

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT

SACRAMENTO, CALIFORNIA

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	)	
In the Matter of	)	
	)	CONSENT ORDER
PACIFIC VALLEY BANK	)	
SALINAS, CALIFORNIA	)	FDIC-14-0246b
	)	
(INSURED STATE NONMEMBER BANK)	)	
	)	
_____	)	

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for Pacific Valley Bank, Salinas, California (“Bank”) under Section 3(q) of the Federal Deposit Insurance Act (“FDI Act”), 12 U.S.C. § 1813(q)(3). The California Department of Business Oversight (“CDBO”) is the appropriate State banking agency for the Bank under Division 1 of the California Financial Code.

The Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a Stipulation to the Issuance of a Consent Order (“Stipulation”), dated September 26, 2014, that is accepted by the FDIC and the CDBO. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices, to the issuance of this Consent Order (“Order”) by the FDIC and the CDBO pursuant to Section 8(b)(1) of the FDI Act, and Section 298 of the California Financial Code (“CFC”).

Having determined that the requirements for issuance of an order under Section 8(b) of the FDI Act, 12 U.S.C. § 1818(b), and the CFC have been satisfied, the FDIC and the CDBO hereby order that:

1. The Bank shall have and retain qualified management.

(a) Each member of management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank. Management shall include the following: (i) a chief executive officer with proven ability in managing a bank of comparable size and risk profile; (ii) a chief financial officer with proven ability in all aspects of financial management; and (iii) a senior lending officer with significant lending, collection, and loan supervision experience and experience in upgrading a low quality loan portfolio. Each member of management shall be provided appropriate written authority from the Board to implement the provisions of this Order.

(b) The qualifications of management shall be assessed on its ability to:

- (i) comply with the requirements of this Order;
- (ii) operate the Bank in a safe and sound manner;
- (iii) comply with applicable laws and regulations; and
- (iv) restore all aspects of the Bank to a safe and sound condition, including asset quality, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market risk.

(c) During the life of this Order, the Bank shall notify the Regional Director of the FDIC's San Francisco Regional Office ("Regional Director") and the Commissioner of the California Department of Business Oversight ("Commissioner"), in writing, of the resignation or termination of any of the Bank's directors or senior executive officers. Prior to the addition of any individual to the Board or the employment of any individual as a senior executive officer,

the Bank shall comply with the requirements of section 32 of the Act, 12 U.S.C. § 1831i, and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. §§ 303.100–303.104 and any requirement of the State of California for prior notification and approval.

2. Within 30 days from the effective date of this Order, the Board shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank’s activities, consistent with the role and expertise commonly expected for directors of banks of comparable size. The Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

3. Within 270 days from the date of this Order, the Bank shall increase the size of the Board by the addition of at least one outside independent director who has prior experience in the banking and financial services industry.

4. Within 90 days from the effective date of this Order, the Bank shall eliminate and/or correct all violations of policies and regulations, as more fully set forth in the Report of Examination (“ROE”) dated March 10, 2014. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable policies and regulations.

5. (a) During the life of this Order, the Bank shall maintain its Tier 1 capital in such an amount to ensure that the Bank’s leverage ratio equals or exceeds 9.50 percent.

(b) During the life of this Order, the Bank shall maintain its total risk-based capital ratio in such an amount as to equal or exceed 12.00 percent.

(c) If the Bank capital levels fall below the requirement of Subparagraphs 5(a) and (b) above, within 30 days the Bank shall develop and adopt a plan to meet and maintain the capital requirements of this Order. Such plan and its implementation shall be in a form and

manner acceptable to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

(d) The level of capital to be maintained during the life of this Order shall be in addition to a fully funded allowance for loan and lease losses, the adequacy of which shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations. Any increase in Tier 1 capital necessary to meet the requirements of this paragraph may not be accomplished through a deduction from the Bank's allowance for loan and lease losses.

