



**Pacific Valley Bank**

**Code of Ethics and Conflict of Interest Policies**

**Version Control**

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<b>0059-2014</b>	<b>02/27/2015</b>	<b>-</b>	<b>M. Wilson</b>
<b>0007-2017</b>	<b>2/24/2017</b>	<b>Annual Review- Minor Revisions</b>	<b>M. Wilson</b>

I hereby certify that the foregoing is a true and correct copy of a Resolution hereby presented to and adopted by the Board of Directors of Pacific Valley Bank at a meeting duly called and held at Salinas, California on the above noted date, at which the majority of the Directors present voted affirmatively, and that such Resolution is duly recorded in the minute book of this Bank.

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Anthony M. Cosentino  
Corporate Secretary

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**Pacific Valley Bank  
Code of Ethics and Conflict of Interest Policies  
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**Overview**

Pacific Valley Bank's Code of Ethics and Conflict of Interest Guidelines consists of basic principles intended to govern the conduct of directors, officers and employees when acting on behalf of the Bank. These principles represent our basic values in the way we conduct business with current, former or potential customers and how we represent the best interests of Bank. Each director, officer and employee is expected to become familiar with these guidelines and follow them. A copy of these Code of Ethics and Conflict of Interest Policies will be presented to each new employee at the time of hire and each new director at time of appointment. Reaffirmation of the Code will be reviewed and acknowledged (via email, signature or other non-verbal means approved by management) each year by each director, officer and employee.

*Responsibility with Respect to Policies*

Employees and directors are required to understand and adhere to these policies. Employees and directors are required to report conflicts of interest as outlined in this policy. Individuals associated with the Bank have a primary responsibility to uphold the standards of the Code of Ethics of the Bank.

The Bank's directors shall have the individual and collective responsibility to bring to the attention of the Corporate Governance Committee all information of which they are aware regarding the existence of material concerns raised by these Policies, including any violations of these Policies.

Any action taken regarding inappropriate insider activities or a breach of the Bank's code of ethics will ultimately be reviewed and acted upon by the entire Board of Directors, after considering the facts, the seriousness of the conduct, and any potential breach of trust.

It is the responsibility of the Board's Corporate Governance Committee to review and enforce these Policies. These Policies shall be reviewed by the Corporate Governance Committee as necessary to maintain current, effective policies and in no event less frequently than annually.

*Consequences of Noncompliance*

Failure to comply with these policies may result in the termination of employment or directorship. The action taken will be commensurate with the seriousness of the conduct and an evaluation of the situation. All violations of these policies will be brought to the attention of the Board of Directors.

*Procedures*

Management is responsible for developing and implementing procedures to ensure proper disclosure as required by these policies. Management is also responsible for maintaining documentation of compliance with these policies.

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All directors, principal shareholders, executive officers, officers and employees will complete the Annual Conflict of Interest Disclosure Form and submit to the Human Resources Department as requested annually. The Human Resources department will prepare a package of submitted forms for review by the CEO. The CEO will submit a report to the status of completed questionnaires to the Corporate Governance Committee of the Board and will submit copies of any disclosures which include a report of a potential conflict to the appropriate positions and/or committees as noted above for review.

**Code of Ethics**

Receiving or soliciting gifts to influence a financial transaction represents significant regulatory and risk, is strictly prohibited, and may result in stiff penalties. Additionally, improper director or employee/customer relationships may also result in negative market reaction or reputation risk. The Board of Directors acknowledges the risk that conflicts of interest pose to the Bank and have established this and related policies to relay the Bank's standards and expectations to all directors, principal shareholders, officers and employees of the Bank.

Related Policies

Directors, Officers and Employees of the Bank should also refer to and understand the following related policies as applicable:

- Regulation O section of the Loan Policy
- Employee Handbook
- Insider Trading and Confidentiality Policy; and
- Whistleblower Policy.

The Purpose

In recognizing that excessive activities and gratuities and access to information may lead to conflicts of interest for employees, directors, and principal shareholders, the Bank has developed this policy to recognize such positions and to prevent a loss of objectivity by requiring appropriate and trustworthy conduct.

General Objectives and Goals

The general objective of this policy is to require immediate disclosure of any potential conflict of interest and to prevent such a situation from arising. Adherence to this policy should prevent the development of improper relationships between financial institution directors, officers, employees, and the customers they serve.

