FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

In the Matter of BANK REALE PASCO, WASHINGTON (INSURED STATE NONMEMBER BANK)	ORDER TO CEASE AND DESIST Docket No. FDIC-08-120b

Bank Reale, Pasco, Washington ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices alleged to have been committed by the Bank and of its right to a hearing on the alleged charges under section 8(b)(1) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b)(1), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with counsel for the Federal Deposit Insurance Corporation ("FDIC"), dated August 12, 2008, whereby solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices and violations of law and/or regulations, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC.

The FDIC considered the matter and determined that it had reason to believe that the Bank had engaged in unsafe or unsound banking practices. The FDIC, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED, that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns, cease and desist from the following unsafe and unsound banking practices, as more fully set forth in the FDIC's Report of Examination ("ROE") dated December 10, 2007:

(a) operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits;

(b) operating with a board of directors which has failed to provide adequate supervision over and direction to the active management of the Bank;

(c) operating with inadequate capital in relation to the planned growth of the Bank and the quality of assets held by the Bank;

(d) operating with insufficient earnings to generate a profit;

(e) operating with an inadequate loan valuation reserve in contravention of the Interagency Policy Statement of the Allowance for Loan and Lease Losses;

(f) operating with a large volume of poor quality loans;

(g) engaging in unsatisfactory lending and collection practices;

(h) operating with inadequate internal routine and controls policies; and

(i) operating in violation of sections 323.3, 323.5(b)(2), and 323.3(b) of the FDIC Rules and Regulations, 12 C.F.R. § 323.3, 323.5(b)(2), and 323.3(b) regarding real estate appraisals;

(j) operating in violation of 365.2(a) of the FDIC Rules and Regulations, 12 C.F.R. § 365.2(a) regarding real estate lending standards;

(k) operating in contravention of Appendix A and Appendix B to Part 364 regarding Interagency Guidelines Establishing Information Security Standards; and

(l) operating in contravention of Appendix A to Part 365 regarding Interagency Guidelines for Real Estate Lending Policies.

IT IS FURTHER ORDERED, that the Bank, its institution-affiliated parties, and its successors and assigns, take affirmative action as follows:

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 a chief executive officer with proven ability in managing a bank of comparable size, and experience in upgrading a low quality loan portfolio, improving earnings, and other matters needing particular attention. Management shall also include a senior lending officer with significant appropriate 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 Bank's 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) Within 120 days after the effective date of this ORDER, the Bank's Board shall obtain an independent study of the management and personnel structure of the Bank to determine whether additional personnel are needed for the safe and profitable operation of the Bank. Such a study shall include, at a minimum, a review of the duties, responsibilities, qualifications, and remuneration of the Bank's officers. The Bank shall formulate a plan to implement the recommendations of the study. The plan shall be acceptable to the Regional Director as determined at subsequent examinations.

(d) 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 Washington Department of Financial Institutions' Director ("Director") in writing when it proposes to add any individual to the Bank's Board or employ any individual as a senior executive officer. The notification must be received at least 30 days before such addition or employment is intended to become effective and should include a description of the background and experience of the individual or individuals to be added or employed.

(e) Within 30 days from the effective date of this ORDER, the Bank shall develop, adopt, and implement a written ethics policy ("Ethics Policy") and procedure ("Ethics Program"), acceptable to the Regional Director as determined at subsequent examinations.

2. Within 30 days from the effective date of this ORDER, the Bank's 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. This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses;

new, overdue, renewal, insider, charged-off, and recovered loans; investment activity; operating policies; and individual committee actions. The Bank's Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

3. During the life of this ORDER, the Bank shall maintain a level of Tier 1 Capital to Average Total Assets at no lower than 10 percent.

4. Within 60 days from the effective date of this ORDER, the Bank's Board shall develop or revise, adopt and implement a comprehensive policy for determining the adequacy of the allowance for loan and lease losses. For the purpose of this determination, the adequacy of the reserve shall be determined after the charge-off of all loans or other items classified "Loss." The policy shall provide for a review of the allowance at least once each calendar quarter. Said review should be completed within a timely basis by the end of each quarter, in order that the findings of the Bank's Board with respect to the loan and lease loss allowance may be properly reported in the current quarterly Reports of Condition and Income. The review should 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, concentrations 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 Bank's 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 allowance for loan and lease losses consistent with the allowance for loan and lease loss policy established. Such policy and its implementation shall, in addition, adhere to Generally Accepted Accounting Principles ("GAAP"), adhere in all pertinent respects to the December 29, 2006 Interagency Policy Statement of the Allowance for Loan and

Lease Losses, and shall be satisfactory to the Regional Director as determined at subsequent examinations and/or visitations.

