

**UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
COMPTROLLER OF THE CURRENCY**

In the Matter of:)
Prime Pacific Bank, National Association)
Lynnwood, Washington)

**STIPULATION AND CONSENT TO THE ISSUANCE
OF A CONSENT ORDER**

The Comptroller of the Currency of the United States of America (“Comptroller”) intends to initiate cease and desist proceedings against Prime Pacific Bank, National Association, Lynnwood, Washington (“Bank”) pursuant to 12 U.S.C. § 1818(b) through the issuance of a Notice of Charges for unsafe and unsound banking practices relating to supervision of the Bank, including those relating to risk management and levels of concentration in the Bank’s commercial real estate portfolio, liquidity risk management, credit risk ratings, problem loan management, and the allowance for loans and lease losses.

The Bank, in the interest of compliance and cooperation, consents to the issuance of a Consent Order, dated August 31, 2009 (“Order”).

In consideration of the above premises, the Comptroller, through his authorized representative, and the Bank, through its duly elected and acting Board of Directors, hereby stipulate and agree to the following:

ARTICLE I

Jurisdiction

(1) The Bank is a national banking association chartered and examined by the Comptroller pursuant to the National Bank Act of 1864, as amended, 12 U.S.C. § 1 *et seq.*

(2) The Comptroller is “the appropriate Federal banking agency” regarding the Bank pursuant to 12 U.S.C. §§ 1813(q) and 1818(b).

(3) The Bank is an “insured depository institution” within the meaning of 12 U.S.C. § 1818(b)(1).

(4) This Order shall cause the Bank 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.

ARTICLE II

Agreement

(1) The Bank, without admitting or denying any wrongdoing, hereby consents and agrees to the issuance of the Order by the Comptroller.

(2) The Bank further agrees that said Order shall be deemed an “order issued with the consent of the depository institution” as defined in 12 U.S.C. § 1818(h)(2), and consents and agrees that said Order shall become effective upon its issuance and shall be fully enforceable by the Comptroller under the provisions of 12 U.S.C. § 1818(i). 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(i), 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.

(3) The Bank also expressly acknowledges that no officer or employee of the Comptroller 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.

ARTICLE III

Waivers


- (1) The Bank, by signing this Stipulation and Consent, hereby waives:
 - (a) The issuance of a Notice of Charges pursuant to 12 U.S.C. § 1818(b);
 - (b) Any and all procedural rights available in connection with the issuance of the Order;
 - (c) All rights to a hearing and a final agency decision pursuant to 12 U.S.C. § 1818(i), 12 C.F.R. Part 19;
 - (d) All rights to seek any type of administrative or judicial review of the Order;
and
 - (e) Any and all rights to challenge or contest the validity of the Order.

ARTICLE IV

Other Action

(1) The Bank agrees that the provisions of this Stipulation and Consent shall not inhibit, estop, bar, or otherwise prevent the Comptroller from taking any other action affecting the Bank if, at any time, it deems it appropriate to do so to fulfill the responsibilities placed upon it by the several laws of the United States of America.

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

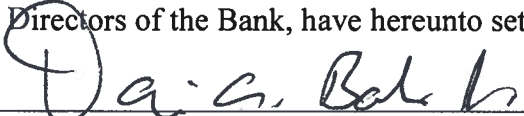


Brian J. Quade
Assistant Deputy Comptroller
San Francisco Field Office

August 31, 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.



David A. Bolin, Jr.

8-31-09

Date



Diana D. Clay

8-31-09

Date



Glenn A. Deutsch

8-31-09

Date



Norman P. Goodwin

8-31-09

Date



Timothy J. McMahon

8-31-09


Date



John R. Pfeifer

8/31/09

Date



Linda C. Schoener

8-31-09

Date



Harry E. Truitt

8-31-09

Date

Roger D. Werner

Date

**UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
COMPTROLLER OF THE CURRENCY**

In the Matter of:)
Prime Pacific Bank, National Association)
Lynnwood, Washington)

CONSENT ORDER

The Comptroller of the Currency of the United States of America (“Comptroller”), through his National Bank Examiner, has supervisory authority over Prime Pacific Bank, National Association, Lynnwood, Washington (“Bank”).

The Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a “Stipulation and Consent to the Issuance of a Consent Order,” dated August 31, 2009, that is accepted by the Comptroller. By this Stipulation and Consent, which is incorporated by reference, the Bank has consented to the issuance of this Consent Order (“Order”) by the Comptroller.