The specific goals of this policy are to:

- Establish a monetary limit on nominal gifts and gratuities.

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- Describe situations in which possible conflicts of interest may occur and to require proper conduct of all employees and directors.
- Require reporting of conflicts to superiors and written disclosures of business interests.

Definitions

For the purposes of this policy, the following definitions apply:

1. *Officer or Employee.* A part-time or full-time salaried officer or employee of the Bank
2. *Gift.* May include cash or property, special discounts, price concessions, special personal items, special personal entertainment (other than of a normal social nature), special personal services, gratuitous personal services, personal favors, or special dispensations of any kind that could be attributed to the recipient's position or responsibilities with the Bank
3. *Immediate Family.* Spouse, minor child, and/or other dependent of the officer, employee, or director.

For definitions of company, control of a bank, and principal shareholder and/or related interest, refer to 12 CFR 215, Regulation O.

Code of Ethics Policy Statement

The Board of Directors of the Bank intends to hold its employees and directors to this strict code of ethics and to require reporting of conflicts of interest. Individuals associated with the Bank have a primary responsibility to uphold the standards of the Code of Ethics of the Bank. Failure to comply with all policies herein described may result in the termination of employment or directorship.

All employees, directors and representatives of the Bank are required to act in a responsible and respectable manner and to remain free of influences that may result in a loss of objectivity regarding business conducted with Bank customers or with the Bank itself. Each employee and director must disclose and avoid any interests or activities involving another organization or individual that may result in a conflict of interest between the Bank and that organization or individual.

While this policy does not intend to interfere with the personal lives of employees, directors and representatives, it requires those persons to recognize situations where conflicts of interest may arise and to avoid them when possible. If these situations cannot be avoided, they must be reported immediately as provided in this policy. Subsequently, the employee, director or representative should remove himself or herself from any compromising situations, whether it involves advising the other person or entity or approving or voting on extensions of credit.

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Consultation

Employees should refer any questions regarding proper code of conduct to an immediate supervisor. Directors should refer questions to the Corporate Governance Committee. Actions or acceptance of gifts that are not specifically mentioned in this policy must be reviewed as to intent and purpose. Employees and directors should ask themselves: "If my involvement in this activity were to be made public, could my conduct be perceived in a manner that could cause embarrassment or come into question for the Bank?"

Confidential Information

All employees and directors must acknowledge that all information concerning Bank, customer, depositor, and director information is considered confidential and is to be used for Bank purposes only. The use of such information for personal, family, or other gain is unethical and illegal under securities rulings and federal statutes. Information regarding any business conducted cannot be disclosed to outside individuals unless authorized by the property authority (Bank or its customer, etc.) and may not be used for personal gain.

Use of confidential information for other than the Bank's business purposes may result in disclosure of insider information. Insider information is defined as information of a material nature to affect the price of stock involved. Insider information may not be used to purchase, trade, or solicit securities until that information is available to the general public.

The use of confidential information received by either the investment or loan divisions may not be provided to other departments for investment of discretionary funds or advice to customers and vice versa. Any transfers of information regarding customer accounts must be strictly information that is available to the public.

In addition, all published information (both for internal and external use), developed programs, equipment, etc. are the property of the Bank and are reserved for use by employees and directors of the Bank. Use of these materials for any other purpose may constitute copyright infringement and theft.

Please see the Bank's Insider Trading and Confidentiality Policy and the Employee Handbook that provides specific information and procedures concerning confidential information and trading activities. These policies attempt to establish standards that will avoid even the appearance of improper conduct on the part of insiders.

Giving Advice to Customers

Staff members may occasionally be asked by customers to comment upon the legality of a particular transaction. Since the Institution cannot practice law or give legal or tax advice, staff members must exercise care in discussing transactions with customers and nothing should be said that might be interpreted as the giving of legal or tax advice.

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*Gifts and Entertainment*

Employees and directors of the Bank are not to solicit gifts from prospective or current customers, associates, or any other individuals or businesses. Any gifts received shall be of nominal value. Nominal value is considered to be anything below \$100. Cash gifts are prohibited.

No gifts shall be accepted from customers, suppliers, or others who have contact with the Bank where such gifts are intended or may be construed to result in favorable treatment being given the donor. Acceptance of gifts of \$100 or more in value where no influence is intended must be reported to and approved by the Corporate Governance Committee.

