

AGREEMENT BY AND BETWEEN
Palm Desert National Bank
Palm Desert, California
and
The Comptroller of the Currency

Palm Desert National Bank, Palm Desert, California (“Bank”) and the Comptroller of the Currency of the United States of America (“Comptroller”) wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller has determined that the Bank has engaged in unsafe and unsound banking practices relating to its concentrations of credit management, liquidity risk management, credit underwriting, and credit administration.

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 cause the Bank to continue to be designated as in “troubled condition,” as set forth in 12 C.F.R. § 5.51(c)(6), unless otherwise informed in writing by the Comptroller. In addition, this Agreement shall cause the Bank not to be designated as an “eligible bank” for purposes of 12 C.F.R. § 5.3(g), unless otherwise informed in writing by the Comptroller.

(6) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to the:

Assistant Deputy Comptroller
Southern California—South Field Office
1925 Palomar Oaks Way, Suite 202
Carlsbad, California 92008

ARTICLE II

COMPLIANCE COMMITTEE

(1) Within ten (10) days of this Agreement, the Board shall appoint a Compliance Committee of at least three (3) directors, of which no more than one (1) shall be an employee or controlling shareholder 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. 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 quarterly.
- (3) Within the month following the end of every calendar quarter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:
 - (a) a description of the action needed to achieve full compliance with each Article of this Agreement;
 - (b) actions taken to comply with each Article of this Agreement; and
 - (c) the results and status of those actions.
- (4) The Board shall review and forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller by the end of the month following the calendar quarter that it received such report.

ARTICLE III

DIVIDEND RESTRICTIONS

- (1) Effective immediately, the Bank shall only declare dividends:
 - (a) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
 - (b) with the prior written approval from the Assistant Deputy Comptroller, which shall be granted or denied within thirty (30) days of the receipt of a dividend request from the Bank.

ARTICLE IV

CREDIT RISK RATINGS AND NONACCRUAL RECOGNITION

- (1) Within sixty (60) days of this Agreement, the Board shall develop a program to ensure that the risks associated with the Bank's loans and other assets are properly reflected and accounted for on the Bank's books and records, and appropriately reported to the Board and management. Such program shall include, at a minimum, provisions requiring that:

- (a) the Bank's loans and other assets are appropriately and timely risk rated and reserved for, or charged-off, by the lending officers using a loan grading system that is based upon current facts, existing repayment terms and that is consistent with the guidelines set forth in the "Rating Credit Risk" booklet of the *Comptroller's Handbook*. The loan grading system shall consider, at a minimum, the following factors:
 - (i) new appraised values or other valuations;
 - (ii) project performance;
 - (iii) payment performance to date;
 - (iv) maturity dates;
 - (v) remaining interest reserves; and
 - (vi) current financial information about principals and guarantors;
- (b) the Bank's loans and other assets are timely placed on nonaccrual by the lending officers in accordance with the guidelines set forth in the Call Report; and
- (c) loan officers are accountable for failing to appropriately and timely risk rate and/or place loans on nonaccrual.

ARTICLE V

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within ninety (90) days of this Agreement, 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 appropriate Allowance. This review and program shall be designed to meet Generally Accepted Accounting Principles and regulatory guidance set forth in FAS 5, FAS

114, OCC Bulletin 2001-37, OCC Bulletin 2006-47, and the “Allowance for Loan and Lease Losses” booklet of the *Comptroller’s Handbook*, and shall focus particular attention on the following factors:

- (a) suitable policies and procedures that communicate the Allowance process internally to all applicable personnel;
- (b) clear explanations and documentation for the Allowance analysis;
- (c) results of the Bank’s internal risk ratings;
- (d) results of the Bank’s independent loan review;
- (e) an estimate of loss exposure on each impaired credit;
- (f) loan loss experience;
- (g) trends of delinquent and nonaccrual loans;
- (h) concentrations of credit in the Bank; and
- (i) present and prospective economic conditions.

(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 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.

ARTICLE VI

INDEPENDENT LOAN REVIEW

(1) Within thirty (30) days of this Agreement, the Board shall establish an effective, independent and on-going loan review program to review, at least every four months, the Bank’s loan portfolio to assure the timely identification and categorization of problem credits. Upon

adoption, a copy of the loan review program called for in this Article shall be forwarded to the Assistant Deputy Comptroller.

(2) The Bank's loan review program shall use a loan grading system consistent with the guidelines set forth in the "Rating Credit Risk" and "Allowance for Loan and Lease Losses" booklets of the Comptroller's Handbook. Such reports shall include, at a minimum, conclusions regarding:

- (a) the overall quality of the loan portfolio;
- (b) the identification, type, rating, and amount of problem loans;
- (c) the identification and amount of delinquent loans;
- (d) credit and collateral documentation exceptions;
- (e) the identification and status of credit related violations of law, rule or regulation;
- (f) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (b) through (e) of the Article;
- (g) concentrations of credit;
- (h) loans and leases to executive officers, directors, principal shareholders (and their related interests) of the Bank; and
- (i) loans not in conformance with the Bank's lending policies, and exceptions to the Bank's lending policies.

