FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

WASHINGTON DEPARTMENT OF FINANCIAL INSTITUTIONS

OLYMPIA, WASHINGTON

In the Matter of	)	
	)	CONSENT ORDER
PACIFIC INTERNATIONAL BANK SEATTLE, WASHINGTON	)	FDIC-11-670b
(INSURED STATE NONMEMBER BANK)	)	

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for Pacific International Bank, Seattle, Washington ("Bank") under Section 3(q) of the Federal Deposit Insurance Act ("FDI Act"), 12 U.S.C. § 1813(q)(2). The Washington Department of Financial Institutions ("WDFI") is the appropriate State banking agency for the Bank under Title 30 of the Revised Code of Washington.

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 November 30, 2011, that is accepted by the FDIC and the WDFI. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices relating to the May 9, 2011 Report of Examination ("ROE"), to the issuance of this Consent Order ("Order") by the FDIC and the WDFI pursuant to Section 8(b)(1) of the FDI Act, and Revised Code of Washington Annotated § 30.04.450 ("RCW").

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 RCW have been satisfied, the FDIC and the WDFI hereby order that:

1. The Bank shall have and retain qualified management and board of directors.

(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

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) The Bank shall have and retain at least one board director with banking experience.

(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 Director of Banks of the Washington Department of Financial Institutions ("Director of Banks"), in writing, of the resignation or termination of any of the Bank's directors or senior executive officers.

(e) During the life of this Order, the Bank shall notify the Regional Director and the Director of Banks, in writing prior to the addition, replacement, or change in responsibility of any individual on the Board or acting as a senior executive officer. The Bank shall comply with the requirements of section 32 of the FDI 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 Washington for prior notification and approval.

(f) Within 60 days from the effective date of this Order, the Board needs to establish and implement a plan to address the recommendations of the recently completed Management study. This plan shall include timelines and be in a form and manner acceptable to the Regional Director and the Director of Banks as determined at subsequent examinations and/or visitations.

2. (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 10 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 percent.

(c) Within 60 days from the effective date of this Order, the Bank shall develop and adopt a plan to meet and maintain the capital requirements of this Order and to comply with the FDIC's Statement of Policy on Risk-Based Capital contained in Appendix A to Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325, Appendix A. Such plan and its implementation shall be in a form and manner acceptable to the Regional Director and the Director of Banks 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 Director of Banks 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 unless written approval is obtained from the Regional Director and the Director of Banks.

(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 Director of Banks 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 Director of Banks for prior approval.

(f) Subject to obtaining all required prior authorizations, permits or other approvals from the Director of Banks, the Bank shall promptly revise or supplement the offering materials it is using in connection with the offer and sale of its securities to fully and fairly disclosure every material change or development regarding the Bank and its operation, including every planned change that would be material, that occurs during the offering of the securities. The Bank shall provide the revised offering materials or supplement, along with a notice that the subscriber may rescind its subscription, to each subscriber that has submitted a subscription for the Bank’s securities before receiving the revised offering materials or supplement for at least ten (10) days before accepting the subscriber’s subscription.

(g) In complying with the provisions of this paragraph, the Bank shall provide to any subscriber and/or purchaser of the Bank's securities, a written notice of any planned or existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this paragraph shall be furnished within 10 days from the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every subscriber and/or purchaser of the Bank's securities who received or was tendered the information contained in the Bank's original offering materials.

(h) 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.

3. 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 Director of Banks.

4. (a) Within 60 days from the effective date of this Order, the Bank shall formulate a written plan to reduce the Bank’s risk exposure in each asset adversely classified “Substandard” or “Doubtful” in the May 9, 2011 ROE, including all outstanding loan

commitments. For purposes of this provision, “reduce” means to collect, charge off, or improve the quality of an asset so as to warrant its removal from adverse classification by the Regional Director and the Director of Banks. In developing the plan mandated by this paragraph, the Bank shall, at a minimum, and with respect to each such adversely classified loan or lease, review, analyze, and document the financial position of the borrower, including source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank’s collateral position.

(b) In addition, the plan mandated by this provision shall also include, but not be limited to, the following:

(i) A schedule for reducing the outstanding dollar amount of each such adversely classified asset, including timeframes for achieving the reduced dollar amounts (at a minimum, the schedule for each such adversely classified asset must show its expected dollar balance on a quarterly basis);

(ii) A schedule showing, on a quarterly basis, the expected consolidated balance of all such adversely classified assets, and the ratio of the consolidated balance to the Bank’s projected Tier 1 capital plus the allowance for loan and lease losses;

(iii) A provision for the Bank’s submission of monthly written progress reports to its board of directors and its noted review in the minutes.

(c) The Bank shall, immediately upon completion, submit the plan to the Regional Director and the Director of Banks for review and comment. Within 30 days from receipt of any comment from the Regional Director and the Director of Banks, and after due consideration of any recommended changes, the Bank shall approve the plan, which approval shall be recorded in the minutes of the meeting of the board of directors. Thereafter, the Bank shall implement and fully comply with the plan.

