nonaccrual loans;
- (e) concentrations of credit in the Bank; and
- (f) present and prospective economic conditions.

(2) The program shall provide for a review of the Allowance by the Board prior to the end of 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) Within five (5) days of its completion, a copy of the Board's program shall be submitted to the Assistant Deputy Comptroller for review and prior written 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 XVI

CAPITAL PLAN

(1) The Bank shall achieve and maintain the following capital levels (as defined in 12 C.F.R. Part 3):

- (a) Total risk-based capital at least equal to ten percent (10%) of risk-weighted assets; and
- (b) Tier 1 capital at least equal to eight percent (8%) of adjusted total assets.²

² Adjusted total assets is defined in 12 C.F.R. § 3.2(a) as the average total asset figure used for Call Report purposes minus end-of-quarter intangible assets. As further noted in 12 C.F.R. § 3.2(a), a bank may be required to compute and maintain its leverage ratio on the basis of actual, rather than average total assets. This language would have to be modified to reflect that change.

(2) The requirement in this Order to meet and maintain a specific capital level means that the Bank may not be deemed to be “well capitalized” for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 6 pursuant to 12 C.F.R. § 6.4(b)(1)(iv).

(3) 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) 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;
- (b) projections of the sources and timing of additional capital to meet the Bank's current and future needs;
- (c) contingency plans that identify alternative methods should the primary source(s) under (b) above not be available; and
- (d) a dividend policy that permits the declaration of a dividend only:
 - (i) when the Bank is in compliance with its approved capital program;
 - (ii) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
 - (iii) with the prior written determination of no supervisory objection by the Assistant Deputy Comptroller.

(4) Within five (5) days of its completion, the Bank's capital program shall be submitted to the Assistant Deputy Comptroller for review and prior written 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.

(5) 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 XVII

RESTRICTION ON ASSET GROWTH

(1) The Bank shall immediately restrict total loan growth to no more than five (5) percent per annum, measured against the Bank's total loans as of February 28, 2005, and by the Bank's total loans at the end of the calendar year thereafter. The Bank shall monitor loan growth on at least a quarterly basis.

(2) The restriction on asset growth shall remain in effect until:

(a) Articles II through XVIII have been found by the Assistant Deputy Comptroller to be in compliance with the terms of this Agreement; or

(b) the Board makes a written request to the Assistant Deputy Comptroller for an exception to the restriction on asset growth and receives a prior written determination of no supervisory objection.

ARTICLE XVIII

LIQUIDITY POLICY

(1) Within sixty (60) days, the Board shall develop and submit to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection, a written liquidity, asset, and liability management policy. The Board shall ensure that the Bank's policy is consistent with the Comptroller's Handbook for National Bank Examiners, Section 405, and

the Interest Rate Risk booklet, L-IRR, of the Comptroller's Handbook. The policy shall provide for a coordinated liquidity, asset, and liability management strategy.

(2) The Board shall take appropriate action to sustain the Bank's current operations and to withstand any anticipated or extraordinary demands against its funding base. Such actions may include, but are not necessarily limited to:

- (a) selling assets;
- (b) obtaining lines of credit from the Federal Reserve Bank;
- (c) obtaining lines of credit from correspondent banks;
- (d) recovering charged-off assets; and
- (e) injecting additional equity capital.

(3) The Board shall review the Bank's liquidity on a monthly basis. Such reviews shall consider:

- (a) a maturity schedule of certificates of deposit, including large uninsured deposits;
- (b) the volatility of demand deposits including escrow deposits;
- (c) the amount and type of loan commitments and standby letters of credit;
- (d) an analysis of the continuing availability and volatility of present funding sources;
- (e) an analysis of the impact of decreased cash flow from the Bank's loan portfolio resulting from delinquent and non-performing loans;
- (f) an analysis of the impact of decreased cash flow from the sale of loans or loan participations; and
- (g) geographic disbursement of, and risk from, brokered deposits.

(5) Monthly reports shall set forth liquidity requirements and sources and establish a contingency plan. Copies of these reports shall be forwarded to the Assistant Deputy Comptroller in the Bank's quarterly report to the Assistant Deputy Comptroller.

ARTICLE XIX

INTEREST RATE RISK POLICY

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a 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) employment of competent personnel to manage interest rate risk;
- (e) prudent limits on the nature and amount of interest rate risk that can be taken; and
- (f) 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 and prior written determination of no supervisory objection.

(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 XX

ADMINISTRATIVE APPEALS AND EXTENSIONS OF TIME

(1) If the Bank determines that an exception to any provision of this Order is in the best interests of the Bank, or requires an extension of any timeframe within this Order, the Board shall submit a written request to the Assistant Deputy Comptroller asking for relief.

(2) Any written requests submitted pursuant to this Article shall include a statement setting forth in detail the special circumstances that prevent the Bank from complying with any provision, that require the Assistant Deputy Comptroller to exempt the Bank from any provision, or that require an extension of any timeframe within this Order. All such requests shall be accompanied by relevant supporting documentation.

(3) The Assistant Deputy Comptroller's decision is final and not subject to further review.

ARTICLE XXI

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 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.

(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 non-compliance with such actions in a timely and appropriate manner; and
- (d) require corrective action be taken in a timely manner of any non-compliance 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 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 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/ Brian J. Quade

Brian J. Quade
Assistant Deputy Comptroller
San Francisco Field Office

3-16-2005

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	3/16/05
_____ Clayton S. Bartness	_____ Date
Signed	3/16/05
_____ Ray E. Caldwell	_____ Date
Signed	3/16/2005
_____ Dan I. Carlson	_____ Date
Signed	3-16-2005
_____ Claudia G. Dobyms	_____ Date
Signed	3-16-2005
_____ Terry Hollinger	_____ Date
Signed	3/16/05
_____ James E. Hulbert	_____ Date
Signed	3/16/05
_____ Rollie M. Hutton	_____ Date
Signed	3/16/05
_____ Jeffrey P. Rauth	_____ Date
Signed	3-16-05
_____ David H. Taylor	_____ Date
Signed	3-16-05
_____ Paul Thielen	_____ Date
Signed	3-16-05
_____ Steven R. Waite	_____ Date