

AGREEMENT BY AND BETWEEN
Coast National Bank
San Luis Obispo, CA
and
The Comptroller of the Currency

Coast National Bank, San Luis Obispo, CA (“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 found unsafe and unsound banking practices relating to credit risk management, problem credit supervision and violations of law at the Bank.

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors (“Board”), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

ARTICLE I

JURISDICTION

(1) This Agreement shall be construed to be a “written agreement entered into with the agency” within the meaning of 12 U.S.C. § 1818(b)(1).

(2) This Agreement shall be construed to be a “written agreement between such depository institution and such agency” within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).

(3) This Agreement shall be construed to be a “formal written agreement” within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). See 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a “written agreement” within the meaning of 12 U.S.C. § 1818(u)(1)(A).

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

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

ARTICLE II

COMPLIANCE COMMITTEE

(1) Within fifteen (15) days of the date 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 monthly.

(3) Within thirty (30) days of the date of this Agreement and every thirty (30) days thereafter, 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 forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller within ten (10) days of receiving such report.

(5) 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 Agreement.

ARTICLE III

CAPITAL AND STRATEGIC PLANNING

(1) Within sixty (60) days of the date of this agreement, the Board shall develop, implement, and thereafter ensure Bank adherence to a written capital plan for the Bank covering at least the next three years (hereafter the "Bank's Three-Year Plan"), complete with specific time frames that incorporate the capital, and other requirements of this Article. Copies of the Bank's Three-Year Plan shall be forwarded to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection.

(2) The Bank's Three-Year Plan shall establish objectives and projections for the Bank's overall risk profile, earnings performance, growth expectations, balance sheet mix, off-balance sheet activities, liability structure, capital and liquidity adequacy, together with specific strategies to achieve those objectives, that are specific, measurable, verifiable, and, at a minimum, address or include:

(a) Specific plans for the maintenance of adequate capital;

- (b) Projections for growth and capital requirements based on a detailed analysis of the Bank's assets, liabilities, earnings, provision extent, 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 needs;
- (e) Contingency plans that identify alternative methods should the primary source(s) not be available;
- (f) A board review and update of the capital program and capital management policy, on an annual basis, or more frequently if necessary; and
- (g) 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 approval from the Assistant Deputy Comptroller.

(3) Upon adoption, a copy of the Bank's Three-Year Plan shall be forwarded 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 Three-Year plan.

(4) Within sixty (60) days of the date of this agreement, the Board shall revise the Bank's existing Strategic Plan to incorporate the Bank's asset quality deterioration and unsatisfactory financial condition and address goals and objectives that focus on restoring the Bank to a safe and sound condition. These revisions shall include, at a minimum, measures designed to:

- (a) improve asset quality;
- (b) restore earnings;
- (c) ensure that the serious problems in the loan portfolio are adequately reflected in the assumptions in the Bank's budgeting process;
- (d) provide for appropriate capital and liquidity; and
- (e) assess whether the Bank has the personnel required to accomplish the Bank's strategic plan.

(5) Upon revision, the Bank shall submit the updated Strategic Plan to the Assistant Deputy Comptroller for review.

ARTICLE IV

CONCENTRATIONS OF CREDIT

(1) Within sixty (60) days of the date of this agreement, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written asset diversification program consistent with "Concentrations of Credit (Section 216)" of the Comptroller's Handbook. The program shall include, but not necessarily be limited to, the following:

- (a) an action plan for the reduction of the Bank's concentration in commercial real estate (CRE) that includes, at a minimum:

- (i) a reduction strategy that includes CRE concentration limits stratified by type, locality and other meaningful measures supported by written analysis;
 - (ii) monthly monitoring of concentration reports that stratify the CRE portfolio by product type, locality and other meaningful measures;
 - (iii) strategies and procedures to manage and reduce CRE concentrations to conform with established limits set in Subparagraph (a)(i) of this Article; and
 - (iv) target dates for the reduction of the Bank's CRE concentration to levels below the limits established in subparagraph (a)(i) of this Article.
- (b) a review of the balance sheet to identify any additional concentrations of credit;
- (c) a written analysis of any additional concentration of credit identified in subparagraph (b) in order to identify and assess the inherent credit, liquidity, and interest rate risk;
- (d) the establishment of safe and sound formal risk limits for all existing and future concentrations of credit based upon a percentage of the Bank's capital;
- (e) policies and procedures to control and monitor concentrations of credit; and
- (f) 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 the “Loan Portfolio Management” booklet of the Comptroller's Handbook.

(3) The Board shall ensure that future concentrations of credit are subjected to the analysis required by this Article and that the analysis demonstrates 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.

