

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

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Written Agreement By and Between	)	
	)	
VALLEY INDEPENDENT BANK	)	Docket No. 01-002-WA/RB-SM
El Centro, California	)	
	)	
and	)	
	)	
FEDERAL RESERVE BANK OF SAN FRANCISCO	)	
San Francisco, California	)	

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WHEREAS, in recognition of the common goal of continuing to improve and strengthen the internal controls and procedures at the Valley Independent Bank, El Centro, 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");

WHEREAS, as the result of the identification of deficiencies, the Bank is taking steps to: (1) enhance and improve its policies and procedures for compliance with the Currency and Foreign Transactions Reporting Act (31 U.S.C. 5311 et seq.) and the accompanying regulations issued by the U.S. Department of the Treasury (31 C.F.R. 103.11 et seq.) (collectively referred to as the Bank Secrecy Act (the "BSA")), as well as customer due diligence practices and policies and procedures for the identification and reporting of suspicious activity; and

(2) ensure full compliance with all applicable laws and regulations, including the BSA, and Regulation H (12 C.F.R. 208.62 and 208.63) of the Board of Governors of the Federal Reserve System (“Board of Governors”); and

WHEREAS, on January 8, 2001, the executive committee of the board of directors, on behalf of the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Dennis L. Kern to enter into this Agreement on behalf of the Bank and consenting to compliance by the Bank and its institution-affiliated parties, as defined by section 3(u) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. 1813(u)), with each and every provision of this Agreement.

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

1. The Bank, and any institution-affiliated party thereof, shall not, directly or indirectly, violate the BSA or any rules or regulations issued pursuant thereto and shall correct all BSA violations cited in the Report of Examination of the Bank as of October 16, 2000.

2. To assist the Bank in correcting any existing violations of the BSA, as well as assist the Bank in the development of policies and procedures designed to ensure future compliance with the BSA and the requirement of the Board of Governors to identify and accurately report suspicious activity, among other things:

(a) Within 30 days of this Agreement, the Bank shall engage the services of a qualified independent public accounting firm or qualified consulting firm

(the “consultant”), acceptable to the Reserve Bank, to conduct a full and complete review of the Bank’s current internal controls and procedures related to BSA compliance, customer due diligence and the identification and reporting of suspicious activity and recommend, where necessary, new policies and procedures to be implemented by the Bank.

(b) Within 10 days of the engagement of the consultant, but prior to the commencement of the review, the Bank shall submit to the Reserve Bank for approval an engagement letter that delineates the scope of the review. The engagement letter shall specify that the review will be completed within a reasonable time period, not to exceed 30 days. In addition, the engagement letter shall acknowledge that the consultant shall have access to all documents and records necessary to conduct the review and that all information including, but not limited to, work papers, programs and procedures related to the review shall be provided to the Reserve Bank by the consultant upon request.

(c) Upon completion of the review, a copy of the consultant’s report detailing the findings and conclusions from the review shall be provided to the Reserve Bank.

3. Within 45 days of the completion of the consultant’s report required by paragraph 2, hereof, the Bank shall submit to the Reserve Bank an acceptable written program designed to ensure compliance with all provisions of the BSA, including, but not limited to:

(a) the recordkeeping and reporting requirements for currency transactions of over \$10,000 (31 C.F.R. 103.22);

(b) the identification requirements related to the recordkeeping and reporting requirements for currency transactions of over \$10,000 (31 C.F.R. 103.28);

(c) the exemption procedures (31 C.F.R. 103.22); and

(d) the requirements related to the nature of records to be maintained and the retention period of such records (31 C.F.R. 103.38).

4. Within 45 days of the completion of the consultant's report required by paragraph 2, hereof, the Bank shall submit to the Reserve Bank, an acceptable enhanced customer due diligence program. The program shall be designed to reasonably ensure the identification and timely, accurate and complete reporting of known or suspected criminal activity against or involving the Bank to law enforcement and supervisory authorities as required by the suspicious activity reporting provisions of Regulation H of the Board of Governors (12 C.F.R. 208.62). The enhanced customer due diligence program shall, at a minimum, provide:

(a) For a risk focused assessment of the customer base of the Bank to:

- (i) identify the categories of customers whose transactions do not require monitoring because of the routine and usual nature of their banking activities; and
- (ii) determine the appropriate level of enhanced due diligence necessary for those categories of customers that the Bank has reason to believe pose a heightened risk of illicit activities at or through the Bank.

