

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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| In the Matter of               | ) |                         |
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| MID STATE BANK                 | ) | ORDER TO                |
| WATERVILLE, WA                 | ) | CEASE AND DESIST        |
|                                | ) |                         |
| (INSURED STATE NONMEMBER BANK) | ) | Docket No. FDIC-07-006b |
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| _____                          | ) |                         |

Mid State Bank, Waterville, WA ("Bank"), having been advised of its right to a Notice of Charges and of Hearing detailing the unsafe or unsound banking practices and violations of law and/or regulations 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 February 7, 2007, 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 and had committed violations of law and/or regulations. 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 and violations of law and/or regulation.

(a) operating in violation of section 326.8(b)(1) of the FDIC Rules and Regulations, 12 C.F.R. § 326.8(b)(1), as more fully described on pages 5 and 6 in the FDIC's Report of Examination as of October 10, 2006; and

(b) operating in violation of section 353.3 of the FDIC Rules and Regulations, 12 C.F.R. § 353.3, as more fully described on page 6 in the FDIC's Report of Examination as of October 10, 2006.

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

1. Within 90 days of the effective date of this ORDER, the Bank shall comply in all material respects with the Bank Secrecy Act ("BSA"), 31 U.S.C. § 5311 et seq., and the implementing regulations of the Department of the Treasury and the regulations of the Office of Foreign Assets Control ("OFAC"), 31 C.F.R. Part 500.

2. Within 60 days of the effective date of this ORDER, the Bank shall correct all violations of law cited on pages 5 and 6 in the FDIC's Report of Examination as of October 10, 2006. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations.

3. 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(b)(1) of the FDIC's Rules and Regulations, 12 C.F.R. § 326.8(b)(1), 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 Bank's Board of Directors on a monthly basis. Such program and its implementation shall be in a manner acceptable to the Regional Director of the FDIC's San Francisco Regional Office ("Regional Director") 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 suspicious purposes and that there is full compliance with all applicable laws and regulations. Such system should also include policies and procedures to ensure compliance with the OFAC requirement for Provision 3(a); and

(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 2006. 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) OFAC reporting and recordkeeping requirements;
  - (v) Customer Identification Program (“CIP”) implementation;
  - (vi) adequacy of customer due diligence (“CDD”) policies, procedures, and processes and whether they comply with internal requirements;
  - (vii) personnel adherence to the Bank’s BSA/AML policies, procedures, and processes;
  - (viii) appropriate transaction testing, with particular emphasis on high-risk operations (products, service, customers, and geographic locations);
  - (ix) training adequacy, including its comprehensiveness, accuracy of materials, the training schedule, and attendance tracking;
  - (x) integrity and accuracy of management information systems used in the BSA/AML compliance program;
  - (xi) an evaluation of management’s efforts to resolve violations and deficiencies noted in the previous tests or audits and regulatory examinations; and
  - (xii) an assessment of the overall process for identifying and reporting suspicious activity, including a review of filed or prepared SARs to determine their accuracy, timeliness, completeness, and effectiveness of the Bank’s policy.
- (c) 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 of Directors;

(d) Ensure that the Bank's BSA compliance program is managed by a qualified officer who shall have responsibility for all BSA and OFAC compliance and related matters, 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.

(e) Provide and document training by competent staff and/or independent contractors of all board members and all appropriate personnel, including, without limitation, tellers, customer service representatives, lending officers, private and personal banking officers and all other customer contact personnel, in all relevant and appropriate 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.

4. Within 60 days of the effective date of this ORDER, the Bank shall revise, adopt and implement its BSA Policy to include provisions which implement the requirements of Paragraphs 1 through 3 of this ORDER. The Bank's Board of Directors and management shall fully implement the provisions of the revised BSA Policy. The revised BSA Policy, and its implementation, shall be in a form and manner acceptable to the Regional Director as determined at subsequent examinations and/or visitations of the Bank.

5. Within 30 days of the effective date of this ORDER, the Board's 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 reports from the qualified officer appointed in paragraph 3 regarding compliance with the BSA and Parts 326 and 353, at least monthly, and shall report to the Bank's Board of Directors at every meeting.

6. Following the effective date of this ORDER, the Bank's Board of Directors shall monitor and confirm the completion of actions taken by management to comply with the terms of this ORDER. The Board of Directors shall certify in writing to the Regional Director when all of the above actions have been accomplished. All actions taken by the Board of Directors pursuant to this ORDER shall be duly noted in the minutes of its meetings.

7. Within 30 days of the end of the first quarter following the effective date of this ORDER, and within thirty (30) days of the end of each quarter thereafter, the Bank shall furnish written progress reports to the Regional 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.

8. Following the effective date of this ORDER, the Bank shall send to its shareholders 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 fifteen (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. 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 8th day of February, 2007.

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John F. Carter  
Regional Director  
Division of Supervision and Consumer Protection  
San Francisco Region  
Federal Deposit Insurance Corporation