Pursuant to the authority vested in it by the Federal Deposit Insurance Act, as amended, 12 U.S.C. § 1818, the Comptroller hereby orders that:

ARTICLE I

COMPLIANCE COMMITTEE

(1) Within thirty (30) days of the date of this Order, 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.

(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.

September 30, 2009 *BH*
(3) By no later than ~~August 31, 2009~~, and by the end of every calendar month 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 Order;
- (b) Actions taken to comply with each Article of this Order; 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.

ARTICLE II

CAPITAL AND STRATEGIC PLAN

(1) Effective immediately, the Bank shall at all times maintain the following minimum capital ratios:

- (a) Tier 1 capital at least equal to nine percent (9%) of adjusted total assets;
- and

- (b) Total risk-based capital at least equal to twelve (12%) of risk-weighted assets.

(2) Effective immediately, the Bank shall only declare dividends:

- (a) When the Bank is in compliance with the Bank's Three-Year Plan as described below;
- (b) When the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
- (c) With the prior 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.

(3) Effective as of the date of this Order, the Bank shall not increase its total loans above the amount shown on its Consolidated Report of Condition ("Call Report") as of March 31, 2009, by more than five percent (5%) per annum until the Bank corrects the deficiencies in Asset Quality described in the Report of Examination conducted as of March 31, 2008 (the "ROE"), returns the Bank to a satisfactory condition, and the Bank receives a prior written determination of no supervisory objection from the Assistant Deputy Comptroller.

(4) Within ninety (90) days of this Order, the Board shall develop a written strategic 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 strategic and other requirements of this Article. A copy of the Bank's Three-Year Plan shall be forwarded to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection.

(5) 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, product line development and

market segments that the Bank intends to promote or develop, together with specific strategies to achieve those objectives, that are specific, measurable, verifiable, and, at a minimum, address or include:

- (a) An assessment of the Bank's present and future operating environment;
- (b) The development of strategic goals and quantifiable measures with specific implementation dates to ensure the Bank attains sustained earnings to support capital and liquidity;
- (c) An evaluation of the Bank's internal operations, staffing requirements, Board and management information systems and policies and procedures for their adequacy and contribution to the accomplishment of the goals and objectives developed pursuant to this Article;
- (d) Specific plans to establish responsibilities and accountability for the strategic planning process, new products, proposed changes in the Bank's operating environment, reduction of problem assets, and maintenance of adequate liquidity;
- (e) Control systems to identify and reduce risk to earnings, capital, and liquidity, and risks associated with any proposed changes in the Bank's operating environment;
- (f) Recognition that the Bank cannot offer or introduce new products or enter new market segments until it adopts an appropriate credit culture, continues appropriate liquidity management practices and sound risk management principles, and returns the Bank to a satisfactory condition;

- (g) Growth limitations designed to comply with Paragraph (3) of this Article and actions to monitor, control and reduce, where appropriate, significant concentrations of credit;
- (h) Specific plans for the maintenance of adequate capital as required by the Office of the Comptroller of the Currency (the "OCC") and sufficient to be well capitalized under 12 C.F.R. Part 6;
- (i) Specific plans for the maintenance of adequate liquidity in accordance with the requirements of Article III;
- (j) A dividend policy that permits the declaration of a dividend only:
 - (i) When the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
 - (ii) With the prior written determination of no supervisory objection by the Assistant Deputy Comptroller.
- (k) Projections for capital and liquidity requirements based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
- (l) A financial forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the next three years that shall address or include consideration of the requirements of this Article; and
- (m) Systems to monitor the Bank's progress in meeting the plan's goals and objectives.

(6) 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 Bank's Three-Year Plan.

ARTICLE III

LIQUIDITY RISK MANAGEMENT

(1) Within sixty (60) days of this Order, the Board shall update and submit for a prior written determination of no supervisory objection, a 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 maintain sufficient on-balance sheet liquidity;
- (b) Measures to ensure limited reliance upon non-core funding sources, including brokered deposits and credit-sensitive wholesale borrowings;
- (c) The establishment of additional back-up funding sources;
- (d) Policies and procedures to ensure the implementation of adequate liquidity planning tools, to include:
 - (i) A review of administrative policies and procedures to ensure they are consistent with the Board's guidance and risk tolerances;
 - (ii) Specific balance sheet liquidity targets that are consistent with the tools used to measure performance;
 - (iii) Reasonable risk limits to control the level of liquidity risk that incorporate forward-looking risk measurements and liability

concentration limits, such as limits on the amount of funds that may be sourced from any individual customer or groups of customers, or liability concentration limits by instrument; and