(d) Any new classified asset will be incorporated into the plan required under this paragraph.

5. (a) Within 10 days from the effective date of this Order, the Bank shall increase the ALLL by $ 500,000 if it has not already done so and shall thereafter maintain an adequate ALLL.

(b) Additionally, within 30 days from the effective date of this Order, the Board shall develop or revise, adopt and implement a comprehensive policy for determining the adequacy of the ALLL. The methodology should be improved as detailed in the ROE. 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 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, 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 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. Such policy and its implementation shall be satisfactory to the Regional Director and the Director of Banks as determined at subsequent examinations and/or visitations.

6. Within 60 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 Director of Banks for systematically reducing the amount of loans or other extensions of credit advanced, directly or indirectly, to or for the benefit of, any borrowers in the "CRE" Concentration, with particular emphasis on those borrowers with motel/hotel and gas station loans. Such plan shall be in conformance with Appendix A of Part 365 of the FDIC's Rules and Regulations, 12 C.F.R. Part 365, Appendix A; and Financial Institution Letter (FIL)-104-2006, Commercial Real Estate Lending Joint Guidance, dated December 12, 2006. In addition, the Bank needs to implement an appropriate stress test over asset concentrations. The results of such stress test shall be report to the Board.

7. (a) Within 60 days from the effective date of this Order, the Bank shall develop a written plan, approved by its Board for systematically reducing the level of nonperforming assets and/or assets listed on the Bank's watchlist to an acceptable level. The plan and its implementation shall be satisfactory to the Regional Director and the Director of Banks as determined at subsequent examinations and/or visitations.

(b) 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 on the watchlist to warrant their removal from the list, as determined by the FDIC and the WDFI.

8. (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 including the administration of other real estate owned as detailed in the ROE. Policies and procedures should include controls

to reduce errors and omissions related to loan underwriting and credit administration. Such policies and their implementation shall be satisfactory to the Regional Director and the Director of Banks 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, consistent with the 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 that prohibit the capitalization of interest or loan-related expense unless the Board supports in writing and records in the minutes of the corresponding 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 that specify the circumstances and conditions under which real estate appraisals must be conducted by an independent third party;

(vi) provisions that establish standards for unsecured credit;

(vii) provisions that 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 Board in accordance with section 215.4(b) of Regulation O of the Board of Governors of the Federal Reserve System (“Regulation O”), 12 C.F.R. § 215.4(b);

(ix) provisions that 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;

(x) provisions that require the preparation of a loan “watch list” which shall include relevant information on all loans in excess of $ 750,000 which are classified “Substandard” and “Doubtful” in the ROE, or by the FDIC or WDFI in subsequent Reports of Examination and all other loans in excess of $ 1,000,000, which warrant individual review and consideration by the Board as determined by the loan committee or active management. The loan “watch list” shall be presented to the Board for review at least monthly with such review noted in the minutes;

(xi) provisions that require an accurate internal grading system;

(xii) provisions that require independent loan review; and

(xiii) the 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 Board meeting at which all members are present and the vote of each is noted.

9. Within 60 days from the effective date of this Order, the Bank shall develop or revise, adopt, and implement a written liquidity and funds management policy that adequately addresses liquidity needs and appropriately reduces its reliance on non-core funding sources. Such policy shall include specific provisions to provide for a minimum primary liquidity level of at least 15 percent, address specific contingency plans that detail actions to be implemented under various liquidity scenarios, and provide for a Net Non-core Funding Dependence of not

more than 25 percent. The policy and its implementation shall be satisfactory to the Regional Director and the Director of Banks as determined at subsequent examinations and/or visitations. In addition, the Bank is subject to the requirements of Part 337 of the FDIC Rules and Regulations.

10. Within 30 days from the effective date of this Order, the Bank shall eliminate and/or correct all violations of law, as more fully set forth in the ROE, including violations of Regulation O, RCW § 63.29, and contravention of the Interagency Policy Statement on the ALLL In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations.

11. Effective immediately and during the life of this Order, the Board shall enhance its internal audit and control function to correct deficiencies as noted in the Report. The Board shall ensure that the audit program and internal controls are appropriate for the size and complexity of the bank. The Board and Audit Committee need to ensure proper and comprehensive completion of the Audit Plan and timely implementation of the 2011 Risk Assessment and Audit Plan.

12. Within 60 days from the effective date of this order, the Bank shall develop, revise, and adopt a written plan to improve the oversight and function of its information technology systems as detailed in the ROE.

13. 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 Director of Banks 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 and the Director of Banks have released the Bank in writing from making further reports.

14. 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 WDFI, 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 WDFI.

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

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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 WDFI.

Issued pursuant to delegated authority

Dated at San Francisco, California, this 2nd day of December, 2011.

/s/
J. George Doerr
Deputy Regional Director
Division of Risk Management Supervision
San Francisco Region
Federal Deposit Insurance Corporation

/s/
Richard M. Riccobono
Director of Banks
Washington Department of Financial Institutions