

UNITED STATES OF AMERICA

BEFORE

THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D.C.

Written Agreement by and among)
)
CERRITOS VALLEY BANCORP)
Artesia, California)
)
CERRITOS VALLEY BANK)
Artesia, California)
)
and)
)
FEDERAL RESERVE BANK)
OF SAN FRANCISCO)
San Francisco, California)
)

Docket Nos. 01-012-WA/RB-HC
01-012-WA/RB-SM

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of Cerritos Valley Bancorp, Artesia, California ("Bancorp"), a registered bank holding company, and its subsidiary bank, the Cerritos Valley Bank, Artesia, California (the "Bank"), a state chartered bank that is a member of the Federal Reserve System, Bancorp, 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 October 15, 2001, the boards of directors of Bancorp and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing the Chief Executive Officer

~~and~~ _____ to enter into this Agreement on behalf of Bancorp and the Bank, respectively, and consenting to compliance with each and every applicable provision of this Agreement by Bancorp, the Bank and their institution-affiliated parties, as defined by sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the "FDI Act") (12 U.S.C. 1813(u) and 1818(b)(3)).

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

Management

1. During the term of this Agreement, or as otherwise required by law, Bancorp and the Bank shall comply with the 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. Part 225, Subpart H), with respect to the appointment of any new directors or the hiring or promotion of any senior executive officers as defined in Regulation O of the Board of Governors (12 C.F.R. Part 215).

Asset/Liability Management

2. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank acceptable written asset/liability management policies designed to improve the management of the Bank's liquidity and sensitivity to market risk and liquidity.

(b) The policy regarding liquidity shall, at a minimum, address, consider, and include the following: (i) appropriate standards for volume, mix and maturity of the Bank's loans, investments, deposits, off-balance sheet commitments, and alternative funding sources;

(ii) meaningful liquidity targets and parameters; (iii) appropriate oversight and review by management and the board of directors; and (iv) an appropriate contingency funding plan.

(c) The policy regarding sensitivity to market risk shall, at a minimum, address, consider, and include the following: (i) identification of individuals responsible for measuring, monitoring, and controlling interest rate sensitivity; (ii) appropriate oversight and review by management and the board of directors; (iii) maintenance of documentation to support the validity and accuracy of assumptions used in measuring interest rate risk; (iv) parameters for controlling interest rate risk based on capital levels, earnings performance, and the risk tolerance of the Bank; and (v) action plans to reduce potential interest rate risk in the event that rate sensitivity results fall outside approved limits.

(d) The Bank's Asset/Liability Committee (the "ALCO") shall review, on a monthly basis, all asset/liability management decisions made by the Bank's management, paying particular attention to whether each decision was made in accordance with approved policies. All exceptions to the policies shall be documented by the ALCO as to the reason for the exceptions and the continuance of the exceptions, taking into account the Bank's overall goals and strategies. The ALCO shall maintain full and complete minutes of its actions and shall provide monthly written reports to the board of directors to enable the board to make informed decisions regarding the Bank's management of market risk and liquidity.

Risk Management

3. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan to establish and maintain effective risk management programs to address

board oversight, control, and supervision of the Bank's senior management and the major operations and activities of the Bank. The plan shall address and consider, at a minimum:

- (a) credit administration practices and policies including, without limitation, loan underwriting, documentation, and approval, monitoring of concentrations of credit, problem loan identification, compliance with laws and regulations and independent loan review; and
- (b) identification and monitoring of all risks affecting the Bank, including, without limitation, market risks, liquidity risks, legal risks, and reputational risks.

Loan Administration

4. Within 60 days of this Agreement, the Bank shall review the adequacy of the loan administration function and shall submit to the Reserve Bank acceptable revised loan policies and procedures. The purposes of the review are: (a) to develop systems and procedures to correct loan administration deficiencies cited in the report of the examination as of September 30, 2000 (the "Report of Examination"); (b) to develop systems and procedures to address credit quality problems identified with the FHA Title 1 loan portfolio; (c) to develop policy parameters addressing loan mix and concentrations; (d) to develop a loan documentation review system; and (e) to establish adequate internal controls over the lending function.