(e) If all or part of the increase in capital required by this Order is accomplished by the sale of new securities, the Board shall adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held or controlled by them in favor of the plan. Should the implementation of the plan involve a public distribution of the Bank's securities (including a distribution limited only to the Bank's existing shareholders), the Bank shall prepare offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and any other material disclosures necessary to comply with all applicable State and Federal securities laws. Prior to the implementation of the plan and, in any event, not less than 20 days prior to the dissemination of such materials, the plan and any materials used in the sale of the securities shall be submitted to the FDIC, Registration, Disclosure and Securities Unit, 550 17th St. N.W., Washington, D.C. 20429, for review, and to the Commissioner to obtain any and all necessary securities permits or other approvals. Any changes requested by the FDIC shall be made prior to dissemination. If the increase in capital is provided by the sale of noncumulative perpetual preferred stock, then all terms and conditions of the issue, including but not limited to those terms and conditions relative to interest rate and

convertibility factor, shall be presented to the Regional Director and the Commissioner for prior approval.

(f) For the purposes of this Order, the terms “leverage ratio”, “Tier 1 capital” and “total risk-based capital ratio” shall have, the meanings ascribed to them in Part 325 of the FDIC’s Rules and Regulations, 12 C.F.R. §§ 325.2(m), 325.2(v), 325.2(y), and Appendix A.

6. The Bank shall not pay cash dividends or make any other payments to its shareholders without the prior written consent of the Regional Director and the Commissioner.

7. (a) Within 270 days from the effective date of this Order, the Bank shall have reduced the assets classified “Substandard” in the ROE, that have not previously been charged off to not more than 35 percent of the Bank’s Tier 1 capital and ALLL.

(b) The requirements of this paragraph are not to be construed as standards for future operations and, in addition to the foregoing, the Bank shall eventually reduce the total of all adversely classified assets. Reduction of these assets through proceeds of other loans made by the Bank is not considered collection for the purpose of this paragraph. As used in this paragraph the word “reduce” means:

- (i) to collect;
- (ii) to charge-off; or
- (iii) to sufficiently improve the quality of assets adversely classified to warrant removing any adverse classification, as determined by the FDIC and the CDBO.

8. (a) Within 30 days from the effective date of this Order, the Bank shall increase the allowance for loan and lease losses (“ALLL”) that was maintained by the Bank as of December 31, 2013, by \$800,000 as indicated in the ROE, and any subsequent ALLL provisions required as a result of the Bank’s review of the loan portfolio performed subsequent to the examination dated March 10, 2014, and shall thereafter maintain an adequate ALLL.

(b) Within 30 days from the effective date of this Order, the Bank shall amend the Bank's Report of Condition and Income to reflect the increase in the Bank's ALLL as indicated in Subparagraph 8(a) of this Order.

(c) The Board shall review the ALLL at least once each calendar quarter. Said review shall be completed in order that the findings of the Board with respect to the ALLL are properly reported in the quarterly Reports of Condition and Income. The review shall focus on the results of the Bank's internal loan review, loan loss experience, trends of delinquent and non-accrual loans, an estimate of potential loss exposure of significant credits, insider and related credits, concentrations of credit, unsecured lines of credit, and present and prospective economic conditions. A deficiency in the allowance shall be remedied in the calendar quarter it is discovered, prior to submitting the Report of Condition, by a charge to current operating earnings. The minutes of the Board meeting at which such review is undertaken shall indicate the results of the review. Upon completion of the review, the Bank shall increase and maintain its ALLL consistent with the ALLL policy established.

9. (a) Beginning with the effective date of this Order, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been charged off or classified, in whole or in part, "Loss" and is uncollected. This paragraph shall not prohibit the Bank from renewing or extending the maturity of any credit in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification 470-60 ("ASC 470-60"), formerly known as FASB Statement Number 15 ("FAS 15").

(b) Beginning with the effective date of this Order, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been classified, in whole or part, "Doubtful"

or Substandard” without the prior approval of a majority of the Board or loan committee of the Bank. The Board and loan committee shall not approve any extension of credit or additional credit to such borrowers without first collecting in cash all past due interest.

