

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

Written Agreement by and among

COMMUNITY BANKS OF NORTHERN
CALIFORNIA
Tracy, California

FEDERAL RESERVE BANK OF KANSAS CITY
Kansas City, Missouri

and

DEPARTMENT OF FINANCIAL INSTITUTIONS
STATE OF CALIFORNIA
Sacramento, California

Docket No. 08-029-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Community Banks of Northern California, Tracy, California (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, the Bank, the Federal Reserve Bank of Kansas City (the “Reserve Bank”), and the Department of Financial Institutions for the State of California (the “Department”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on September 12, 2008, the board of directors of the Bank, at a duly constituted meeting adopted resolutions authorizing and directing Donald Woods to enter into this Agreement on behalf of the Bank, and consenting to compliance 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)), with each and every provision of this Agreement.

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

Concentrations of Credit

1. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written plan to strengthen the Bank's management of loan concentrations, including commercial real estate concentrations, that sets forth steps to reduce or mitigate the risk of concentrations in light of current market conditions. The plan shall be consistent with the Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, December 12, 2006 (SR 07-1) and, at a minimum, address, consider, and include:

- (a) Establishment of concentration of credit risk tolerances or limits by types of loan products, geographic locations, and other common risk characteristics or sensitivities;
- (b) ongoing risk assessments;
- (c) improved market and project analysis;
- (d) enhanced periodic reporting to management and the board of directors;
- (e) strategic planning regarding risks associated with concentrations, including steps to control and mitigate such risks;
- (f) periodic review of stress testing methodology to ensure consistency with current market and economic conditions;
- (g) enhanced stress testing of loans and portfolio segments; and
- (h) measures to address the criticisms regarding concentrations of credit noted in the report of the examination of the Bank that was commenced by the Reserve Bank and the Department on March 17, 2008 (the "Report of Examination").

Lending and Credit Administration

2. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written plan to improve lending and credit administration that, at a minimum, addresses, considers, and includes:

(a) Measures to improve the board of directors' oversight of credit risk management processes, including but not limited to: periodically reviewing and revising risk exposure limits to address new products and changes in market conditions; establishing procedures and internal controls necessary to manage risks; and monitoring the major sources of risk to the Bank on an ongoing basis;

(b) measures to correct all documentation and credit information deficiencies noted in the Report of Examination, including the adoption of enhanced written policies and procedures designed to minimize loan documentation exceptions and strengthen the timely gathering of loan and collateral documentation;

(c) measures to improve the oversight of the appraisal process to ensure that appraisals are performed by qualified appraisers and the adoption of written standards for when reappraisals and reevaluations must be conducted, including, but not limited to, when loans are renewed or when there are changes in market conditions or the condition of the collateral;

(d) the appropriate use of interest reserves; and

(e) the establishment of an effective and accurate internal risk rating system consistent with regulatory guidance.

Asset Improvement

3. (a) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, who is obligated

to the Bank in any manner on any extension of credit or portion thereof that has been charged off by the Bank or classified, in whole or in part, “loss” or “doubtful” in the Report of Examination or in any subsequent report of examination, as long as such credit remains uncollected.

(b) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, whose extension of credit has been classified “substandard” in the Report of Examination or in any subsequent report of examination, without the prior approval of the board of directors. The board of directors shall document in writing the reasons for the extension of credit or renewal, specifically certifying that: (i) the extension of credit is necessary to protect the Bank’s interest in the ultimate collection of the credit already granted or (ii) the extension of credit is in full compliance with the Bank’s written loan policy, is adequately secured, and a thorough credit analysis has been performed indicating that the extension or renewal is reasonable and justified, all necessary loan documentation has been properly and accurately prepared and filed, the extension of credit will not impair the Bank’s interest in obtaining repayment of the already outstanding credit, and the board of directors reasonably believes 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 board of directors meetings, 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. For purposes of this Agreement, the term “related interest” is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors of the Federal Reserve System (the “Board of Governors”) 12 C.F.R. § 215.2(n)).

4. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department 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 \$250,000, including other real estate owned ("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 \$250,000, 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 and the Department 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 and the Department 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, extension report, and past due/non-accrual report.

Allowance for Loan and Lease Losses

5. (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 federal or state report of examination, charge off all assets classified "loss" unless otherwise approved in writing by the Reserve Bank and the Department.

(b) Within 60 days of this Agreement, the Bank shall review and revise its allowance for loan and lease losses (“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 and the Department. 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 collectibility.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department 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 and the Department, 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

6. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department 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 ALLL;

(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

ALLL needs of the Bank.

7. The Bank's board of directors shall monitor and review the sufficiency of the Bank's capital position on a monthly basis and shall reflect such reviews in the minutes of the board of directors' meetings.

Earnings Plan and Budget

8. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department a written business plan for 2009 to improve the Bank's earnings and overall condition. The plan, at a minimum, shall provide for or describe the major areas in and means by which the Bank's board of directors will seek to improve the Bank's operating performance and provide a realistic and comprehensive budget.

(b) A business plan and budget for each calendar year subsequent to 2009 shall be submitted to the Reserve Bank and the Department at least 30 days prior to the beginning of that calendar year.

Dividends

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

(b) Any request to declare or pay dividends must be 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 pages 4-323) and California Financial Code Sections 642-644. All requests for prior approval shall be received by the Reserve Bank and the Department at least 30 days prior to the proposed dividend declaration date and shall contain, but not be limited to, current and projected information on earnings, capital, asset quality, and ALLL needs of the Bank.

Compliance with Laws and Regulations

10. The Bank shall immediately take steps to correct the violations of laws and regulations noted in the Report of Examination. In addition, the board of directors shall take necessary steps to ensure future compliance with all applicable laws and regulations.

11. 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.*) and also provide written notice to the Department. The Bank shall not appoint any individual to the Bank's board or employ or change the responsibilities of any individual as a senior executive officer if the Reserve Bank or the Department notifies the Bank of disapproval within the time limits prescribed by Subpart H of Regulation Y.

12. 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

13. (a) Within 15 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 be comprised of at least three outside directors who are not executive officers or principal shareholders 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 board of directors.

(b) Within 30 days after the end of each calendar quarter following the date of this Agreement, the Bank shall submit to the Reserve Bank and the Department 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, and Procedures

14. (a) The Bank shall submit written plans and a program that are acceptable to the Reserve Bank and the Department within the applicable time periods set forth in paragraphs 1, 2, 4, 5(c), and 6 of this Agreement.

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

(c) During the term of this Agreement, the approved plans and program shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Department.

Communications

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

(a) Mr. Kevin L. Moore
Vice President
Federal Reserve Bank of Kansas City
Denver Branch
1020 16th Street
Denver, CO 80202

(b) Mr. Scott D. Cameron
Deputy Commissioner
Department of Financial Institutions
1810 13th Street
Sacramento, CA 95814

(c) Mr. Donald McG. Woods
Chairman of the Board
Community Banks of Northern California
2140 West Grant Line Road
Tracy, CA 95377

Miscellaneous

16. Notwithstanding any provision of this Agreement, the Reserve Bank and the Department may, in their sole discretion, grant written extensions of time to the Bank to comply with any provision of this Agreement.

17. 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.

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

19. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the Department, 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.

20. 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 12th day of September, 2008.

COMMUNITY BANKS
OF NORTHERN CALIFORNIA

FEDERAL RESERVE BANK
OF KANSAS CITY

By: /s/ Donald McG. Woods
Donald McG. Woods
Chairman of the Board

By: /s/ Kevin L. Moore
Kevin L. Moore
Vice President

DEPARTMENT OF FINANCIAL
INSTITUTIONS
STATE OF CALIFORNIA

By: /s/ Scott D. Cameron
Scott D. Cameron
Deputy Commissioner
Of Financial Institutions