- (e) A contingency funding plan that ensures the Bank can remain liquidity solvent through stressed environments and that includes, at a minimum:
 - (i) Management's best estimate of balance sheet changes that may result from a liquidity or credit event;
 - (ii) Specific terms or events that trigger enactment of the plan;
 - (iii) Necessary management information systems and reporting criteria for use in crisis situations;
 - (iv) Management responsibilities for enacting the plan and for taking specific actions once enacted; and
 - (v) Prioritizations of all sources of funding for the various scenarios including asset side funding, liability side funding, and off-balance sheet funding.

(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 IV

COMMERCIAL REAL ESTATE RISK MANAGEMENT

(1) Within sixty (60) days of this Order, 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 in the Bank's commercial real estate ("CRE") loan portfolio in accordance with the guidelines in the OCC Bulletin 2006-46, Concentration in Commercial Real Estate Lending, and Commercial Real Estate and Construction Lending, A-CRE, of the *Comptroller's Handbook*.

The written CRE program should, at a minimum, include:

- (a) The establishment of an overall CRE reduction strategy that includes CRE concentration limits stratified by type, locality and other meaningful measures supported by written analysis;
- (b) Monthly monitoring of concentration reports that stratify the CRE portfolio by product type, locality and other meaningful measures;
- (c) Strategies and procedures to manage and reduce CRE concentrations to conform with established limits set in subparagraph (a) of this Article;
- (d) Portfolio-level multi-factor stress testing and/or sensitivity analysis to quantify the impact of the changing economic conditions on asset quality, earnings, and capital, at the time of underwriting and periodically throughout the duration of the credit. This includes, as applicable, stress testing of interest rates, capitalization rates, absorption and pricing data, cost overruns, occupancy/vacancy rates, lease rates, and rental rates on non-owner occupied properties;
- (e) Significant individual loan stress testing and/or sensitivity analysis to quantify the impact of changing economic conditions on asset quality, earnings, and capital;

- (f) The establishment of Loan Policy CRE underwriting standards by CRE type that include specific requirements relating to:
- (i) Maximum loan amount and maturity by type of property;
 - (ii) Approval authorizations;
 - (iii) Minimum file documentation and analysis;
 - (iv) Minimum requirements for initial investment and maintenance of hard equity;
 - (v) Minimum standards for borrower net worth, property cash flow/debt service, collateral coverage, and guarantor support;
 - (vi) The performance of global cash flow analysis to evaluate the repayment ability of borrowers with multiple projects;
 - (vii) Standards for ensuring a complete and accurate assessment of guarantor support;
 - (viii) Standards for ensuring that CRE loans have appropriate minimum loan covenants;
 - (ix) Minimum standards for the acceptability for using, and defined limits for soft cost and/or interest reserve financing;
 - (x) Maximum amortization periods and minimum principal curtailment for CRE and construction projects that are not meeting original projections; and
 - (xi) Procedures for loan closing and disbursement processes, including the supervised disbursement of construction loan proceeds;

- (g) Requirements to ensure participations purchased are consistent with sound banking practices, guidelines set forth in Banking Circular 181 (Revised), dated August 2, 1984, and the requirements of 12 C.F.R. Part 34;
- (h) Maintenance of proper collateral margins in loans made for the purpose of constructing or developing real estate, including but not limited to, procedures for ensuring that:
 - (i) Periodic, meaningful, and well-documented inspections are performed on all constructions projects;
 - (ii) Draw requests are advanced in accordance with construction progress and budget;
 - (iii) Documentation is maintained for project completion versus amount advanced;
 - (iv) Lien waivers are obtained from contractors and sub-contractors;
and
 - (v) Borrower's hard equity is tracked by project;
- (i) Standards for when CRE loan policy exceptions are appropriate, what factors should exist to mitigate exceptions, and how the level and trend of exceptions should be documented, tracked and reported to the Board;
- (j) Standards for appraisal ordering and review processes; and
- (k) Standards to ensure CRE loans are appropriately risk rated in accordance with Article V.

(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.

(3) At least quarterly, the Board shall submit a written assessment of the Bank's progress in reaching compliance with the policies and procedures required by this Article to the Assistant Deputy Comptroller.