10. Within 90 days from the effective date of this Order, the Bank shall develop or revise, adopt, and implement a written plan, approved by its Board and acceptable to the Regional Director and the Commissioner for systematically reducing the “Unsecured Lines of Credit” noted on page 44 in the March 10, 2014 ROE. Such plan shall be in conformance with Appendix A of Part 364 of the FDIC’s Rules and Regulations, 12 C.F.R. Part 364, Appendix A.

11. (a) Within 60 days from the effective date of this Order, the Bank shall develop or revise, adopt, and implement written lending and collection policies to provide effective guidance and control over the Bank’s lending function. Such policies and their implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

(b) The initial revisions to the Bank’s loan policy and practices required by this paragraph shall, at a minimum, include the following:

(i) provisions which require complete loan documentation, realistic repayment terms, and current credit information adequate to support the outstanding indebtedness of the borrower. Such documentation shall include current financial information, profit and loss statements or copies of tax returns and cash flow projections;

(ii) provisions that establish standards and limits for unsecured credit;

(iii) provisions that require an accurate internal grading system; and

(iv) procedures whereby officer compliance with the revised loan policy is monitored and responsibility for exceptions thereto assigned. The procedures adopted

shall be reflected in minutes of a Board meeting at which all members are present and the vote of each is noted.

12. Within 90 days from the effective date of this Order, the Bank shall develop or revise, adopt, and implement a policy for the operation of the Bank in such a manner as to provide adequate internal routine and control policies consistent with safe and sound banking practices. Such policy and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

(a) The revisions to the Bank's policy and practices required by this paragraph shall, at a minimum, include the following:

(i) sound corporate governance standards and controls that adequately address conflicts of interest for the Bank's employees, executive officers, directors, or principal shareholders, or to any related interest of such persons; and

(ii) sound corporate governance standards and controls that ensure the Bank's Audit Committee membership is comprised of directors who do not have policy making authority or influence on daily supervision of the Bank.

13. The Bank shall notify the Regional Director and the Commissioner no less than one business day in advance of making a planned public announcement or notification regarding changes in the Bank's financial condition, executive management or Board.

Bank Secrecy Act

14. Within 90 days of the effective date of this Order, the Bank shall comply in all material respects with the BSA and its rules and regulations.

15. Within 90 days of the effective date of this Order, the Bank shall develop, adopt, and implement a written compliance program, as required by the applicable provisions of section 326.8 of the FDIC's Rules and Regulations, 12 C.F.R. § 326.8, 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 shall ensure that clear and comprehensive BSA compliance reports are provided to the Board on a monthly basis. Such program and its implementation shall be in a manner acceptable to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations of the Bank. At a minimum, the program 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 all 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, all applicable rules and regulations related to the BSA, and the reporting of suspicious transactions required to be reported pursuant to Part 353 of the FDIC's Rules and Regulations, 12 C.F.R. Part 353. The independent testing shall be conducted on an annual basis and in accordance with the procedures described in the Federal Financial Institutions Examination Council ("FFIEC") Bank Secrecy Act/Anti-Money ("BSA/AML") Laundering Examination Manual 2010. The independent testing, at a minimum, should address the following:

- (i) overall integrity and effectiveness of the BSA/AML compliance program, including policies, procedures, and processes;
- (ii) BSA/AML risk assessment;
- (iii) BSA reporting and recordkeeping requirements;
- (iv) Customer Identification Program ("CIP") implementation;
- (v) adequacy of customer due diligence ("CDD") policies, procedure, and processes and whether they comply with internal requirements;

(vi) personnel adherence to the Bank's BSA/AML policies, procedures, and processes;

(vii) appropriate transaction testing, with particular emphasis on high-risk operations (products, service, customers, and geographic locations);

(viii) training adequacy, including its comprehensiveness, accuracy of materials, the training schedule, and attendance tracking;

(ix) integrity and accuracy of management information systems ("MIS") used in the BSA/AML compliance program;

(x) an evaluation of management's efforts to resolve violations and deficiencies noted in the previous tests or audits and regulatory examinations; and

(xi) an assessment of the overall process for identifying and reporting suspicious activity, including a review of filed or prepared Suspicious Activity Reports ("SARs") to determine their accuracy, timeliness, completeness, and effectiveness of the Bank's policy.