Asset Improvement Plan

5. (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 \$100,000 that was past due as to principal or interest in excess of 90 days as of the date

of this Agreement or that was adversely classified or listed as special mention in the Report of Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$100,000 becomes past due as to principal and interest for more than 90 days, is adversely classified internally by the Bank, or is adversely classified or listed for special mention in any subsequent report of examination or visitation 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 other asset.

(c) The plan for each loan or other asset shall be formally approved by the Bank's loan committee and shall, at a minimum, include:

- (i) A description of the current status of the loan or other asset, including book and nonbook carrying value, and the nature and value of supporting collateral;
- (ii) proposed actions to improve, reduce, or eliminate the loan or other asset, time frames for such actions, and the projected balance owing and value of anticipated collateral; and
- (iii) the borrower's acknowledgement of an response to the plan.

(d) Within 30 days of the end of each calendar quarter following this Agreement (September 30, December 31, March 31, and June 30), the Bank shall submit to the Reserve Bank a written progress report on the loans or other assets described within this paragraph, which shall include, at a minimum, the carrying value of the loan or other asset, changes in the nature and value of supporting collateral, and a copy of the Bank's current internal watch list.

Allowance for Loan and Lease Losses

6. The Bank shall maintain, through charges to current operating income, an adequate allowance for loan and lease losses (the "Allowance"). The adequacy of the Allowance shall be determined in light of the volume of criticized loans, the current level of past due and nonperforming loans, past loan loss experience, evaluation of the probable losses in the Bank's portfolio, including the potential for the existence of unidentified losses in loans adversely classified and the imprecision of loss estimates, current economic conditions, the requirements of the Interagency Policy Statement on the Allowance for Loan and Lease Losses, dated December 22, 1993, SFAS 114, SFAS 5, and examiners' other criticisms as contained in the Report of Examination. The Bank shall develop a methodology for determining the adequacy of the Allowance, and shall maintain a written record of documentation to support the methodology. The methodology shall be submitted to the Reserve Bank within 60 days of this Agreement.

Capital Adequacy

7. Within 60 days of this Agreement, Bancorp and the Bank shall submit to the Reserve Bank an acceptable joint written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address and consider: (i) the Bank's current and future capital requirements, including compliance with the Capital Adequacy Guidelines of the Board of Governors (12 C.F.R. Part 208, App. A and B); (ii) any planned growth in the Bank's assets; (iii) the Bank's level of concentrations of credit; (iv) the volume of the Bank's adversely classified assets; (v) the volume of volatile funds placed with the Bank and the composition of the Bank's funding, including any volatile funds that could require the maintenance of higher

capital levels; (vi) the Bank's anticipated level of retained earnings; (vii) dividend payments; (viii) any unrealized depreciation in the Bank's securities portfolio; and (ix) the source and timing of additional funds to fulfill the future capital needs of the Bank.

Dividends

8. Bancorp and the Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director of the Division of Banking Supervision and Regulation of the Board of Governors. Requests for approval shall be received by the Reserve Bank at least 30 days prior to the proposed dividend declaration date and shall contain, but not be limited to, information on the amount proposed to be paid, and Bank earnings and capital levels for the most recent annual period and the fiscal year to date.

Debt Service

9. Bancorp shall not, directly or indirectly, incur any debt without the prior written approval of the Reserve Bank. All requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, the planned sources for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

Strategic Plan and Budget

10. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank a written strategic plan and budget concerning the Bank's proposed business activities for the remainder of 2001. This plan shall, at a minimum, provide for or describe: (i) the operating

assumptions that form the bases for major projected income and expense components, and the sources and uses of new funds; (ii) financial performance objectives, including plans for asset growth, earnings, liquidity, and capital supported by detailed quarterly and annual pro forma financial statements, including projected budgets, balance sheets and income statements; (iii) the establishment of a monthly review process to monitor the actual income and expenses of the Bank in comparison to budgetary projections; and (iv) steps to be taken to improve earnings.

