

UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

Written Agreement by and among

PACIFIC COMMERCE BANK
Los Angeles, California

and

FEDERAL RESERVE BANK OF
SAN FRANCISCO
San Francisco, California

Docket No. 11-099-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Pacific Commerce Bank, Los Angeles, California (the “Bank”), a state-chartered bank that is a member of the Federal Reserve System, the Bank and the Federal Reserve Bank of San Francisco (the “Reserve Bank”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on July 27, 2011, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Thomas Iino to enter into this Agreement on behalf of the Bank, and consenting to compliance with each and every provision of this Agreement by the Bank and its institution-affiliated parties, as defined in section 3(u) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u)).

NOW, THEREFORE, the Bank and the Reserve Bank agree as follows:

Board Oversight

1. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank a written plan to strengthen board oversight of the management and operations of the Bank and to ensure that the Bank is operated in a safe and sound manner. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the board of directors will take to improve the Bank's condition and maintain effective control over, and supervision of, the Bank's senior management and major operations and activities, including but not limited to: credit risk management; lending and credit administration; loan grading and loan review; capital; earnings; internal audit; and compliance;

(b) standards for director participation and attendance;

(c) the responsibility of the board of directors to monitor management's adherence to approved Bank policies and procedures, and applicable laws and regulations;

(d) a description of the information and reports that will be regularly reviewed by the Bank's board of directors in its oversight of the operations and management of the Bank, including information on the Bank's problem assets, concentrations of credit, allowance for loan and lease losses ("ALLL"), capital, earnings, internal audit, and compliance; and

(e) standards for completing and maintaining minutes of board meetings.

Corporate Governance and Management Review

2. (a) Within 30 days of this Agreement, the board of directors of the Bank shall retain an independent consultant acceptable to the Reserve Bank to assess the effectiveness of the Bank's corporate governance, board and management structure and staffing needs (the "Review"), and to prepare a written report of findings and recommendations (the "Report"). The Review shall, at a minimum, address, consider, and include:

- (i) the qualifications and performance of each of the Bank's senior executive officers to determine whether the individual possesses the ability, experience, and other qualifications to competently perform present and anticipated duties, including their ability to: adhere to applicable laws and regulations and the Bank's established policies and procedures; restore and maintain the Bank to a safe and sound condition; and comply with the requirements of this Agreement;
- (ii) the identification of present and future management and staffing needs for each area of the Bank, particularly in the areas of credit risk management, lending and credit administration, loan review, problem asset workout, and internal audit; and
- (iii) an assessment of the current structure, qualifications, and composition of the board of directors and its committees,

and a determination of the structure and composition needed to adequately supervise the affairs of the Bank.

(b) Within 10 days of the Reserve Bank's approval of the Bank's independent consultant selection, the Bank shall submit an engagement letter to the Reserve Bank for approval. The engagement letter shall require the independent consultant to submit the Report within 60 days of regulatory approval of the engagement letter and to provide a copy of the Report to the Reserve Bank at the same time that it is provided to the Bank's board of directors.

3. Within 30 days of receipt of the Report, the board of directors shall submit a written management plan to the Reserve Bank that fully addresses the findings and recommendations in the independent consultant's Report and describes the specific actions that the board of directors shall take in order to strengthen the Bank's management and corporate governance, and to hire, as necessary, additional or replacement directors, officers or staff to properly oversee, manage, and operate the Bank.

Credit Risk Management

4. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan to strengthen credit risk management practices. The plan shall, at a minimum, address, consider, and include:

- (a) Procedures to periodically review and revise individual and portfolio risk exposure limits to address changes in market conditions;
- (b) strategies to minimize credit losses;
- (c) stress testing of the loan portfolio;

(d) enhanced monitoring by management and reporting to the board of directors of commercial real estate lending concentrations to include loan types, property types, and geographical locations;

(e) procedures and controls to identify, monitor, limit, and manage concentrations of credit that are consistent with the Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, dated December 12, 2006 (SR 07-1);

(f) a schedule for reducing and the means by which the Bank will reduce the level of concentrations, and timeframes for achieving the reduced levels; and

(g) procedures and controls to identify, monitor, limit, and manage large borrowing relationships.

Lending and Credit Administration

5. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank acceptable revised written lending and credit administration policies and procedures that shall, at a minimum, address, consider, and include:

(a) Standards for a written cash flow analysis of the borrower and any guarantor at loan origination, and the conditions under which updated financial information and periodic credit analysis are required;

(b) standards for documenting credit analysis;

(c) enhanced procedures for the review and approval of loans to insiders;

(d) enhanced procedures for conducting appraisals and evaluations including, but not limited to, when loans are extended or renewed, when new funds are

advanced, or when changes in market conditions or the condition of the collateral occur; and for other real estate owned (“OREO”);

- (e) procedures to identify, report, and correct, loan documentation exceptions;
- (f) standards for the timely movement of loans to non-accrual status;
- (g) standards for the identification, reporting, and management of troubled debt; and
- (h) training for all appropriate staff involved in the lending and credit administration function.