5. (a) Within 30 days from the effective date of this ORDER, the Bank shall eliminate from its books, by charge-off or collection, all assets classified "Loss" in the ROE dated December 10, 2007 that have not been previously collected or charged off. Elimination of these assets through proceeds of other loans made by the Bank is not considered collection for the purpose of this paragraph.

(b) Within 120 days from the effective date of this ORDER, the Bank shall have reduced the assets classified "Substandard" in the ROE dated December 10, 2007, that have not previously been charged off to not more than 25 percent of Tier 1 capital plus the allowance for loan loss reserves.

(c) The requirements of Subparagraphs 5 (a) and 5 (b) of this ORDER 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 Subparagraphs 5 (a), 5 (b), and 5(c) 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.

(d) Within 60 days from the effective date of this ORDER, the Bank shall develop written asset disposition plans for each adversely classified asset or relationship that is greater than $250,000. The plans shall be reviewed and approved by the Bank's Board and acceptable to the Regional Director as determined at subsequent examinations.

(e) Within 60 days from the effective date of this ORDER, the Bank shall adopt and implement a written plan for the reduction and collection of loans past due for principal or interest more than 30 days. The plan shall be acceptable to the Regional Director as determined at subsequent examinations.

6. (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. Subparagraph 6 (a) of this ORDER shall not prohibit the Bank from renewing or extending the maturity of any credit in accordance with the Financial Accounting Standards Board Statement Number 15 ("FASB 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" without the prior approval of a majority of the Bank's Board or the loan committee of the Bank.

(c) 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 in excess of $100,000 that has been classified, in whole or part, "Substandard" without the prior approval of a majority of the Bank's Board or the loan committee of the Bank.

(d) The loan committee or Bank's Board shall not approve any extension of credit, or additional credit to a borrower in Paragraphs (b) and (c) above without first collecting in cash all past due interest.

7. (a) Within 30 days from the effective date of this ORDER, the Bank shall revise, adopt, and implement written lending and collection policies to provide effective guidance and control over the Bank's lending function, which policies shall include specific guidelines for placing loans on a non-accrual basis. Such policies and their implementation shall be in a form and manner acceptable to the Regional Director as determined at subsequent examinations and/or visitations. In addition, the Bank shall obtain and maintain adequate and current documentation for all new loans added to its loan portfolio and, with respect to existing loans, shall obtain adequate and current documentation if the provisions of the existing loan agreements permit the Bank to demand such documentation. Notwithstanding the foregoing, if provisions of existing loan agreements do not permit the Bank to require such documentation, the Bank will nonetheless request such information from its loan customers.

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

(i) provisions, consistent with FDIC's instructions for the preparation of Reports of Condition and Income, under which the accrual of interest income is discontinued and previously accrued interest is reversed on delinquent loans;

(ii) provisions which prohibit the capitalization of interest on loans or related expense unless the Bank's Board supports in writing and records in the minutes of the corresponding Bank's Board meeting why an exception thereto is in the best interests of the Bank;

(iii) 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;

(iv) provisions which incorporate limitations on the amount that can be loaned in relation to established collateral values;

(v) provisions which specify the circumstances and conditions under which real estate appraisals must be conducted by an independent third party;

(vi) provisions which establish standards for unsecured credit;

(vii) provisions which establish officer lending limits;

(viii) provisions that require extensions of credit to any of the Bank's executive officers, directors, or principal shareholders, or to any related interest of such persons, to be approved in advance by a majority of the entire Bank’s Board in accordance with section 215.4(b) of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 215.4(b);

(ix) provisions which prohibit the issuance of standby letters of credit unless the letters of credit are fully secured by readily marketable collateral and/or are supported by current and complete financial information;

(x) provisions that directors first determine that the lending staff has the expertise necessary to properly supervise construction loans and that adequate procedures are in place to monitor any construction involved before funds are disbursed;

(xi) provisions which prohibit concentrations of credit in excess of 25 percent of the Bank's total equity capital and reserves to any borrower and that borrower's related interests;

(xii) provisions which require the preparation of a loan "watch list" which shall include relevant information on all loans in excess of $50,000 (or of a lower amount, as may be determined by the Bank’s Board in its discretion), which are classified "Substandard" and "Doubtful" in the ROE dated December 10, 2007, or by the FDIC or Washington Department of Financial Institutions (“WDFI”) in subsequent Reports of Examination and all other loans in excess of $100,000 (or of a lower amount, as may be determined by the Bank’s Board in its discretion), which warrant individual review and consideration by the Bank’s Board as determined by the loan committee or active management. The loan "watch list" shall be presented to the Bank’s Board for review at least monthly with such review noted in the minutes; and

(xiii) the Bank’s Board shall adopt 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 Bank’s Board meeting at which all members are present and the vote of each is noted.