Employees and directors of the Bank may participate in entertainment and amenities of reasonable cost to facilitate business. Payment by anyone other than the Bank of excessive costs or travel not customary or within acceptable business practice must not be accepted. Any questionable circumstances must be reported to the Corporate Governance Committee.

Tickets for sporting, cultural, or other events purchased by the Bank are to be used in entertaining potential or actual customers, vendors, or others for business purposes only. If it is determined before the event that the tickets will not be used, an officer may offer them to someone else at his or her discretion.

It is important to recognize that federal law makes it a crime for any officer, director or employee of a federally-insured bank or bank holding company, directly or indirectly, to corruptly ask, solicit or demand for the benefit of that person, or corruptly accept or agree to accept, anything of value, from any person intending to be influenced or rewarded in connection with any business or transaction with the bank or bank holding company.

*External Involvement*

It is the policy of the Institution to strictly comply with all applicable federal and state political campaign laws. Under federal law, financial institutions are subject to certain restrictions regarding contributions or expenditures in connection with any federal or state election to any political office, or in connection with any primary election or political convention or caucus held to select candidates for political office.

In accordance with applicable law, no staff member shall make any direct or indirect contribution of funds or other property of the Institution in connection with the election of a candidate to any federal office. For these purposes, use of the corporate facilities and equipment for political activities is deemed to be a contribution. All requests of the Bank for political contributions will be directed to and handled by the Chief Executive Officer. Approval of the Corporate Governance Committee or the full Board of Directors is required prior to making a political contribution on behalf of the Bank.

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Loans to a candidate for political office or to a political committee are not prohibited so long as the loan is allowable under applicable law, made in the ordinary course of business and meets the Institution's usual credit criteria and approval procedures for the particular type of loan.

At no time will an employee or director solicit employees for political contributions or coerce others into personally contributing to any organization. Conduct must not give the perception that benefit to the Bank or connections are sought or desired. The Institution's policy regarding corporate political contributions is not intended to discourage staff members from making personal contributions to candidates or political parties of their choice.

Additionally, prior to an employee accepting a directorship or officer position with an outside organization that has or desires a business relationship with the Bank, or to any institution within the financial industry, such must be reported to the Chief Executive Officer and Corporate Governance Committee. Capitalizing on opportunities for personal gain or compensation outside of that provided by the Bank for the performance of services for the Bank is strictly prohibited.

Employment outside and in addition to employment at the Bank must be reported to the Chief Executive Officer and Corporate Governance Committee.

*Personal Investment Activity*

While the Institution does not intend to unreasonably limit staff members in their personal investment activities, it is Institution policy that no staff member enter into investment transactions which would create, or give the appearance of creating, a conflict of interest between the staff member and the Institution or between the Institution and any customer.

*Conduct of Insiders*

12 CFR § 215, or federal Regulation O, defines "insiders" as directors, executive officers, and principal shareholders. These people must take care that their conduct does not violate rules relating to self-dealing and personal gains. At no time are members of this group allowed to take advantage of their position in the Bank for personal profit or influence over credit and other decisions with regard to their business or personal interests.

Directors and officers are prohibited from being involved in the loan approval process of insiders who may benefit directly or indirectly from the decision to grant credit. This prohibition extends to professional relationships with any company or firm receiving remuneration as a result of the decision to grant credit.

Decisions regarding the sale or purchase of Bank assets and services must be made in the best interests of the Bank, with no influence on insiders resulting from gifts, entertainment, or gratuities. All conduct of such business must be at "arm's length."

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Annual Disclosures

Employees and directors of the Bank must make annual disclosures of any relationships, receipt of gifts, compensation, or other situations leading to possible conflicts in the following manner:

- Employees/Officers must make annual disclosures to the Chief Executive Officer and Corporate Governance Committee.
- Directors must make annual disclosures to the Corporate Governance Committee/Board.
- Directors, principal shareholders, and executive officers must make annual disclosures to the entire Board of any actual and potential conflicts of interest and any potential conflicts of their related interests.

Employee Accounts

All employees and directors are encouraged to maintain their bank accounts at the Bank to allow the Bank to provide service and direct deposit of payroll checks.

All applicable fees, including overdraft charges, will be assessed on all accounts of directors, principal shareholders, executive officers and employees. Overdraft fees may be waived only as a result of a Bank error.

