

March 4, 2009

Neil M. Barofsky, Special Inspector General - TARP  
Office of the Special Inspector General Troubled Asset Relief Program  
1500 Pennsylvania Avenue, NW, Suite 1064  
Washington, D.C. 20220

*Re: Security Business Bancorp/Security Business Bank of San Diego: TARP use of funds and compliance with EESA's executive compensation requirements Notice*

Dear Mr. Barofsky:

This letter is being written in response to your letter dated February 6, 2009, in which a request was made to provide information regarding the use of TARP funds and the compliance with EESA's executive compensation requirements. Below are your specific requests reprinted and our responses:

- 1) A narrative response specifically outlining a) your anticipated use of TARP funds; b) whether the TARP funds were segregated from other institutional funds; c) your actual use of TARP funds to date; and d) your expected use of unspent TARP funds. In your response, please take into consideration your anticipated use of TARP funds at the time that you applied for such funds, or any actions that have taken that you would not have been able to take absent the infusion of TARP funds.

RESPONSE:

1 a) When we initially applied for the TARP funds, we anticipated to use the funds to: (i)

**(b) (4)**

1 b) We did not segregate the TARP funds from our other institutional/investor funds. To date, we have used the entire balance to pay down our Federal Home Loan Bank (FHLB) borrowings while increasing our capital and our legal lending limit.

1 c) The TARP funds have increased our legal lending limit from a secured limit of \$5.8 million to \$7.2 million. This increased limit allows us the opportunity to make larger loans to our existing customers without the need to participate a portion of the loan to another bank. Additionally the increased limit allows us access to a larger potential client base that our lower lending limit precluded while also providing greater financing resources to our borrowing community. The TARP funds increased our total risk-based capital ratio from 11.63% to 14.69%. This strengthens our reputation with the local

business community identifying our bank as a strong well capitalized financial institution with greater resources.

(b) (4)

(b) (4)

Additionally we are a U.S. Small Business Administration “Preferred Lender”. The inclusion of the TARP funds for our bank should provide greater visibility for this small business lending program both locally and with the SBA while providing the much needed financing that small entrepreneurial company’s need during this challenging economic period.

1d) In our press release (see exhibit A) that followed the acceptance of the TARP funds, we stated that the funds would “allow us to further support client growth, enhancing the bank’s cash position, capital position and lending capabilities”. These uses are in line with our anticipated use of the funds as well as our current actual use of the funds to date. We don’t expect that over the next several years that there will be any unspent TARP funds. Our projected growth plans as outlined above should provide opportunities to use these funds in the ways intended, managing risk appropriately while maintaining a well capitalized bank.

2) Your specific plans and the status of implementation of those plans, for addressing executive compensation requirements associated with the funding. Information provided regarding executive compensation should also include any assessments made of loan risks and their relationship to executive compensation; how limitations on executive compensation will be implemented in line with Department of Treasury guidelines; and whether any such limitations may be offset by other changes to other, longer-term or deferred forms of executive compensation.

RESPONSE:

Once we determined to accept TARP funds, each executive officer entered into an agreement that causes all of our compensation agreements and/or plans with the relevant officer to comply with the TARP requirements regarding executive compensation. A copy of the form of this agreement is attached as Exhibit B. These agreements were approved by our Compensation Committee.

(b) (4)

The limitations on executive compensation will be monitored by our Compensation Committee, which approves all compensation for senior executives covered by the Department of Treasury guidelines.

(b) (4)

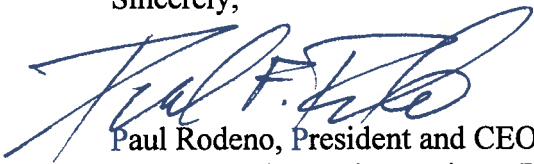
(b) (4)

(b) (4)

Additionally, our Compensation Committee has reviewed the incentive compensation arrangements of our senior executive officers with our personnel acting in the capacity as a senior risk officer in order to ensure that the incentive compensation arrangements do not encourage unnecessary and excessive risks that threaten the value of the financial institution. Our Compensation Committee also intends to meet with our personnel acting in the capacity as a senior risk officer on an annual basis, to discuss and review the relationship between our risk management policies and practices and our incentive compensation arrangements.

Please contact me at (b) (6) with any questions or comments with respect to this matter. I hereby certify that to the best of my knowledge, and subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001, all statements, representations and supporting information provided herein is accurate as of the date of this letter.