(b) For those customers whose transactions require enhanced due diligence, procedures to:

- (i) determine the appropriate documentation necessary to confirm the identity and business activities of the customer;
- (ii) understand the normal and expected transactions of the customer; and
- (iii) report suspicious activities in compliance with existing

reporting requirements set forth in Regulation H of the Board of Governors (12 C.F.R. 208.62).

5. Within 45 days of the completion of the consultant's report required by paragraph 2, hereof, the Bank shall submit to the Reserve Bank an acceptable enhanced written compliance program, as required by the applicable provisions of Regulation H of the Board of Governors (12 C.F.R. 208.63), designed to, among other things, ensure and maintain compliance by the Bank with the BSA and the rules and regulations issued pursuant thereto. The program, at a minimum, shall:

(a) establish a system of internal controls to ensure compliance with the BSA and the rules and regulations issued pursuant thereto, including policies and procedures to detect and monitor transactions to ensure that they are not being conducted for illegitimate purposes and that there is full compliance with all applicable laws and regulations;

(b) provide for independent testing of compliance with the BSA and all applicable rules and regulations thereof and the identification and reporting of suspicious activity, and ensure that compliance audits are performed frequently, are fully documented, and are conducted with the appropriate segregation of duties.

(c) ensure that the Bank's BSA compliance program is supervised and managed by a qualified senior officer who possesses the appropriate experience, training and authority to oversee the BSA compliance and enhanced customer due diligence programs, including, without limitation, the identification and timely, accurate and complete reporting to law enforcement and supervisory authorities of unusual or suspicious activity or known or

suspected criminal activity perpetrated against or involving the Bank in accordance with all applicable laws, regulations and rules; and

(d) provide training to all appropriate personnel (including, but not limited to, tellers, customer service representatives, lending officers, private and personal banking officers and all other customer contact personnel), conducted by competent personnel, in all aspects of regulatory and internal policies and procedures related to the BSA, accurate recordkeeping and form completion requirements related to the BSA and the identification and reporting of suspicious activity and update the training on a regular basis to ensure that all personnel have the most current and up to date information.

6. Within 45 days after the end of each calendar quarter (March 31, June 30, September 30 and December 31) following the date of this Agreement, the Bank shall submit a written progress report to the Reserve Bank detailing the actions taken to comply with each provision of this Agreement and the results of those actions. Such reports may be discontinued when the Reserve Bank, in writing, releases the Bank from making further reports.

7. The Bank shall submit the engagement letter and programs required by paragraphs 2(b), 3, 4 and 5 hereof that are acceptable to the Reserve Bank within the time periods set forth in this Agreement. The Bank shall adopt the engagement letter and the programs that are approved by the Reserve Bank within 10 days of approval and then shall fully comply with them. During the term of this Agreement, the Bank shall not amend or rescind the approved engagement letter and programs without the prior written approval of the Reserve Bank.

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

- (a) Mr. Philip Ryan  
Director  
Federal Reserve Bank of San Francisco  
101 Market Street  
San Francisco, California 94105
- (b) Mr. William F. Henle  
Executive Vice President  
Valley Independent Bank  
1498 W. Main Street  
El Centro, California 92243-9951

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

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

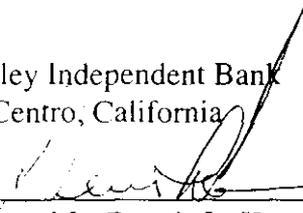
11. Notwithstanding any provision of this Agreement to the contrary, the Reserve Bank may, in its sole discretion, grant written extensions of time to the Bank to comply with any provision of this Agreement.

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

13. This Agreement is a "written agreement" for the purposes of, and is enforceable by the Board of Governors as an order issued under, section 8 of the FDI Act (12 U.S.C. 1818).

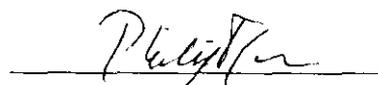
IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of this 8<sup>th</sup> day of January, 2001.

Valley Independent Bank  
El Centro, California

By: 

Mr. Dennis L. Kern  
President and Chief Executive Officer

Federal Reserve Bank of San Francisco

By: 

Mr. Philip Ryan  
Director