FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

WASHINGTON DEPARTMENT OF FINANCIAL INSTITUTIONS

OLYMPIA, WASHINGTON

In the Matter of REGAL FINANCIAL BANK SEATTLE, WASHINGTON (INSURED STATE NONMEMBER BANK)	ORDER TERMINATING AN ORDER TO CEASE AND DESIST FDIC-09-388b

IT IS HEREBY ORDERED that the Order to Cease and Desist issued against Regal Financial Bank, Seattle, Washington, pursuant to Section 8(b) of the Federal Deposit Insurance Act, 12 U.S.C. § 1818(b), on September 3, 2009, be, and hereby is, terminated.

Pursuant to delegated authority.

Dated this 14th day of January, 2013.

/s/
Kathy L. Moe
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

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In the Matter of REGAL FINANCIAL BANK SEATTLE, WASHINGTON (INSURED STATE NONMEMBER BANK)	ORDER TO CEASE AND DESIST FDIC-09-388b

Regal Financial Bank, Seattle, 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 Revised Code of Washington, Anno. § 30.04.450, 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"), and with counsel for the Washington Department of Financial Institutions ("WDFI") dated September 2, 2009, 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 and the WDFI.

The FDIC and the WDFI considered the matter and determined that it had reason to believe that the Bank had engaged in unsafe or unsound banking practices. The FDIC and the WDFI, 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 dated April 27, 2009 ("ROE"):

(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 kind and quality of assets held by the Bank;

(d) operating with an inadequate loan valuation reserve;

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

(f) engaging in unsatisfactory lending and collection practices;

(g) operating in such a manner as to produce operating losses;

(h) operating with inadequate provisions for liquidity; and

(i) operating in violation of the following laws and regulations;

(i) Section 103.27 of the United States Department of the Treasury's Financial Recordkeeping regulations, 31 C.F.R. § 103.27;

(ii) Part 323 of the FDIC's Rules and Regulations, 12 C.F.R. Part 323, relating to real estate appraisals.

(j) operating in contravention of the following:

(i) Statement of Policy on Risk-Based Capital; 12 C.F.R. Part 325, Appendix A; and

(ii) Interagency Guidelines for Real Estate Lending Policies; 12 C.F.R. Part 365, Appendix A.

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 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 chief credit 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 of Directors of the Bank ("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 Director, Division of Banks of the Washington Department of Financial Institutions ("Director of Banks") in writing when it proposes to add any individual to the 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. The Regional Director and the Director of Banks shall have the power under the authority of this Order to disapprove the addition, employment or change of responsibilities of any proposed officer or director.

(d) Within 60 days after the effective date of this ORDER, the 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 and a plan to implement the recommendations of the study. The plan shall be acceptable to the Regional Director and the Director of Banks as determined at subsequent examinations and/or visitations.

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. 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 Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

3. (a) Within 120 days from the effective date of this ORDER, the Bank shall have and thereafter maintain a Tier 1 Leverage Capital Ratio at least equal to or greater than 10 percent. For the purposes of this ORDER, the terms “Leverage Ratio” and "Tier 1 Capital" shall have the meanings ascribed to them in Part 325 of the FDIC’s Rules and Regulations, 12 C.F.R. §§ 325.2(m) and 325.2(v).

(b) Within 120 days from the effective date of this ORDER, the Bank shall have and thereafter maintain a Total Risk-Based Capital Ratio in such an amount as to equal or exceed 12 percent. For the purposes of this ORDER, the term "Total Risk-Based Capital Ratio" shall have the meaning ascribed to it in Part 325 of the FDIC’s Rules and Regulations, 12 C.F.R. § 325.2(y).

(c) Within 30 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, Division of Banks as determined at subsequent examinations and/or visitations.

(d) The level of Tier 1 Capital to be maintained during the life of this ORDER pursuant to Subparagraph 3(a) 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.

(e) Any increase in capital necessary to meet the requirements of Paragraph 3 of this ORDER may be accomplished by the following:

(i) the sale of common stock; or

(ii) the sale of noncumulative perpetual preferred stock; or

(iii) the direct contribution of cash by the Board, shareholders, and/or parent holding company; or

(iv) any other means acceptable to the Regional Director and the Director of Banks ; or

(v) any combination of the above means.