ARTICLE V

PROBLEM LOAN MANAGEMENT

(1) Effective as of the date of this Agreement, the Board shall take immediate and continuing action to protect its interest in those assets criticized in the ROE, 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) The Board’s compliance with Paragraph (1) of this Article shall include the development of enhancements to the Bank’s Criticized Asset Reports (CARs), to be submitted monthly to the Board, for all criticized credit relationships totaling \$200,000 or above. The revised CARs shall contain, at a minimum, analysis and documentation of the following:

- (a) a complete credit history, to include, at a minimum:
 - (i) loan origination date;
 - (ii) loan purpose;
 - (iii) grade history, including the reason for any grade change;
 - (iv) any material changes since the previous CAR was filed;

- (b) an identification of the expected sources of repayment;
- (c) the appraised value of supporting collateral and the position of the Bank's lien on such collateral where applicable as well as other necessary documentation to support the collateral valuation;
- (d) an analysis of current and satisfactory credit information, to include, at a minimum, the timely analysis of tax returns, financial statements, news reports, global cash flow, contingent liabilities, and other indicators of possible problems;
- (e) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment;
- (f) trigger dates for positive borrower actions or for loan officers to reassess the strategy and enact collection plans; and
- (g) for criticized relationships of \$200,000 or above that were made for the purpose of constructing or developing CRE, the reports shall also include:
 - (i) the initial scheduled maturity date of the loan, number of extensions and/or renewals, and current maturity date;
 - (ii) project development status;
 - (iii) a comparison of development costs to the budgeted amount;
 - (iv) a comparison of sales activity to the original sales projections;
 - (v) current market conditions and activity;
 - (vi) amount of initial interest reserve and the amount of any subsequent additions to the reserve;
 - (vii) an assessment of the borrower's global cash flow;

- (viii) an assessment of the guarantor's ability to support the project; and
- (ix) any other significant information relating to the project.

(3) The CARs required by Paragraph (2) of this article shall cover the entire credit relationship, rather than the current process of generating separate reports for individual loans.

(4) Effective as of the date of this Agreement, the Bank may not 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 ROE, 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 \$200,000, unless each of the following conditions is met:

- (a) the Board or a designated committee thereof 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 Board or a designated committee thereof approves the credit extension and documents in writing, the reasons that such extension is necessary to promote the best interests of the Bank; and
- (b) the Board's formal plan to collect or strengthen the criticized asset will not be compromised.

(5) The Board shall conduct a review, on at least a monthly basis, to determine the status of all criticized assets and Bank management's adherence to the requirements of this Article.

ARTICLE VI

CREDIT RISK RATINGS

(1) Within ninety days (90) of the date of this Agreement, the Bank shall perform a portfolio-wide credit review, with a focus on real estate secured loans, to determine the current extent of risk. Factors that must be considered in this review are:

- (a) new appraised values or other updated valuations;
- (b) project performance;
- (c) payment performance;
- (d) maturity dates;
- (e) remaining interest reserves; and
- (f) current financial information regarding principals and guarantors.

(2) Within sixty (60) days of the date of this Agreement, the Board shall develop a program to ensure that the risk associated with the Bank's loans is properly reflected and accounted for on the Bank's books and records, to include, at a minimum, provisions requiring that:

- (a) the Bank's loans and other assets are appropriately and timely risk rated and 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 Rating Credit Risk, A-RCR, of the *Comptroller's Handbook*;
- (b) the Bank's loan review system provides meaningful, detailed reports to the Board on portfolio quality, risks, and trends; and
- (c) loan officers are accountable for failing to appropriately and timely risk rate loans.

ARTICLE VII

CREDIT RISK MANAGEMENT

(1) Effective as of the date of this Agreement, the Board shall ensure that all lending officers comply with all laws, rules, regulations, Bank policies and procedures, safe and sound banking practices, and fiduciary duties.

(2) Within thirty (30) days of the date of this Agreement, 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 CRE portfolio;
- (b) procedures to strengthen management of loan workout operations and to maintain adequate, qualified staff in all lending areas;
- (c) procedures for strengthening collections; and

(3) Within sixty (60) days of the date of this Agreement, the Bank shall revise its loan policy to require, at a minimum, that the Bank may not grant, extend, renew, alter or restructure any loan or other extension of credit above \$100,000 without:

- (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 current and satisfactory borrower financial information, including analysis and documentation of global cash flow and global debt service ability;

- (e) determining and documenting whether the loan complies with the Bank's Loan Policy and if it does not comply, providing identification of the exception and ample justification to support waiving the policy exception;
- (f) making and documenting the determinations made regarding the customer's ability to repay the credit on the proposed repayment terms;
- (g) analyzing loan to value ratios based on collateral type;
- (h) independent appraisal ordering and review procedures that ensure assumptions and valuations are properly supported and documented to include expanded documentation of appraisal deficiencies and mitigating factors.
- (i) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable;
- (j) ensuring that, when required, credit approval presentations contain all appropriate information required to allow the Bank to make an informed decision; and
- (k) ensuring that all participations purchased meet the requirements of prudent lending policies and Banking Circular 181.