(c) Provide for independent testing of compliance with the BSA consistent with the scope and guidelines contained within the Federal Financial Institutions Examination Council ("FFIEC") guidance. The independent testing shall be conducted at least annually and should contain sufficient documentation and descriptions of the testing procedures performed and the resulting conclusions regarding the sufficiency of the program in assuring ongoing compliance with all BSA-related regulations. Such reports should be presented directly to the Bank's Board.

(d) Written reports shall be prepared which document the testing results and provide recommendations for improvement. Such reports shall be presented to the Bank's Board.

(e) Ensure that the Bank's BSA compliance program is managed by an officer who has the required authority, responsibility, training, resources, and management

reporting structure to ensure compliance with the Bank's BSA program requirements and BSA-related regulations, including without limitation:

(i) the identification of 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; and

(ii) monitoring the Bank's compliance and ensuring that full and complete corrective action is taken with respect to previously identified violations and deficiencies.

(f) Provide and document training by competent staff and/or independent contractors of all Bank's Board members and all appropriate personnel, including, without limitation, senior management, tellers, customer service representatives, lending officers, private and personal banking officers and all other customer contact personnel, in all aspects of regulatory and internal policies and procedures related to the BSA, with a specific concentration on accurate recordkeeping, form completion and the detection and reporting of known and/or suspected criminal activity. Training shall be updated on a regular basis to ensure that all personnel are provided with the most current and up to date information.

16. Within 90 days of the effective date of this Order, the Bank shall develop, adopt, and implement a written customer due diligence program. Such program and its implementation shall be in a manner acceptable to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations of the Bank. At a minimum, the customer due diligence program shall provide for the following:

(a) A risk focused assessment of the customer base of the Bank to 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 required enhanced due diligence, procedures to:

(i) determine the appropriate documentation necessary to confirm the identify and business activities of the customer;

(ii) understand the normal and expected transactions of the customer; and

(iii) 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 Part 353 of the FDIC's Rules and Regulations, 12 C.F.R. Part 353.

17. Within 90 days of the effective date of this Order, the Bank shall develop, adopt, and implement a written due diligence program to monitor employee, officer, and directors accounts, including their related interests. Such program and its implementation shall be in a manner acceptable to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations of the Bank. At a minimum, the program shall provide for a risk-focused assessment of the employee, officer, and directors and their related interest accounts at the Bank to the following:

(a) identify the routine and usual nature of their banking activities, including the nature of the underlying business or transaction activity and reasonability of the same;

(b) determine the appropriate level of enhanced due diligence necessary for those employee, officer, or directors and their related accounts that are determined to be higher-risk or are involved in higher-risk business or banking activities;

(c) ensure prompt review, investigation, and appropriate documentation and dispensation of any employee, officer, or director account or relationship activity that appears to

be unusual or exhibits red flags or other indicators of fraud, money laundering, insider dealing, or ethics issues; and

(d) 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 Part 353 of the FDIC's Rules and Regulations, 12 C.F.R. Part 353.

18. (a) Within 60 days of the effective date of this Order, the Bank shall establish and implement policies and procedures to advise the Bank's Board of significant Suspicious Activity Reports ("SARs"). At a minimum, the Bank's Board shall be advised in detail of all SARs involving employees, contractors, officers, and directors. The policies and procedures shall also include guidelines to determine what additional SARs are to be considered significant.