Sincerely,



Paul Rodeno, President and CEO of Security Business  
Bancorp and Security Business Bank of San Diego

cc: Luce, Forward, Hamilton & Scripps LLP  
(b) (6)  
600 W. Broadway, Suite 2600  
San Diego, CA 92101

Luce, Forward, Hamilton & Scripps LLP  
(b) (6)  
11988 El Camino Real, Suite 200  
San Diego, CA 92130

# SECURITY BUSINESS BANCORP

CONTACT:

Paul Rodeno, 619-237-4801  
[prodeno@securitybusinessbank.com](mailto:prodeno@securitybusinessbank.com)

Melissa Dennis, 760-930-8973  
[melissa@teamoutsmart.com](mailto:melissa@teamoutsmart.com)

## Security Business Bancorp Participates in Treasury-Sponsored Capital Purchase Program

**SAN DIEGO, Calif.** – January 14, 2009 - Security Business Bancorp (OTC BB: SBBK.OB) and its operating subsidiary, Security Business Bank of San Diego, has been selected to participate in the federal government’s capital purchase program allowing healthy institutions to increase their capital reserves and issue more loans. The capital purchase program is part of the \$700 billion in funds aimed to shore up the economy.

“After careful evaluation, we have decided to take part in the government’s plan in which we will sell \$5.8 million of preferred stock to the U.S. Treasury,” said Paul Rodeno, president and CEO of Security Business Bancorp. “The funds will allow us to further support client growth, enhancing the bank’s cash position, capital position and lending capabilities in this challenging business environment.”

The bank currently has capital well in excess of regulatory minimums and total assets of more than \$200 million. The bank is projecting its total risk-based capital ratio to improve from 12.5% to 15.6%. Security Business Bank, a wholly-owned subsidiary of Security Business Bancorp, operates three San Diego locations including Downtown, Carmel Valley and Carlsbad offices.

Since its founding in 2002, Security Business Bank ([www.securitybusinessbank.com](http://www.securitybusinessbank.com)) has built a reputation for providing its small and mid-sized business customers with financial innovation, access to management and superior client service. The bank has redefined the business banking experience through its “Executive at Every Level” program, which fosters local decision-making, employee empowerment and community specialization. Security Business Bank is an operating subsidiary of Security Business Bancorp, a bank holding company established in 2008 to support the bank’s continued growth.

*Certain statements in the press release, including statements regarding the intent, belief or current expectations of Security Business Bancorp, Security Business Bank of San Diego, or their directors or officers, are "forward-looking" statements (as such term is defined in the Private Securities Litigation Reform Act of 1995). Because such statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements.*

## **CPP EXECUTIVE COMPENSATION AGREEMENT**

This CPP Executive Compensation Agreement (this "Agreement") is made and entered into as of December 19, 2008, by and among Paul F. Rodeno ("Executive") and Security Business Bancorp ("Bancorp"), and Security Business Bank of San Diego ("Bank") (collectively, Bancorp and Bank are referred to as the "Company"), with reference to the following facts:

### **RECITALS**

A. Section 101(a) of the Emergency Economic Stabilization Act of 2008, Div. A of Pub. Law No. 110-343 authorizes the Secretary of the United States Department of the Treasury (the "Treasury") to establish a Troubled Assets Relief Program ("TARP") to purchase and to make and fund commitments to purchase, troubled assets from any financial institution, on such terms and conditions as are determined by the Secretary of the Treasury.

B. As part of TARP, the Treasury has established a Capital Purchase Program ("CPP") to purchase qualifying capital in U.S. banking organizations.

C. In order to qualify for the CPP, the Company must meet certain requirements in regards to the compensation of the Company's senior executive officers.

D. The Company and Executive desire to amend and modify all agreements, contracts and other arrangements between them so that the Company will qualify to participate in the CPP, as more fully set forth below.

### **AGREEMENT**

NOW, THEREFORE, in consideration of the mutual promises, representations, warranties covenants contained herein and the consideration specified below the parties agree as follows:

1. **Definitions.**

1.1 **Agreement.** The term "Agreement" has the meaning given to it in the introduction.

1.2 **Applicable Severance from Employment.** The term "Applicable Severance from Employment" shall mean any severance of Executive's employment with the Company: (i) by reason of involuntary termination of employment with the Company or with any entity that is treated as the same employer as the Company under Section 414(b) and/or 414(c) of the Code (for purposes of parent-subsidiary purposes only and not for brother-sister relationships); or (ii) in connection with any bankruptcy filing, insolvency, or receivership of the Company or any entity that is treated as the same employer as the Company under Section 414(b) and/or 414(c) of the Code (for purposes of parent-subsidiary purposes only and not for brother-sister relationships). A termination of employment shall be considered involuntary if due to the independent exercise of the unilateral authority of the employer to terminate Executive's services, other than due to Executive's implicit or explicit request to terminate employment, where Executive was willing and able to continue performing services. An involuntary termination from employment may include, but is not limited