Complying with Internal Control Procedures

Staff members and directors must comply with all internal control procedures established by the Institution for the safeguarding of assets and proper reporting and disclosure of financial information.

Dealings with Competitors

The policy of the Institution is to require staff members to observe fair and ethical conduct in dealing with the Institution's competitors. The making of disparaging remarks regarding the Institution's competitors is considered to be inappropriate and unethical. The Institution's strategy is to emphasize the quality and competence of its staff and services. Staff members are prohibited from involving the Institution in arrangements with its competitors which provide for the setting or controlling of rates, prices or marketing policies.

Exclusive Dealings and Tying Arrangements

It is the policy of the Institution that it does not condition the sale of services to a customer upon the condition that the customer must purchase other services from the Institution or upon the condition that the customer is prohibited from dealing with other suppliers of such services.

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*Dealings with Auditors*

Staff members are required to fully cooperate with audits conducted by the Institution's internal audit staff or external auditing firm. Questions raised by the auditors must be responded to honestly and no adverse information may be concealed.

*Falsification of Books and Records*

It is the policy of the Institution to maintain records and accounts which accurately reflect its assets, liabilities, receipts and disbursements. The falsification of any books, records or documents of the Institution is grounds for dismissal.

**Conflicts of Interest**

A conflict of interest is defined for purposes of these Policies as an individual's involvement in any interest which might either conflict with the individual's duty to the Bank or adversely affect the individual's judgment in the performance of his or her responsibilities to the Bank, or which might tend to create the appearance of conflict or impropriety so as to undermine the confidence of third parties in the high standards of the Bank.

The Bank asks of its directors, officers and employees that they ensure that their personal and business interests and those of others are not advanced at the expense of the Bank. The Bank's directors, officers and employees may not engage in personal or business conduct which conflicts with the interests of the Bank. It is important that the Bank's directors, officers and employees avoid even the appearance of a conflict of interest, in the recognition that the appearance of a conflict can be as damaging to the Bank's standing and reputation as an actual conflict.

This conflict of interest policy describes the guidelines established by the Bank and bank regulatory agencies with respect to the minimization of the risks associated with potential conflicts of interest, and to ensure that the Bank applies uniform standards to all employees, officers, and board members. The Bank depends upon the personal integrity of its employees, officers and directors in conducting the Bank's business. As such, the purpose of this conflict of interest policy is to ensure compliance with all applicable laws and regulations concerning conflicts of interest, to describe the guidelines established by the Bank and by the bank regulatory agencies to minimize the risks associated with potential conflicts of interest, and to ensure that fair and equal treatment is provided to all Bank customers, employees, officers and directors.

The Bank recognizes that there are numerous potential conflicts of interest involved in the day-to-day conduct of the Bank's business, and therefore the Bank adheres to practices that are "fair and reasonable" in all areas of management of that business. However, three specific areas are carefully regulated and as such are specifically addressed in these Policies: insider vendor/business dealings, securities trading, and bribery of Bank insiders.

For matters outside of those discussed below, employees, officers and directors should refer to the [consultation section](#) of this policy.

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*Responsibilities*

The Bank's directors have the responsibility to comply with these Policies and all applicable laws and regulations. Any suspected violations of these Policies should be reported immediately to the Bank's Chief Executive Officer and Corporate Governance Committee for investigation. Proven violations to these Policies may subject the involved party to certain penalties and possibly to criminal prosecution.

*Contacts and Relationships with Other Financial Institutions*

**Communication with Other Financial Institutions:** Directors of the Bank shall immediately report to the Bank's Chairman of the Board and Chief Executive Officer any communication by or with any person who is a director, officer, employee, agent, nominee, attorney or policy decision maker for any other bank, savings association, bank or savings association holding company, or affiliate or subsidiary thereof, which communication is initiated with respect to any proposed merger or reorganization or other non-public or strategic initiatives related to the Bank. Thereafter, unless specifically authorized by the Board of Directors or a Committee of the Board with jurisdiction over such matters, the reporting director shall have no further communications with agents or representatives of such bank, savings association, bank or savings association holding company or affiliate or subsidiary thereof and shall refer, immediately and without delay, all such further attempted communication to the Chairman, Chief Executive Officer or the full Board of Directors.