8. Within 60 days from the effective date of this ORDER, the Bank shall establish acceptable limits for loan and collateral type concentrations and develop a written plan, approved by its Board and acceptable to the Regional Director, for systematically reducing the amount of loans or other extensions of credit in the “LOANS SECURED BY COMMERCIAL REAL ESTATE” and “RESIDENTIAL AND COMMERCIAL CONSTRUCTION AND

DEVELOPMENT LOANS” Concentrations, as more fully set forth in the ROE dated December 10, 2007, to within acceptable limits.

9. Within 60 days of the effective date of this ORDER, the Bank shall take all appropriate steps to correct all collateral document exceptions and correct all deficiencies noted in its Special Mention credits, as more fully set forth in the ROE dated December 10, 2007.

10. Within 90 days from the effective date of this ORDER, the Bank shall formulate and implement a written profit plan. This plan shall be forwarded to the Regional Director for review and comment and shall address, at a minimum, the following:

(a) goals and strategies for improving and sustaining the earnings of the Bank, including:

(i) an identification of the major areas in, and means by which, the Bank’s Board will seek to improve the Bank's operating performance;

(ii) realistic and comprehensive budgets;

(iii) a budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections; and

(iv) a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components.

(b) coordination of the Bank's loan, investment, and operating policies, and budget and profit planning, with the funds management policy.

(c) consistency with the Bank’s Concentration of Credit schedule and the capital maintenance requirement of this ORDER.

11. Within 60 days from the effective date of this ORDER, the Bank, to the fullest extent possible, shall eliminate and/or correct all violations of law and contraventions, as more fully set forth in the ROE dated December 10, 2007. In addition, the Bank shall take all appropriate steps to ensure future compliance with all applicable laws and regulations and Interagency Guidelines.

12. Within 30 days from the effective date of this ORDER, the Bank shall 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 as determined at subsequent examinations and/or visitations.

13. During the life of this ORDER, the Bank shall not pay cash dividends without the prior written consent of the Regional Director and the Director.

14. Upon the effective date of this ORDER, the Bank shall not increase the amount of brokered deposits above the amount outstanding on that date without the prior written consent of the Regional Director.

15. Within 60 days from the effective date of this ORDER, the Bank shall develop an effective information security program and related policies to safeguard confidential customer information that meet all the requirements of FDIC Rules and Regulations Part 364, Appendix B – Interagency Guidelines Establishing Information Security Standards, including Part 364, Appendix B, Supplement A – Interagency Guidance on Response Programs for Unauthorized Access to Customer Information and Customer Notice.

16. Within 90 days from the effective date of this ORDER, the Bank shall implement enhanced authentication measures for internet-based products and services for high-risk transactions involving access to customer information or the movement of funds to other parties set forth in Part 364, Appendix B, Section III. C. a., as interpreted by FIL 103-2005, titled Authentication in an Internet Banking Environment.

17. Within 90 days from the effective date of this ORDER, the Bank shall expand the IT Risk Assessment to address areas of access to nonpublic customer information, including those in paper form, digital media, online banking, nonpublic customer information in transit, and personal digital assistants ("PDAs").

18. Within 60 days from the effective date of this ORDER, management shall prepare for Board approval a written Vendor Management Program and Disaster Recovery Plan/Business Resumption Plan that includes the applicable guidelines set forth in the FFIEC IT Handbook, dated June 2004, entitled Outsourcing Technology Services, and the FFIEC IT Handbook, dated March 2008, entitled Business Continuity Planning. Management shall test the Disaster Recovery Plan/Business Resumption Plan when it is approved.

19. Within 90 days from the effective date of this ORDER, the Bank shall expand the Information Security Program to adequately address patch management procedures, the review of user rights (including strengthening data security by appropriately restricting user rights for the Fidelity core processing application), the review of unauthorized access reports, security over PDAs, and all other IT-related deficiencies, not specifically addressed above, that are identified in the December 10, 2007 Report of Examination.

20. On or before 45 days 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 Director detailing the form and manner of any actions taken to secure compliance with this ORDER and the results thereof. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director has released the Bank in writing from making further reports.

21. Following the effective date of this ORDER, the Bank shall send to its shareholder(s) or otherwise furnish a description of this ORDER in conjunction with the Bank's next shareholder communication and also in conjunction with its 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, Accounting and Securities Section, Washington, D.C. 20429, at least 15 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.

This ORDER will become effective upon its issuance by the FDIC. Violation of any provision of this ORDER will be deemed to be conducting business in an unsafe or unsound manner, and will subject the Bank to further regulatory enforcement action. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provisions of this ORDER shall have been modified, terminated, suspended, or set aside by the FDIC.

Pursuant to delegated authority.

Dated at San Francisco, California, this 14th day of August, 2008.

Stan Ivie
Regional Director
Division of Supervision and Consumer Protection
San Francisco Region
Federal Deposit Insurance Corporation