to, the employer's failure to renew a contract at the time such contract expires, provided that Executive was willing and able to execute a new contract providing terms and conditions substantially similar to those in the expiring contract and to continue providing such services. Executive's voluntary termination from employment will also constitute an involuntary termination from employment if: (1) the termination from employment constitutes a termination for good reason due to a material negative change in Executive's employment relationship (as described in Section 1.409A-1(n)(2) of the Treasury Regulations); or (2) the facts and circumstances indicate that absent such voluntary termination, the employer would have terminated Executive's employment and Executive had knowledge that he would be so terminated.

1.3 Bancorp. The term "Bancorp" has the meaning given to it in the introduction.

1.4 Bank. The term "Bank" has the meaning given to it in the introduction.

1.5 Clawback Amount. The term "Clawback Amount" means, for each applicable bonus or other form of incentive compensation paid to Executive during the Effective Period, the difference between: (i) the total amount of such bonus or other form of incentive compensation (including any amounts deducted or withheld by the Company under any provision of law) paid to Executive based on the materially inaccurate financial statements or any other materially inaccurate performance metric criteria; and (ii) the total amount of such bonus or other form of incentive compensation that should have been paid based upon corrected and accurate financial statements or performance metric criteria.

1.6 Code. The term "Code" means the Internal Revenue Code.

1.7 Company. The term "Company" has the meaning given to it in the introduction.

1.8 Compensation Agreements. The term "Compensation Agreements" shall mean any and all contracts, agreements, plans and/or arrangements, whether written or oral, whether entered into prior to or subsequent to this Agreement, pursuant to which Executive is entitled to receive or may be or may become eligible to receive compensation from the Company or any parent, subsidiary or other affiliate of the Company. The Compensation Agreements shall specifically include, but shall not be limited to a Employment Agreement between Executive and Security Business Bank of San Diego dated October 1, 2005. The term "Compensation Agreement" shall mean any of the Compensation Agreements.

1.9 CPP. The term "CPP" has the meaning given to it in the introduction.

1.10 Effective Date. The term "Effective Date" means the first day on which the Treasury holds debt or equity of the Company which was acquired as part of the CPP.

1.11 Effective Period. The term "Effective Period" means any period during which the Treasury holds debt or equity of the Company which was acquired as part of the CPP.

1.12 Executive. The term "Executive" has the meaning given to it in the introduction.

1.13 Golden Parachute Payment. The term Golden Parachute Payment shall mean any payment in the nature of compensation to (or for the benefit of) Executive, while Executive is or was serving as a Senior Executive Officer of the Company, made on account of an Applicable Severance from Employment to the extent the aggregate present value of such payments equals or exceeds an amount equal to three times Executive's "base amount" (as defined in 280G(b)(3) of the Code and section 1.280G-1, Q&A-34, of the Treasury Regulations, except that references to "change in ownership or control" are treated as referring to an "Applicable Severance from Employment"). A payment is considered to be made on account of an Applicable Severance from Employment if the payment would not have been payable if no Applicable Severance from Employment had occurred (including amounts that would otherwise have been forfeited if no Applicable Severance from Employment had occurred) and amounts that are accelerated on account of the Applicable Severance from Employment.

1.14 Senior Executive Officer. The term "Senior Executive Officer" means a "named executive officer" of the Company as defined in Item 402 of Regulation S-K who is: (i) the principal executive officer (or person acting in similar capacity), (ii) the principal financial officer (or person acting in similar capacity), or (iii) one of the other three most highly compensated executive officers. For purposes of this definition and determining the Senior Executive Officers of Bancorp only, it should be assumed that Bancorp would be subject to the rules and regulations promulgated by the Securities and Exchange Commission, including Regulation S-K and any authoritative interpretations thereof.

1.15 TARP. The term "TARP" has the meaning given to it in the recitals.

1.16 Treasury. The term "Treasury" has the meaning given to it in the recitals.

2. Consideration to Executive. As part of the consideration for agreeing to enter into this Agreement, the Company shall provide (b) (4)

3. Clawback. If at any time while Executive is or was serving as a Senior Executive Officer of the Company: (i) Executive receives payment of any bonus or other form of incentive compensation during the Effective Period; and (ii) the calculation or determination of the amount of such compensation payment(s) was based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria, then Executive shall pay to the Company the Clawback Amount within thirty (30) days of the final calculation of the Clawback Amount.