**Compensation from Other Financial Institutions:** No director of the Bank shall, while serving as a director, accept any compensation of any kind or in any form whatsoever during the director's term as a director from any bank, savings association, bank or savings association holding company or affiliate or subsidiary thereof, or from any individual, entity or group of individuals and/or entities acting in concert which has a controlling interest in any other bank, savings association, bank or savings association holding company or affiliate or subsidiary thereof, unless the receipt of such compensation is approved in advance by a majority of the non-interested members of the Bank's Board of Directors.

*Insider Vendor/Business Dealings*

The Bank may enter into business relationships, contracts and similar arrangements with directors. However, all business dealings between the Bank and its directors must be intended for the benefit of the Bank and must not be entered into by the Bank merely as an accommodation to the insider.

For the purposes of this conflict of interest policy, a "business dealing" does not include (i) compensation of the Bank's officers or directors, or (ii) any transactions that are subject to Regulation O of the Board of Governors of the Federal Reserve System. All other business

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relationships between the Bank and a director of the Bank must satisfy each of the following requirements:

A. A business dealing will not be entered into by the Bank unless it is determined by Bank management to be fair and reasonable. "Fair and reasonable" means on terms and under circumstances that are substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable business dealings with persons who are not insiders.

B. The following procedures will be utilized to ensure that business dealings that involve Bank insiders are arms-length transactions and to assist the Bank in determining the fairness and reasonableness of a business dealing:

- (i) To the extent practical, at least two competitive quotes and/or bids, dated within 60 days of the date the Board considers the transaction, should be obtained for transactions, with the exception of those items which are described below in Subsection (c)(ii).
- (ii) Outside independent advice from at least one competent expert will be obtained to render an opinion regarding the fairness of the business dealing to the Bank. A sale or lease of property, for example, will require that comparable rates or an appraisal from an outside source be obtained.
- (iii) A business dealing should generally be for a term that does not exceed one year. However, there may be exceptions, such as with a lease agreement. In such a case, the landlord and the Bank will negotiate in good faith a mutually fair business arrangement.

Each year the Bank will reevaluate the fairness of every business dealing which has been in existence for one year or more or which has been continuously recurring during the past year. In the case of a long-term lease, the transaction will be reevaluated for fairness at the time of renewal or renegotiation.

C. All business dealings must be intended for the benefit of the Bank and must not be entered into by the Bank merely as an accommodation to the insider. For the purposes of these Policies, a "business dealing" does not include:

- (i) compensation of the Bank's officers or directors or (ii) transactions that are subject to Federal Reserve Board Regulation O.

D. All transactions that involve Bank directors and their immediate families will require prior approval by the Bank's Board of Directors. If it is determined that the transaction presents a

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potential conflict of interest, the Bank will not permit the use of the director or a member of their immediate family in connection with the business dealing.

Definition

Vendor/business dealings between the Bank and its insiders pose potential conflict of interest problems for the Bank's insiders and as such are expressly addressed by special banking and corporate laws and regulations.

An "insider" is defined as either an officer, director, principal shareholder or agent of the Bank or a related interest of an officer, director, principal shareholder or agent. The Bank has determined that the Bank's vendor/insider business dealings policy and procedures will apply to all Bank directors and their immediate families.

A "Business dealing" is any transaction by a Bank insider in which the insider receives any direct or indirect economic benefit, excluding extensions of credit, deposit relationships and any other ordinary customer service provided by the Bank. By way of example, "business dealing" includes the following activities:

- The sale, purchase or other conveyance of assets, goods or services to or from the Bank. (This includes the sale or purchase of all types of non-deposit liabilities and the payment of interest on such liabilities.)
- The use of the Bank's facilities, real or personal property, or personnel.
- The lease of property, equipment or other assets to or from the Bank.
- The payment by the Bank of commissions and/or fees, including but not limited to brokerage commissions and management, consultant, insurance, architectural and legal fees.
- Service agreements.
- The payment of interest on deposits to directors and executive officers to the extent that the rate of interest exceeds the amount paid to other depositors on similar deposits.

Review of Business Dealings

The Bank's Chief Executive Officer or Corporate Governance Committee will review each proposed business dealing for compliance with applicable laws and regulations. No business dealing may be approved unless it has previously been reviewed by the Bank's Chief Executive Officer or Corporate Governance Committee, except with respect to the determination of reasonable compensation for directors. The determination of the Bank's Chief Executive Officer or Corporate Governance Committee will not be binding on the Board, but the Bank's Board of Directors will justify in writing any Board decision that is contrary to a determination of the Bank's Chief Executive Officer or Corporate Governance Committee as to non-compliance with applicable laws or regulations.