Loan Grading and Loan Review

6. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written program for the effective grading of the Bank’s loan portfolio. The program shall provide for policies, procedures, and processes for the timely and ongoing grading of loans. The program shall, at a minimum, address, consider, and include:

- (a) Standards and criteria for assessing the credit quality of loans, including a discussion of the factors used to assign appropriate risk grades to loans;
- (b) procedures for the early identification of problem loans;
- (c) procedures to re-evaluate the grading of loans in the event of material changes in the borrower’s performance or the value of the collateral;
- (d) procedures to evaluate the grading of all loans assigned less than a pass grade at least quarterly;
- (e) designation of the person(s) responsible for the grading of loans;

(f) controls to ensure staff's consistent application and adherence to the loan grading system; and

(g) a mechanism for reporting to senior management and the board of directors, at least monthly, that at a minimum: summarizes the Bank's loan grades; describes trends in asset quality; identifies the loans that are nonperforming, adversely graded, or identified as needing special attention; describes collateral, collateral value, and date of valuation; and describes the actions taken, or to be taken, by management for strengthening of the quality of any such loans.

7. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written program for the effective, ongoing review of the Bank's loan portfolio by a qualified independent party or by qualified staff that is independent of the Bank's lending function. The program shall provide for policies and procedures for the timely identification and categorization of problem loans, and processes to detect weaknesses in the Bank's loan approval, monitoring, and grading process. The program shall, at a minimum, address, consider, and include:

(a) The scope, depth, and frequency of the independent loan review;

(b) clearly defined responsibilities for the loan review function; and

(c) an objective and timely assessment of the overall quality of the loan portfolio and the accuracy of assigned loan grades.

8. The board of directors, or a committee thereof, shall evaluate the loan review report(s) and take appropriate steps to ensure that management takes prompt action to address findings noted in the report(s).

Asset Improvement

9. The Bank shall not, directly or indirectly, extend, renew, or restructure any credit to or for the benefit of any borrower, including any related interest of the borrower, whose loans or other extensions of credit are criticized in the report of examination conducted by the Reserve Bank and the California Department of Financial Institutions that commenced on January 10, 2011 (the “Report of Examination”), or in any subsequent report of examination, without the prior approval of a majority of the full board of directors. The board of directors shall document in writing the reasons for the extension of credit, renewal, or restructuring, specifically certifying that: (i) the Bank’s risk management policies and practices for loan workout activity are acceptable; (ii) the extension of credit is necessary to improve and protect the Bank’s interest in the ultimate collection of the credit already granted and maximize its potential for collection; (iii) the extension of credit reflects prudent underwriting based on reasonable repayment terms and is adequately secured; and all necessary loan documentation has been properly and accurately prepared and filed; (iv) the Bank has performed a comprehensive credit analysis indicating that the borrower has the willingness and ability to repay the debt as supported by an adequate workout plan, as necessary; and (v) the board of directors or its designated committee reasonably believes that the extension of credit will not impair the Bank’s interest in obtaining repayment of the already outstanding credit and that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the meetings of the board of directors or its committee, as appropriate, and a copy of the signed certification, together with the

credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower's credit file for subsequent supervisory review.

10. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on each loan or other asset in excess of \$300,000, including OREO, that (i) is past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) is on the Bank's problem loan list; or (iii) was adversely classified in the Report of Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$300,000, including OREO, becomes past due as to principal or interest for more than 90 days, is on the Bank's problem loan list, or is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank an acceptable written plan to improve the Bank's position on such loan or asset.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank's current problem loan list, a list of all loan renewals and extensions without full collection of interest in the last quarter, and past due/non-accrual report.

Allowance for Loan and Lease Losses

11. (a) Within 10 days of this Agreement, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "loss" in the Report of Examination that have not been previously collected in full or charged off.

Thereafter the Bank shall, within 30 days from the receipt of any report of examination, charge off all assets classified “loss” unless otherwise approved in writing by the Reserve Bank.

(b) Within 60 days of this Agreement, the Bank shall review and revise its ALLL methodology consistent with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 (SR 01-17 (Sup)) and December 13, 2006 (SR 06-17), and the findings and recommendations regarding the ALLL set forth in the Report of Examination, and submit a description of the revised methodology to the Reserve Bank . The revised ALLL methodology shall be designed to maintain an adequate ALLL and shall address, consider, and include, at a minimum, the reliability of the Bank’s loan grading system, the volume of criticized loans, concentrations of credit, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses in the Bank’s loan portfolio, including adversely classified loans, and the impact of market conditions on loan and collateral valuations and collectability.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure adherence to the revised ALLL methodology and provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. The board of directors shall maintain

written documentation of its review, including the factors considered and conclusions reached by the Bank in determining the adequacy of the ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank, within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of ALLL for that quarter.

Capital Plan

12. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include the Bank's current and future capital requirements, including:

(a) Compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(b) the volume of adversely classified assets;

(c) the adequacy of the loan loss reserve;

(d) any planned asset growth;

(e) the anticipated level of retained earnings;

(f) anticipated and contingent liquidity needs; and

(g) the source and timing of additional funds to fulfill the future capital and loan loss reserve needs of the Bank.