(3) The Bank's loan review program shall provide for a written report to be filed with the Board after each review, with the first review being completed and submitted to the Board by no later than December 31, 2008. The Board shall evaluate the independent loan review reports

and shall ensure that immediate, adequate, and continuing remedial action, if appropriate, is taken upon all findings noted in the reports.

(4) A copy of the reports submitted to the Board, as well as documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits, shall be forwarded to the Assistant Deputy Comptroller within thirty (30) days following the submission to the Board.

ARTICLE VII

COMMERCIAL REAL ESTATE PORTFOLIO MONITORING

(1) Within ninety (90) days of this Agreement, the Board shall adopt, implement and thereafter ensure Bank adherence to a revised commercial real estate lending policy that provides for the following enhancements:

- (a) conducting individual loan stress testing and/or sensitivity analysis at origination and periodically thereafter to quantify the impact of changing economic conditions on asset quality, earnings and capital, including at a minimum:
 - (i) the expansion of stress testing for residential construction loans to cover changes in interest rates, absorption rates and selling price;
 - (ii) the expansion of stress testing for income producing property loans to cover changes in interest rates, capitalization rates, vacancy rates, rental rates and prices; and
- (b) conducting portfolio-level multi-factor stress testing and/or sensitivity analysis to better quantify the impact of changing economic conditions on asset quality, earnings and capital.

(2) The Board shall submit a copy of the revised commercial real estate lending policy required by this Article to the Assistant Deputy Comptroller upon adoption.

ARTICLE VIII

CONCENTRATIONS OF CREDIT

(1) Within ninety (90) days of this Agreement, the Board shall prepare and submit to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection, a written program (including appropriate revisions to policies and procedures) designed to manage the risk and reduce the Bank's concentration in commercial real estate ("CRE") loans. The CRE concentration program should, at a minimum, include:

- (a) a written analysis of all existing concentrations of credit that fully assesses inherent credit, liquidity, and interest rate risk;
- (b) the establishment of an overall CRE reduction strategy that includes CRE concentration limits expressed in relation to the Bank's capital and stratified by type, locality and other meaningful measures supported by written analysis;
- (c) monthly monitoring of concentration reports that stratify the CRE portfolio (expressed in relation to the Bank's capital) by product type, locality and other meaningful measures;
- (d) the establishment of policies, systems and risk management practices in conformance with OCC Bulletin 2006-46 Interagency Guidance on CRE Concentration Risk Management, dated December 6, 2006, and the two letters on the same topic from the Western District Deputy Comptroller sent in December 2005 and October 2007; and

- (e) strategies and procedures to manage and reduce CRE concentrations to conform with established limits set in Subparagraph (b) of this Article.

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

ARTICLE IX

LIQUIDITY AND ASSET LIABILITY MANAGEMENT

(1) Within thirty (30) days of this Agreement, the Board shall prepare and submit for a prior written determination of no supervisory objection, an enhanced written liquidity program to ensure the Bank maintains liquidity at a level that is sufficient to sustain the Bank's current operations and to withstand any anticipated or extraordinary demand against its funding base, to include at a minimum:

- (a) measures to increase and maintain sufficient on-balance sheet liquidity;
- (b) the establishment of additional back-up funding sources;
- (c) measures to limit the use of non-core funding sources such as brokered deposits;
- (d) policies and procedures to ensure the implementation of adequate liquidity planning tools to:
 - (i) require management reports that enable the Board and management to monitor the Bank's liquidity position and maintain liquidity at an adequate level;
 - (ii) establish liquidity funding gap measurements and risk limits for overnight, 30, 60, and 90 day time frames;

- (iii) establish interest rate risk measurements and limits in terms of the effect of interest rate changes on the level of net interest income;
 - (iv) establish a model validation policy consistent with OCC Bulletin 2006-16 to address, at a minimum, internal/external model validation, frequency of back testing, and reporting results;
 - (v) establish the liquidity, maturity and pledging requirements of the investment portfolio;
 - (vi) define the nature, extent and purpose of Bank borrowings;
 - (vii) set limits on concentrations of funding sources; and
 - (viii) provide periodic review of the Bank's adherence to the policy; and
- (e) a contingency funding plan that ensures the Bank can remain liquidity solvent through stressed environments and that includes, at a minimum:
- (i) forecasting funding needs and funding sources under multiple stress scenarios;
 - (ii) representing management's best estimate of balance sheet changes that may result from a liquidity or credit event;
 - (iii) providing for assumptions based on the possible cumulative reductions in the primary liquidity sources;
 - (iv) providing for the impact of a significant increase in the level of problem assets, along with an assumption that wholesale funding sources may not be available;

- (v) identifying, quantifying, establishing and ranking all sources of funding by preference for the various scenarios, including asset-side funding, liability-side funding, and off-balance sheet funding;
- (vi) providing specific sources, uses and liquidity gap computations for each identified contingency scenario;
- (vii) ensuring that administrative policies and procedures are consistent with the Board's guidance and risk tolerances;
- (viii) providing a specific plan of action should wholesale funding sources become unavailable due to unforeseen circumstances; and
- (ix) designating responsibility within the Bank for all actions under the plan.