(b) A strategic plan and budget for each calendar year subsequent to 2001 shall be submitted to the Reserve Bank at least one month prior to the beginning of that calendar year. The board of directors shall each month review actual performance for that month in comparison to each month's budgetary projections and document analysis of significant variances.

Regulatory Reports

11. The Bank shall take such actions as are necessary to ensure that all reports filed by the Bank, including Consolidated Reports of Condition and Income, accurately reflect the Bank's condition on the dates for which such reports are filed, that all reports are filed in a timely manner, and that all records indicating how such reports are prepared are adequately maintained for supervisory review.

12. The Bank shall determine the value of its deferred tax account and amend the fourth quarter 2000 and first quarter 2001 Reports of Condition and Income to accurately reflect the current condition.

13. Bancorp shall take such actions as are necessary to ensure that all FR-Y Reports accurately reflect Bancorp's condition on the dates for which such reports are filed, that all such reports are filed in a timely manner, and that all records indicating how such reports are prepared are adequately maintained for subsequent supervisory review.

Internal Controls

14. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan describing specific actions the board of directors will take to correct the internal control weaknesses and deficiencies noted in the Report of Examination.

Audit

15. (a) Within 60 days of this Agreement, the Bank shall review its present internal audit program to ensure that it is consistent with generally accepted auditing standards including, but not limited to, the scope and frequency of audits, follow-up procedures, and periodic scheduled reports to the board of directors.

(b) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written internal audit program designed to ensure that internal audits are conducted to verify implementation and compliance with policies, procedures, and controls established in connection with this Agreement.

Approval of Plans and Policies

16. Bancorp and the Bank, as applicable, shall submit the plans, policies, programs, and procedures required by paragraphs 2, 3, 4, 5, 7, 14, and 15 hereof that are acceptable to the

Reserve Bank within the time periods set forth in this Agreement. Bancorp and the Bank, as applicable, shall adopt all approved plans, policies, programs, and procedures within 10 days of approval by the Reserve Bank and then shall fully comply with them. During the term of this Agreement, neither Bancorp nor the Bank shall amend or rescind any approved plans, policies, programs, or procedures without the prior written approval of the Reserve Bank.

Progress Reports

17. Within 30 days after the end of each calendar quarter following the date of this Agreement (September 30, December 31, March 31, and June 30), Bancorp and the Bank shall submit written progress reports to the Reserve Bank setting forth in detail the actions taken to comply with each provision of this Agreement and the results of those actions. The boards of directors of Bancorp and the Bank shall certify in writing to the Reserve Bank that each director has reviewed each quarterly progress report required by this paragraph. Such reports may be discontinued when the Reserve Bank, in writing, releases Bancorp and the Bank from making further reports.

Communications

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

- (a) Mr. Philip Ryan
Director, Financial Examination
Federal Reserve Bank of San Francisco
101 Market Street, MS 920
San Francisco, CA 94105

- (b) Mr. Hal Williams
President, Cerritos Valley Bank
18300 Pioneer Blvd., 2nd Floor
Artesia, CA 90701

- (c) Mr. Ronald W. Bachli
President, Cerritos Valley Bancorp
18300 Pioneer Blvd., 2nd floor
Artesia, CA 90701

Effect and Other Terms of Agreement

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

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

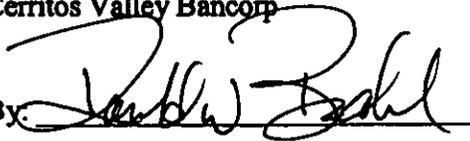
21. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated or suspended by the Reserve Bank.

22. 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 Bancorp or the Bank or any of their current or former institution-affiliated parties and their successors and assigns.

23. 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 have caused this Agreement to be executed as of this 15th day of October, 2001.

Cerritos Valley Bancorp

By: 

Federal Reserve Bank of San Francisco

By: 

Cerritos Valley Bank

By: 