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Recordkeeping

The Bank will maintain satisfactory written records with respect to all business dealings that involve insiders. The Bank's records will document and substantiate the reasonableness and fairness to the Bank of each such business dealing.

Bank Bribery Act

The Bank Bribery Act provisions of the Comprehensive Crime Control Act of 1984 prohibit any improper benefit to any individual who seeks loan funds or services from, or who are in a position to provide services to, a financial institution by establishing criminal penalties for the offer or acceptance of such benefits. It is the intention of the Bank to adopt a policy that embodies the highest ethical standards and that complies with the requirements of the Bank Bribery Act.

All employees, directors, and the immediate families of such persons, are generally prohibited from:

- Soliciting for themselves or a third party (other than the Bank) anything of value from anyone in return for any business, service or confidential information of the Bank.
- Accepting anything of value (other than bona fide salary, wages and fees) from anyone in connection with the business of the Bank, either before or after a transaction is discussed or consummated.

Exceptions

The Bank recognizes that the following are appropriate exceptions to the general prohibition of acceptance of things of value in connection with service as an employee or director of the Bank:

- Gifts, gratuities, amenities or favors if they are based entirely on obvious family or personal relationships (such as the relationship between an official and his or her parents, children or spouse) when the circumstances make it clear that it is this relationship rather than the business of or employment by the Bank which is the motivating factor.
- Meals, refreshments, travel arrangements, accommodations, or entertainment, all of reasonable value, if furnished in the course of a meeting or other occasion the purpose of which is to hold bona fide business discussions, provided that the expenses would be paid for by the Bank as a reasonable business expense, if not paid for by another party.
- Loans from other banks or financial institutions on customary terms to finance the proper and usual activities of a director, such as home mortgage loans, except where prohibited by law.
- Advertising or promotional materials of a reasonable value, such as pens, pencils, note pads, key chains, calendars and similar items.

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- Discounts, premiums, or rebates on merchandise or services or other benefits that do not exceed those available to other customers.
- Gifts of reasonable value that are related to commonly recognized events or occasions, such as promotion, new job, wedding, retirement, Christmas or bar mitzvah, so long as such gifts do not exceed the value of \$100 per gift.
- Civic, charitable, educational or religious organizational awards for recognition of service and/or accomplishment, so long as such awards do not exceed the value of \$100 per award.

The Bank may, on a case by case basis, approve of other circumstances, not identified above, if there is no, and there appears to be no, reasonable likelihood of improper influence in the staff member's performance of duties on behalf of the Institution.

Any exception to these Policies should be documented as a policy exception and reported to the Board of Directors.

Recordkeeping

If an employee or director is offered or receives anything of value beyond what is authorized in these Policies, that person must disclose the following information in writing to the Chief Executive Officer and the Corporate Governance Committee:

- The gift offered or accepted.
- The name of the donor and his/her company affiliation.
- The value of the gift.
- The circumstances surrounding receipt of the gift.

It is important to recognize that federal law makes it a crime for any officer, director or employee of a federally-insured bank or bank holding company, directly or indirectly, to corruptly ask, solicit or demand for the benefit of that person, or corruptly accept or agree to accept, anything of value, from any person intending to be influenced or rewarded in connection with any business or transaction with the bank or bank holding company.

This prohibition not only applies to loan transactions, but also with any other type of business or transaction with an institution. The penalty for violating this law is a fine, imprisonment or both. Any offer or payment prohibited by the above rule should be immediately reported to the employee's supervisor.

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**Standards Applicable to Selection, Qualifications and Conduct of Board Members**

Pacific Valley Bank seeks to maintain the best reputation and the highest ethical standing of any bank in its community. In the conduct of its business, the Bank depends upon the attention, goodwill, competence and personal integrity of its directors. In addition, banking and corporate laws and regulations require that bank directors maintain high standards of personal and business integrity, and prohibit certain activities by insiders. The purpose of these policies are to ensure high standards of performance and conduct by directors, officers and employees as well as to insure compliance with the laws and regulations which affect the Bank and the members of the Board of Directors, officers and employees.