(2) After the OCC has advised the Bank that it does not take supervisory objection to the liquidity program required by this Article, the Board shall immediately implement, and shall thereafter ensure adherence to its terms.

ARTICLE X

AUTOMATED CLEARING HOUSE (ACH) OVERSIGHT

(1) Within sixty (60) days of this Agreement, the Board shall adopt, implement and thereafter ensure Bank adherence to a revised ACH risk management program that, at a minimum, provides for the following enhancements:

- (a) appoints an individual or committee to oversee the ACH program collectively for the Bank and the Electronic Banking Solutions ("EBS") division;

- (b) updates the ACH policy to assign roles and responsibilities for oversight, monitoring and reporting; and
- (c) enhances the tracking and reporting of the ACH functions throughout the institution to include:
 - (i) metrics and trend analyses on ACH volume, returns, operational losses and transaction types, with explanations for variances from prior reports;
 - (ii) metrics and trend analyses related to the composition of the Bank's portfolio of originators and, as applicable, third-party senders;
 - (iii) capital adequacy relative to the volume of ACH activity and the level of risk associated with the originators;
 - (iv) the percentage of the deposit base that is linked to ACH origination activity;
 - (v) a summary of return rates by originator and, as applicable, third-party senders;
 - (vi) unauthorized returns that exceed Board-established thresholds;
 - (vii) notices of potential and actual rules violations and fines by NACHA; and
 - (viii) risk management reports, including a comparison of actual performance to approved risk parameters.

ARTICLE XI

VENDOR MANAGEMENT – THIRD-PARTY PROVIDERS

(1) Within sixty (60) days of this Agreement, the Board shall revise, adopt and thereafter ensure adherence to a written program (including appropriate revisions to policies and procedures) designed to manage and control the risks associated with the Bank's third-party service providers consistent with the guidance contained in OCC Bulletin 2001-47 "Third-Party Relationships: Risk Management Principles." The revised Vendor Management program shall, at a minimum, include:

- (a) the appointment of a committee or officer to be responsible for the Bank's vendor management process;
- (b) establish criteria for risk rating vendors that shall include, at a minimum:
 - (i) cost thresholds;
 - (ii) access to sensitive information; and
 - (iii) business importance;
- (c) the development of a comprehensive vendor listing that includes the assignment of the risk rating established in Subparagraph (b);
- (d) the development of documented oversight requirements for vendors based upon their assigned risk rating;
- (e) the development of a vendor management training program for all applicable personnel; and
- (f) enhanced Board reporting to include a periodic summary of service level received or contract completion and disaster recovery for significant vendors.

ARTICLE XII

MERCHANT PROCESSING

(1) Within sixty (60) days of this Agreement, the Board shall develop, implement, and thereafter ensure Bank adherence to an independent audit program designed to ensure a strong control environment in the Bank's merchant processing activities (the "Program") and that is sufficient to:

- (a) detect irregularities and weak practices in the merchant processing operations;
- (b) determine the Program's level of compliance with all applicable laws, rules and regulations;
- (c) evaluate the Program's adherence to established policies and procedures, with particular emphasis directed to merchant underwriting and monitoring, MIS adequacy and accuracy, and accounting and financial reporting;
- (d) assess and report the effectiveness of the policies, procedures and controls, as well as management's oversight of the Program; and
- (e) establish an annual audit plan using a risk-based approach sufficient to achieve these objectives.

(2) Upon completion, the Board shall forward a copy of the independent audit program required by Paragraph (1) of this Article to the Assistant Deputy Comptroller.

ARTICLE XIII

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 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 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/

Kay E. Kowitt
Deputy Comptroller
Western District
Office of the Comptroller of the Currency

10/9/08

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.

<u>/s/</u> G. Dale Cowle	<u>10/7/08</u> Date
<u>/s/</u> Irwin Golds	<u>10/7/08</u> Date
<u>/s/</u> Sandra Hartfield	<u>10/7/08</u> Date
<u>/s/</u> Colin McDermott	<u>10/7/08</u> Date
<u>/s/</u> Kevin McGuire	<u>10/7/08</u> Date
<u>/s/</u> Pamela McGuire	<u>10/7/08</u> Date
<u>/s/</u> Randal Miller	<u>10/7/08</u> Date
<u>/s/</u> Dona Peri	<u>10/7/08</u> Date
<u>/s/</u> Richard Schneider	<u>10/7/08</u> Date