Any increase in capital necessary to meet the requirements of Paragraph 3 of this ORDER may not be accomplished through a deduction from the Bank's allowance for loan and lease losses.

(f) If all or part of the increase in capital required by Paragraph 3 of this ORDER is accomplished by the sale of new securities by the Bank, the Board shall forthwith take all necessary steps to 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 the Federal securities laws. Prior to the implementation of the plan and, in any event, not less than 15 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 and Disclosure Unit, Washington, D.C. 20429, for review. Any changes requested to be made in the plan or materials by the FDIC shall be made prior to their 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.

(g) In complying with the provisions of Paragraph 3 of this ORDER, 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.

4. (a) Within 30 days from the effective date of this ORDER, the Bank shall increase its allowance for loan and lease losses by $3 million as of March 31, 2009 unless the required provision has already been recognized. The Bank shall thereafter maintain an adequate allowance for loan and leases losses.

(b) Additionally, within 45 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 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 in order that the findings of the Board with respect to the loan and lease loss allowance may be properly reported in the 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 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 be satisfactory to the Regional Director and the Director of Banks as determined at subsequent examinations and/or visitations.

5. During the life of this ORDER, the Bank shall restrict asset growth to not more than 5 percent annually.

6. (a) Within 10 days from the effective date of this ORDER, the Bank shall eliminate from its books, by charge-off or collection, all assets classified "Loss" and one-half of the assets classified "Doubtful" in the ROE 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” and “Doubtful” in the ROE that have not been previously charged off to not more than 120 percent of Tier 1 Capital plus the allowance for loan and lease losses.

(c) Within 180 days from the effective date of this ORDER, the Bank shall have reduced the assets classified "Substandard" and “Doubtful” in the ROE that have not previously been charged off to not more than 90 percent of Tier 1 Capital plus the allowance for loan and lease losses.

(d) Within 270 days from the effective date of this ORDER, the Bank shall have reduced the assets classified “Substandard” and “Doubtful” in the ROE that have not been previously charged off to not more than 60 percent of Tier 1 Capital plus the allowance for loan and lease losses.

(e) 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.

(f) Within 90 days from the effective date of this ORDER, the Bank shall develop a written asset disposition plan for the reduction and collection of each asset classified “Substandard” or “Doubtful” in the ROE. The plan shall address specific steps and time-frames for the reduction and collection of each “Substandard” and “Doubtful” asset. The plan shall be acceptable to the Regional Director and Director of Banks as determined at subsequent examinations and/or visitations.

7. (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 7(a) of this ORDER shall not prohibit the Bank from: (i) renewing or extending the maturity of any credit in accordance with the Financial Accounting Standards Board Statement Number 15 ("FASB 15"); or (ii) making advances on mortgaged property in the process of foreclosure for payment of taxes and insurance or for the purpose of preserving and protecting the property from theft, vandalism and the elements, with expenses subject to a maximum per structure expenditure of $50,000.

(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 the 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.

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, which policies shall include specific guidelines for placing loans on a non-accrual basis. In addition, the Bank shall obtain adequate and current documentation for all loans in the Bank's loan portfolio. Such policies and their 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.

(b) The Bank's loan policy required by this paragraph shall include provisions which require the preparation of a loan "watch list" which shall include relevant information on all loans in excess of $50,000 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 $50,000, 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.

9. (a) Within 30 days from the effective date of this ORDER, the Bank shall revise its Concentration Policy to limit concentrations for the Commercial Real Estate (“CRE”) and Acquisition, Development, and Concentration (“ADC”) loans in order to comply with the following:

(i) Interagency Guidelines for Real Estate Lending Policies; 12 C.F.R. Part 365, Appendix A; and

(ii) Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices; Financial Institution Letter (FIL)-104-2006, dated December 12, 2006.

The Bank's Concentration Policy and its implementation shall be acceptable to the Regional Director and the Director of Banks as determined at subsequent examinations and/or visitations.