4. Golden Parachutes. During the Effective Period, the Company shall not make any payment or payments to Executive that would be considered a Golden Parachute Payment. In the event that during the Effective Period the Company is obligated to make any payment or aggregate payments to Executive under any Compensation Agreement(s) that would be considered a Golden Parachute Payment, Executive and the Company agree that such payments or benefits shall be reduced (or the parties shall agree to a reduction in other payments or benefits included in such payments to the extent legally and contractually permissible) so that the value of the total amount received by Executive that would have constituted a Golden Parachute Payment will be one dollar (\$1.00) less than the minimum amount constituting a Golden Parachute Payment.

5. Waiver. Executive agrees to execute a written waiver in the form attached as Annex C to the Securities Purchase Agreement Standard Terms distributed by the Treasury in connection with the CPP and to deliver such executed written waiver to the Company within three (3) days of the Company's request for the same.

6. Term. This Agreement is effective as of the Effective Date and will continue in effect until the expiration of the Effective Period, unless terminated earlier by the written agreement of all of the parties hereto. Notwithstanding the foregoing, the obligations contained in Section 3 hereof shall survive the termination of this Agreement indefinitely.

7. Miscellaneous.

7.1 Entire Agreement; Modification. This Agreement contains the entire agreement between the parties relating to the matters discussed herein and supersedes any prior agreements between the parties to the extent such prior agreements conflict with this Agreement. Except as expressly modified by this Agreement, the terms and conditions of the Compensation Agreements will remain unchanged and in full force and effect. In the event of a conflict between the terms of this Agreement and any Compensation Agreement, whether such Compensation Agreement was entered into prior to, or subsequent to, this Agreement, the terms of this Agreement will prevail. This Agreement may be modified, amended or supplemented only by a written instrument duly executed by all the parties hereto and specifically referencing this Agreement. Any oral representations or modifications concerning this instrument shall be of no force and effect.

7.2 Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given on the date of service if served personally on the party to whom notice is to be given or within five (5) business days if mailed to the party to whom notice is to be given, by first class mail, registered, or certified, postage prepaid and properly addressed to the address below:

If to the Company to:	Security Business Bank of San Diego 701 B St., Ste. 100 San Diego CA 92101-8116 Attn: Chairman of the Board
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If to Executive to:	Claire Fitzpatrick (b) (6)
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7.3 Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any one or more of the provisions hereof shall not affect the validity and enforceability of the other provisions hereof.

7.4 Captions. All captions and headings contained in this Agreement are for convenience of reference only and shall not be construed to limit or extend the terms or conditions of this Agreement.



7.5 Further Assurances. Each party hereto will execute, acknowledge and deliver any further assurances, documents and instruments reasonably requested by any other party hereto for the purpose of giving effect to the transactions contemplated herein or the intentions of the parties with respect thereto.

7.6 Assignment. This Agreement shall not be assigned by either party hereto without the prior written consent of the other party hereto, which consent shall not be unreasonably withheld. Subject to the foregoing, this Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns, heirs, executors and personal representatives.

7.7 Counterparts. This Agreement may be signed in counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument, with the same force and effect as though each of the parties executed the same document.

7.8 Venue/Governing Law. The parties hereto agree that this Agreement will be governed by and construed in accordance with the laws of the State of California without reference to its choice of law rules and as if wholly performed within the State of California. The parties further agree that any litigation regarding the interpretation, breach or enforcement of this Agreement will be filed in and heard only by the state or federal courts with jurisdiction to hear such disputes in San Diego, California, and the parties hereby expressly submit to the exclusive jurisdiction and venue of such courts.

7.9 Representation by Counsel. This Agreement has been negotiated by the parties with the assistance of their respective counsel and at their own cost and expense. For this reason the principle that an agreement shall be interpreted against the party that drafted it shall not apply to this Agreement.

*[Remainder of page intentionally left blank; signature page to follow.]*

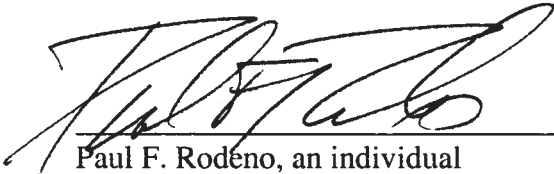
IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year first above written.

BANCORP:

EXECUTIVE:

Security Business Bancorp

By: Claire Fitzpatrick  
Name: Claire Fitzpatrick  
Title: Executive V, Cashier  
Corporate Secretary

  
Paul F. Rodeno, an individual

BANK:

Security Business Bank of San Diego

By: Claire Fitzpatrick  
Name: Claire Fitzpatrick  
Title: Executive V, Cashier

[Signature page to CPP Executive Compensation Agreement]