(4) Within sixty (60) days of the date of this agreement, the Bank shall revise its loan policy to strengthen on-going monitoring and documenting the status of its borrowers. These revisions shall include, at a minimum procedures designed to require:

- (a) the maintenance of up to date borrower financial information, to include at a minimum timely analysis of tax returns, financial statements, global cash flow, contingent liabilities, and other indicators of possible problems;

- (b) periodic transaction level stress testing throughout the duration of the credit.
- (b) the maintenance of up to date guarantor financial information;
- (d) adequate collateral documentation is maintained on all borrowers;
- (e) adequate construction controls, including cost reviews, inspections prior to each advance, disbursement controls, and monitoring for cost overruns and adequacy of remaining interest reserves; and
- (f) updated appraisals, when required or deemed necessary, are obtained in a timely manner to ensure that adequate collateral coverage is maintained.

ARTICLE VIII

EXTERNAL LOAN REVIEW

(1) Within sixty (60) days of the date of this Agreement, the Board shall employ a qualified consultant to perform, at a minimum, semi-annual loan reviews of the Bank. The scope of the external loan reviews shall be forwarded to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection. The external loan review system shall provide for a written report to be filed with the Board after each review and shall use a loan and lease grading system consistent with the guidelines set forth in Rating Credit Risk, A-RCR, of the Comptroller's Handbook. Such reports shall, at a minimum, include comments and conclusions regarding:

- (a) the loan review scope and coverage parameters;
- (b) the overall quality of the loan and lease portfolios;

- (c) the identification, type, rating, and amount of problem loans and leases including grading differences;
- (d) the identification and amount of delinquent loans and leases;
- (e) credit and collateral documentation exceptions;
- (f) the identification and status of credit related violations of law, rule or regulation;
- (g) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (b) through (e) of the Article;
- (h) concentrations of credit;
- (i) loans and leases to affiliates and related parties;
- (j) loans and leases not in conformance with the Bank's Loan Policy, and exceptions to the Bank's Loan Policy; and
- (k) any recommendations for improvements.

ARTICLE IX

LIQUIDITY

(1) Within sixty (60) days of the date of this agreement, the Board shall revise the Bank's Contingency Funding Plan (CFP), to include, at minimum, the following improvements:

- (a) address additional crisis scenarios, including:
 - (i) determine impact and develop a response to the impact of a reduction in the Bank's asset quality and/or composite ratings;
 - (ii) determine impact and develop a response to the loss of an excessive volume of large deposits;

- (iii) determine impact and develop a response to the loss of Federal Home Loan Bank (FHLB) and other contingent funding sources;
- (iv) determine impact and develop a response to the occurrence of a catastrophic event or natural disaster;
- (b) action triggers, to include at a minimum:
 - (i) different liquidity ratios and limits that, if exceeded, would require management to take action;
- (c) the assignment of responsibilities:
 - (i) identify responsibilities of senior management during a liquidity crisis;
 - (ii) include the names, addresses, and telephone numbers of crisis team members; and
 - (iii) assign responsibility for initiating external contacts with regulators, investors, external auditors, the press, significant customers, and others.

(2) The Board shall approve changes to the CFP as they occur, and shall undertake a review of the CFP to ensure that it is adequate on at least an annual basis.

ARTICLE X

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within sixty (60) days of the date of this agreement, the Board shall adopt, implement, and thereafter ensure adherence to written policies and procedures for maintaining an

adequate Allowance for Loan and Lease Losses (“ALLL”) in accordance with generally accepted accounting principles. The ALLL policies and procedures shall be consistent with the guidance set forth in the Federal Financial Institutions Examination Council’s “Interagency Policy Statement on the Allowance for Loan and Lease Losses” dated December 13, 2006 (OCC Bulletin 2006-47), and shall at a minimum include:

- (a) procedures for determining whether a loan is impaired and measuring the amount of impairment, consistent with FASB Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan;
- (b) procedures for segmenting the loan portfolio and estimating loss on groups of loans, consistent with FASB Statement of Financial Accounting Standards No. 5, Accounting for Contingencies;
- (c) procedures for validating the ALLL methodology;
- (d) a process for summarizing and documenting, for the Board’s review and approval, the amount to be reported in the Consolidated Reports of Condition and Income (“Call Reports”) for the ALLL. Any deficiency in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Call Reports, through additional provision expense.

ARTICLE XI

APPRAISALS OF REAL PROPERTY

(1) As of the date of this agreement, the Board shall ensure take the necessary steps to ensure that the Bank complies with the appraisal regulation found in 12 C.F.R. Part 34, to include, at a minimum:

- (a) amending the Bank's policies and procedures to ensure compliance with 12 C.F.R. part 34; and
- (b) ensuring that all appropriate Bank personnel receiving proper training regarding the appraisal requirements found in 12 C.F.R. Part 34.

ARTICLE XII

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/her by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are

amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

(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 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/

Brian J. Quade
Assistant Deputy Comptroller
San Francisco Field Office

February 10, 2009

Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

/s/

Marilyn Britton

2/10/2009

Date

/s/

Dario Domenghini

2/10/2009

Date

Michael L. Lady

Date

/s/

Gene D. Mintz

2/10/2009

Date

/s/

Ronald R. Olson

2/10/2009

Date

/s/

Jack Robasciotti

2/10/2009

Date

/s/

Jack Wauchope

2/10/2009

Date

/s/

Dan Wixom

2/10/2009

Date