(b) The Bank shall establish and implement policies and procedures to ensure that SARs are filed within 30 days of identifying a suspect or unusual and suspicious activity (or a total of 60 days if a suspect is unknown or once per quarter for ongoing transactions). Such a program must also ensure that timely identification of suspicious activity occurs; that timely investigation into unusual activity is undertaken; that related accounts are considered and discussed in the SARs filing; and that a detailed, accurate, comprehensive, and readable narrative description of the activity is included in the SARs filing.

19. Within 60 days of the effective date of this Order, the Bank's Board audit committee shall oversee the Bank's compliance with the BSA and Parts 326 and 353 of the FDIC's Rules and Regulations. The committee shall receive monthly reports from the Bank Secrecy Act officer regarding compliance with the BSA and Parts 326 and 353 of the FDIC's Rules and Regulations. During the life of this Order, the BSA Officer shall report BSA

compliance matters, including information relating to SAR reporting, to the Bank's Board at every meeting.

20. (a) Within 90 days from the effective date of this Order, the Board shall oversee and approve a plan to review and investigate previously unidentified high-risk and insider banking activities ("Transaction Review"), including but not limited to any of the Bank's employees', officers', or directors' accounts, their related interests, or loan relationship activity that appears to be unusual or exhibits red flags or other indicators of fraud, money laundering, insider dealing, or ethics issues between November 24, 2009 and the effective date of this Order (the "Transaction Review Period"), and shall prepare and file any additional SARs necessary based upon the review.

(b) Prior to commencement of the Transaction Review, but no later than 90 days from the date of this Order, the Bank shall submit to the Regional Director and the Commissioner a written plan for approval that sets forth:

- (i) the scope of the Transaction Review, including the types of accounts and transactions to be reviewed;
- (ii) the methodology for conducting the Transaction Review, including any sampling procedures to be followed;
- (iii) the expertise and resources to be dedicated to the Transaction Review;
- (iv) the anticipated date of completion of the Transaction Review; and
- (v) a commitment that any interim reports, draft reports or workpapers associated with the Transaction Review will be made available to the Regional Director and the Commissioner upon request.

(c) On completion of the reviews required pursuant to the paragraphs above, the Bank shall submit the written findings of the review and copies of any additional SARs filed to the Regional Director and the Commissioner.

(d) Throughout the Transaction Review, the Bank shall ensure that all matters or transactions required to be reported that have not previously been reported are reported in accordance with applicable rules and regulations.

(e) Documentation supporting any determination made pursuant to the paragraphs above shall be retained in the Bank's records for such period of time as may be required by any applicable rules or regulations.

21. Within 30 days of the end of the first quarter following the effective date of this Order, and within 30 days of the end of each quarter thereafter, the Bank shall furnish written progress reports to the Regional Director and the Commissioner detailing the form and manner of any actions taken to secure compliance with this Order and the results thereof. Such reports shall include a copy of the Bank's Reports of Condition and Income. Such reports may be discontinued when the corrections required by this Order have been accomplished and the Regional Director and the Commissioner have released the Bank in writing from making further reports.

22. Following the effective date of this Order, the Bank shall provide a copy of the Order or otherwise furnish a description of the Order to its shareholder(s) in conjunction with:

- (a) the Bank's next shareholder communication; and
- (b) the notice or proxy statement preceding the Bank's next shareholder meeting.

The description shall fully describe the Order in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Division

of Risk Management Supervision, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429, at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

The provisions of this Order shall not bar, estop, or otherwise prevent the FDIC, the CDBO, or any other federal or state agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties, as that term is defined in Section 3(u) of the FDI Act, 12 U.S.C. § 1813(u).

This Order will become effective upon its issuance by the FDIC and the CDBO.

The provisions of this Order shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this Order shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside by the FDIC and the CDBO.

Issued pursuant to delegated authority

Dated this 2nd day of October, 2014.

/s/ _____
Joseph A. Meade
Acting Deputy Regional Director
Division of Risk Management Supervision
San Francisco Region
Federal Deposit Insurance Corporation

/s/ _____
Jan Lynn Owen
Commissioner
California Department of Business Oversight