ARTICLE V

CREDIT RISK RATINGS

(1) Within sixty (60) days of this Order, 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 loans are timely placed on nonaccrual by the lending officers in accordance with the guidelines set forth in the Call Report;
- (c) Loan officers are accountable for failing to appropriately and timely risk rate and/or place loans on nonaccrual; and
- (d) Loan officer failure to properly risk rate and/or place loans on nonaccrual is considered in periodic performance reviews and compensation.

ARTICLE VI

PROBLEM LOAN MANAGEMENT

(1) Within sixty (60) days of this Order, the Board shall establish a plan that will reduce the volume of problem assets by ensuring that management promptly addresses and intervenes, as appropriate, to resolve problem credit situations consistent with OCC Banking Circular 255.

(2) Within forty-five (45) days of this Order, the Board shall reallocate internal resources or identify and employ a qualified outside individual to ensure that a person with demonstrated experience and skills leads management's efforts to resolve and reduce problem assets (hereinafter "loan workout specialist"). This person shall be independent and report to the Board of Directors.

(3) Within ten (10) days of the appointment or employment of any loan workout specialist, the Board shall submit the name and qualifications of the individual to the Assistant Deputy Comptroller.

(4) Effective as of the date of this Order, 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.

(5) The Board's compliance with this Article shall include the development of procedures for the monthly submission and review of problem asset reports for all criticized credit relationships totaling \$300,000 or above, that require, at a minimum, analysis and documentation of the following:

- (a) An identification of the expected sources of repayment and an analysis of their adequacy;
- (b) 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;
- (c) An analysis of current and satisfactory credit information, including cash flow analysis where loans are repaid from operations;
- (d) The proposed action to eliminate the basis for criticism and the time frame for its accomplishment;
- (e) Trigger dates for positive borrower actions or for loan officers to reassess the strategy and enact collection plans;
- (f) A determination of whether the loan is impaired and the amount of the impairment, consistent with FASB Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan; and
- (g) For criticized relationships of \$300,000 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) For current projects in development, project development status;
 - (iii) A comparison of development costs to the budgeted amount;
 - (iv) A comparison of sale activity to the original sales projections;

- (v) Amount of initial interest reserve and the amount of any subsequent additions to the reserve;
- (vi) An assessment of the borrower's global cash flow;
- (vii) An assessment of any guarantor's global cash flow; and
- (viii) Any other significant information relating to the project.

(6) Effective as of the date of this Order, 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 \$300,000, 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 by the extension of credit.

ARTICLE VII

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within sixty (60) days of the date of this Order, the Board shall adopt, implement, and thereafter ensure adherence to written policies and procedures for maintaining an adequate Allowance for Loan and Lease Losses (“Allowance”) in accordance with Generally Accepted Accounting Principles. The Allowance 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 July 20, 2001 (OCC Bulletin 2001-37), 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 Allowance methodology;
- (d) Procedures to ensure that the estimation of credit losses considers the relevant qualitative and environmental factors, with particular focus on the following:
 - (i) Trends in the Bank’s internal risk ratings, delinquent and nonaccrual loans;
 - (ii) Results of the Bank’s external loan review;

- (iii) Concentrations of credit in the Bank;
- (iv) Present and prospective economic conditions; and
- (v) Applicable experience of the Bank's lending staff.

(2) The program shall provide for a process for summarizing and documenting, for the Board's review and approval, the amount to be reported in the Call Report for the Allowance. 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.

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

ARTICLE VIII

CLOSING

(1) Although the Board is by this Order required to submit certain proposed actions and programs for the review or prior written determination of no supervisory objection of the Assistant Deputy Comptroller, 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 it by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Order shall in any way inhibit, estop, bar or otherwise prevent the Comptroller from so doing.

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

(4) The provisions of this Order are effective upon issuance of this Order by the Comptroller, through his authorized representative whose hand appears below, and shall remain effective and enforceable, except to the extent that, and until such time as, any provisions of this Order shall have been amended, suspended, waived, or terminated in writing by the Comptroller.

(5) In each instance in this Order 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 Order;

(b) Require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Order;

(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 Order is intended to be, and shall be construed to be, a final order issued pursuant to 12 U.S.C. § 1818(b), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States.

(7) The terms of this Order, 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.

IT IS SO ORDERED, this 31st day of August, 2009.



Brian J. Quade
Assistant Deputy Comptroller
San Francisco Field Office