13. The Bank shall notify the Reserve Bank, in writing, no more than 30 days after the end of any quarter in which any of the Bank's capital ratios fall below the

approved plan's minimum ratios. Together with the notification, the Bank shall submit an acceptable written plan that details the steps that the Bank will take to increase their capital ratios to or above the approved plan's minimums.

Liquidity and Funds Management

14. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written enhanced contingency funding plan that, at a minimum, includes adverse scenario planning and identifies and quantifies available sources of liquidity for each scenario.

Strategic Plan and Budget

15. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank a strategic plan to improve the Bank's earnings and a budget for the remainder of 2011. The written plan and budget shall include, but not be limited to:

- (i) Identification of the major areas where, and means by which, the board of directors will seek to improve the Bank's operating performance;
- (ii) a realistic and comprehensive budget for the remainder of 2011, including income statement and balance sheet projections; and
- (iii) a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components.

(b) A strategic plan and budget for each calendar year subsequent to 2011 shall be submitted to the Reserve Bank at least 30 days prior to the beginning of that calendar year.

Internal Audit

16. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written internal audit program that is suitable to the Bank's risk profile. The program shall, at a minimum, address, consider, and include the requirements outlined in the Amended Interagency Guidance on the Internal Audit Function and its Outsourcing, issued March 17, 2003 (SR 03-05).

Dividends and Distributions

17. (a) The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors.

(b) All requests for prior approval shall be received at least 30 days prior to the proposed dividend declaration date. All requests shall contain, at a minimum, current and projected information, as appropriate, on the Bank's capital, asset quality, earnings and ALLL needs; and identification of the sources of funds for the proposed payment or distribution. The Bank must also demonstrate that the requested declaration or payment of dividends is consistent with the Board of Governors' Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323).

Compliance with Laws and Regulations

18. The Bank shall immediately take all necessary steps to correct all violations of law and regulation cited in the Report of Examination. In addition, the board of directors of the Bank shall take the necessary steps to ensure the Bank's future compliance with all applicable laws and regulations, including, but not limited to, the

prior approval and ending limit requirements of Regulation O of the Board of Governors (12 C.F.R. § 215.4).

19. In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, the Bank shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. §§ 225.71 *et seq.*).

20. The Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

Compliance with the Agreement

21. (a) Within 10 days of this Agreement, the board of directors shall appoint a compliance committee (the "Compliance Committee") to monitor and coordinate the Bank's compliance with the provisions of this Agreement. The Compliance Committee shall include outside directors who are not executive officers of the Bank, as defined in sections 215.2(e)(1) and 215.2(m)(1) of Regulation O of the Board of Governors (12 C.F.R. §§ 215.2(e)(1) and 215.2(m)(1)). At a minimum, the Compliance Committee shall meet at least monthly, keep detailed minutes of each meeting, and report its findings to the boards of directors of the Bank.

(b) Within 30 days after the end of each calendar quarter following the date of this Agreement, the board of directors shall submit to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

Approval and Implementation of Plans, Policies, Procedures, and Programs

22. (a) The Bank shall submit written plans, policies, procedures, programs and an engagement letter that are acceptable to the Reserve Bank within the applicable time periods set forth in paragraphs 2(b), 4, 5, 6, 7, 10(a), 10(b), 11(c), 12, 13, 14, and 16 of this Agreement. The Bank shall retain an independent consultant within the time period set forth in paragraph 2(a).

(b) Within 10 days of approval by the Reserve Bank, the Bank shall adopt the approved plans, policies, procedures, programs, and engagement letter. Upon adoption, the Bank shall promptly implement the approved plans, policies, procedures and programs and engagement letter and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans, policies, procedures, programs, and engagement letter shall not be amended or rescinded without the prior written approval of the Reserve Bank.

Communications

23. All communications regarding this Agreement shall be sent to:

- (a) Mr. Dale Vaughan
Examining Officer
Federal Reserve Bank of San Francisco
Los Angeles Branch
950 S. Grand Avenue
Los Angeles, California 90015
- (b) Mr. Thomas Iino
Chairman of the Board
Pacific Commerce Bank
420 East Third Street, Suite 100
Los Angeles, California 90013

Miscellaneous

24. Notwithstanding any provision of this Agreement, the Reserve Bank may, in its sole discretion, grant written extensions of time to the Bank to comply with any provision of this Agreement.

25. The provisions of this Agreement shall be binding upon the Bank, and its institution-affiliated parties, in their capacities as such, and their successors and assigns.

26. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank.

27. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, or any other federal or state agency from taking any other action affecting the Bank, or any of its current or former institution-affiliated parties and their successors and assigns.

28. Pursuant to section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under section 8 of the FDI Act (12 U.S.C. § 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 24th day of August, 2011.

PACIFIC COMMERCE BANK

FEDERAL RESERVE BANK
OF SAN FRANCISCO

By: /s/ Thomas Iino
Thomas Iino
Chairman of the Board

By: /s/ Dale Vaughan
Dale Vaughan
Examining Officer