(b) Within 60 days from the effective date of this ORDER, the Bank shall develop a written plan for systematically reducing the amount of CRE and ADC loans in compliance with the revised Concentration Policy required by Subparagraph 9(a) of this ORDER. The Bank shall not make any new CRE or ADC loans unless:

(i) the loans are in compliance with the written plan required by this subparagraph;

(ii) the loans are in compliance with the provisions of Paragraph 7 of this ORDER; and

(iii) the loans are approved by the Board.

The plan and its implementation shall be acceptable to the Regional Director and the Director of Banks as determined at subsequent examinations and/or visitations.

10. Within 60 days of the effective date of this ORDER, the Bank shall develop and submit to the Regional Director and the Director of Banks a written three-year strategic plan. Such plan shall include specific goals for the dollar volume of total loans, total investment securities, and total deposits as of December 31, 2009, December 31, 2010, December 31, 2011, and December 31, 2012. For each time frame, the plan will also specify the anticipated average maturity and average yield on loans and securities; the average maturity and average cost of

deposits; the level of earning assets as a percentage of total assets; and the ratio of net interest income to average earning assets. The plan 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.

11. (a) Within 60 days from the effective date of this Order, the Bank shall develop or revise, adopt, and implement a written plan addressing retention of profits, reducing overhead expenses, and setting forth a comprehensive budget covering the period from the effective date of this Order to December 31, 2012. The plan required by this Paragraph shall contain formal goals, strategies and benchmarks which are consistent with sound banking practices to improve the Bank's net interest margin, increase interest income, reduce discretionary expenses, and improve and sustain earnings of the Bank. It shall also contain a thorough description of the operating assumptions that form the basis for, and adequately support, each major component of the plan. Such 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) Following the end of each calendar quarter, the Board shall evaluate the Bank’s actual performance in relation to the plan and shall record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Bank’s Board meeting at which such evaluation is undertaken.

12. 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. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations.

13. (a) Within 30 days from the effective date of this ORDER, the Board shall develop or revise, adopt, and fully implement, a written liquidity and funds management policy that adequately addresses specific contingency plans that detail actions to be implemented under various liquidity scenarios. Such policy and its implementation shall include specific provisions to require a minimum Primary Liquidity Ratio of at least 15 percent and a plan for achieving and maintaining the minimum Primary Liquidity Ratio. In addition, the policy shall include specific provisions to limit the Bank's Net Non-Core Funding Dependency Ratio to not more than 20 percent and a plan for achieving and maintaining the Net Non-Core Funding Dependency Ratio. The liquidity and funds management policy 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.

(b) Within five business days of the end of each month following the effective date of this ORDER, the Bank shall submit its Primary Liquidity Ratio and Net Non-Core Funding Dependency Ratio calculations based on then-current financial data to the Regional Director and the Director of Banks.

(c) For purposes of this ORDER, the term "Primary Liquidity Ratio" shall mean the amount equal to the sum of net cash, short-term, and marketable assets divided by the sum of net deposits and short-term liabilities. The term "Net Non-Core Funding Dependency Ratio" shall mean the amount equal to the total of non-core liabilities less short-term investments divided by long-term assets.

14. The Bank shall not pay cash dividends without the prior written consent of the Regional Director and the Director of Banks.

15. During the life of this ORDER, the Bank shall comply with the provisions of section 337.6 of the FDIC's Rules and Regulations, 12 C.F.R. § 337.6, including the deposit

interest rate restrictions. For purposes of this ORDER, brokered deposits are defined as described in Section 337.6(a)(2) of the FDIC's Rules and Regulations,12 C.F.R. § 337.6(a)(2).

16. 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 shall include a copy of the Bank's Report of Condition and the Bank's Report of Income. Such reports will be in addition to other reports required by this ORDER and 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.

17. Following the effective date of this ORDER, the Bank shall either send to its shareholder Regal Financial Bancorp a copy of this ORDER or otherwise furnish a description of this ORDER in conjunction with the next board meeting of Regal Financial Bancorp, in which case such 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 and WDFI. 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 and the WDFI.

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Pursuant to delegated authority.

Dated at San Francisco, California, this 3rd day of September, 2009.

/s/	/s/
J. George Doerr	Brad Williamson
Deputy Regional Director	Director, Division of Banks
Risk Management	Washington Department of Financial
Division of Supervision and Consumer Protection	Institutions
San Francisco Region	
Federal Deposit Insurance Corporation	