*Selection of Directors*

In accordance with the requirements of the Bank's By-Laws, from time to time the Board may at its discretion elect new Board members. Individuals who are selected to be Directors should have sufficient time available to fulfill their responsibilities, and should be free of financial difficulties or other commitments which might hinder their efforts, make demands which conflict with the individual's commitment to the Bank or in any way tend to embarrass the Bank.

A position as a director of the Bank is a position of trust. Directors should be selected on the basis of their qualities of integrity, business experience, knowledge of and commitment to the community, as well as their genuine interest in assisting the Bank. Bank directors should be screened to insure they possess the maturity and sophistication to appreciate their obligations to all of the Bank's constituents, including the Bank's shareholders, employees, depositors and other customers, the community in which the Bank operates, and the regulatory agencies which supervise the Bank's activities. These qualities should be amply demonstrated by the candidate's experience and reputation. In addition, the Board should favor candidates who have the skill and inclination to attract business to the Bank or who can be helpful in evaluating business opportunities that are presented to the Bank.

Candidates for membership on the Bank's Board of Directors must submit a resume of the candidate's business and professional experience for review by the Corporate Governance Committee. The Corporate Governance Committee shall pay particular attention to any elements of the documents submitted by a Board candidate, which bring into question the candidate's ability to comply fully with all elements of these Policies.

*Prohibitions on Service for Other Persons or Entities*

No person while a member of the Bank's Board of Directors shall serve for pay as a director, officer, employee, agent, nominee, material consulting accountant, attorney, advisor, consultant, or policy decision maker for any other bank, savings association, bank or savings association holding company, or affiliate or subsidiary in the Bank's market area, unless approved by the Board of Directors and disclosed to and authorized by the Bank's regulators.

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*Specific Standards Applicable to Directors*

Members of the Bank's Board of Directors shall be responsible for the following in connection with matters involving the Bank:

- The exercise of sound and prudent judgment in the oversight of the Bank's activities and operations.
- The discharge of the director's obligations with the interests of the Bank, its shareholders and its customers uppermost in the director's mind.
- Administration of the affairs of the Bank with candor, personal honesty and integrity.
- Obtaining no actual or apparent personal gain from information gained pursuant to the director's conduct of confidential duties on behalf of the Bank.
- Maintaining independence while remaining receptive to the views of others and viewing problems with as little personal bias as possible.
- Compliance with all federal and state statutes, rules and regulations applicable to the Bank or its directors.
- Reviewing examination, financial and other reports with respect to the business, activities and performance of the Bank and ensuring that any problems are appropriately and timely addressed.
- Insuring prudent tradeoffs between the imperatives of growth, safety and profitability, taking into appropriate account the multiple constituencies to which the Bank is responsible.
- Acting as an active advocate for the Bank in the community.
- Attending at least 75% of all regular and special meetings of the Board of Directors and of all Board committees on which the director serves.
- Protecting the interests of the Bank through the avoidance of self-dealing in transactions with the Bank.
- Owning the Bank's capital stock to insure that the director has a healthy personal interest in the Bank's progress and prosperity.
- Taking advantage of continuing education opportunities, especially those activities which provide a forum for interaction with directors of peer group banks.
- Maintaining as confidential all information obtained as a director.

*Duty of Loyalty*

Consistent with the high standards established by these Policies, members of the Board of Directors must be loyal to the Bank and to the Bank's management, and must help the Bank identify and capitalize on opportunities that may translate into prudent, profitable business for the Bank. Members of the Board of Directors shall represent and promote the goodwill of the Bank in the community. No director shall reveal or in any way utilize information obtained as a director or will, directly or indirectly, provide such information to any person who is not a member of Bank management or the Board of Directors to attempt to effect or encourage any action of the Bank. Federal law provides specific standards for insider transactions that are designed to curb abuses by directors and other insiders who seek to use their positions with the

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Bank to advance their own interests. In addition, the common law duty of loyalty and good faith requires something more than the mere observance of the letter of these statutory requirements, with members of the Bank's Board of Directors being expected to observe high standards of personal and business ethics. Directors should avoid any activity that would not bear public scrutiny.

It is anticipated that directors may do business with the Bank. However, directors must understand that the Bank is required to avoid providing directors accommodations of any kind which are more favorable than those offered to the general public. Extensions of credit to directors must meet or exceed the standards set forth in Regulation O of the Board of Governors of the Federal Reserve System.

As is discussed below, Directors must disclose any potential or existing conflicts of interest. Directors must respect the prerogative of the Bank to seek profitable new business venues and new clients, and directors should take care not to interfere with that prerogative. Directors should not compete with the Bank or be a principle or director of any competitor bank. Directors should avoid any personal or professional affiliations which might demand or appear to demand conflicting loyalties.

*Confidential Information and Trade Secrets*

All information, materials, reports, analyses, attorney client communications, reports or correspondence from accountants, auditors or other advisors related to or concerning the Bank, all records of the accounts of customers, and any other records and books relating in any manner whatsoever to the customers of the Bank, and all other files, books and records and other materials owned by the Bank or used by it in connection with the conduct of its business, whether prepared by a director or otherwise coming into his or her possession, shall be the exclusive property of the Bank regardless of who actually prepared the original material, book or record. All such books and records and other materials shall be immediately returned to the Bank by the director on any termination of his or her service as a director. No director shall reveal or in any way utilize information obtained as a director or will, directly or indirectly, provide such information to any person who is not a member of Bank management or the Board of Directors to attempt to effect or encourage any action of the Bank.

Directors will have access to and become acquainted with the Bank's trade secrets, including the names of customers and clients of the Bank, their financial condition and financial needs, financial information regarding the Bank and other information relating to the Bank's products, services and methods of doing business. Directors shall not disclose any of the Bank's trade secrets, directly or indirectly, or use them in any way, either during the term of the director's service as a director (except as required as a director of the Bank) or for a period of twelve months after the termination of service as a director of the Bank. Directors will not, for one year following the termination of their service as a director, solicit for employment elsewhere individuals who

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are active, full-time employees of the Bank. Directors must remain cognizant of their duty not to disclose any non-public information regarding bank customers even after director service.

*Charges Commonly Brought Against Directors of Banks*

The most likely plaintiffs in lawsuits against bank directors are the Federal Deposit Insurance Corporation (in its role as the receiver of a failed institution), the Bank's shareholders and its creditors. While suits brought by shareholders and creditors are the most numerous, those involving the most serious potential consequences and the greatest expenditures of money are likely to be those brought by the FDIC. Regardless of the identity of the plaintiff, many of the same acts and omissions of bank directors serve as the bases for claims that are made against them, including the following:

- Engaging in self-dealing.
- Approving imprudent or excessive loans.
- Failing to address in a satisfactory manner conditions and practices that have been criticized, formally or informally, by bank regulatory agencies.
- Failing to provide proper guidance to management.
- Failing to have the bank audited on a regular basis.
- Failing to ensure the implementation and maintenance of adequate internal procedures and controls.
- Permitting the institution to become illiquid, or to otherwise operate without adequate net worth and reserves.
- Failing to attend a sufficient number of Board and Board committee meetings.
- Failing to require adequate diversity in the institution's investments.
- Failing to exercise sound business judgment.

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**Exhibit A- Annual Conflict of Interest Disclosure**

**Conflict of Interest Disclosure**

Name: \_\_\_\_\_ Position: \_\_\_\_\_

**Potential Conflict of Interest:**

Do you have a potential conflict of interest as defined in the Bank's Code of Ethics and Conflict of Interest Guidelines?

No  Yes (If yes, please describe below or attach an addendum if you need additional space)

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Do you have a related interest which has a potential conflict of interest as defined in the Bank's Code of Ethics and Conflict of Interest Guidelines?

No  Yes (If yes, please describe below or attach an addendum if you need additional space)

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**Gifts and Entertainment**

In the last 12 months, have you given, received or accepted any gift or entertainment with a value of \$100 or more, as defined in the Bank's Code of Ethics and Conflict of Interest Guidelines?

No  Yes (If yes, please describe below or attach an addendum if you need additional space)

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**External Involvement**

Are you or have you been involved in the last 12 months with any political, charitable or civic organization or event which might cause a conflict of interest or have you accepted any director or officership position with an outside organization that has or desires to have a business relationship with the Bank, as defined in the Bank's Code of Ethics and Conflict of Interest Guidelines?

No  Yes (If yes, please describe below or attach an addendum if you need additional space)

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Signature: \_\_\_\_\_ Date: \_\_\_\_\_

**If required, reviewed by Corporate Governance Committee of the Board:**

Signature: \_\_\_\_\_ Date: \_\_\_\_\_