

AGREEMENT BETWEEN
FULLERTON SAVINGS AND LOAN ASSOCIATION
AND
THE OFFICE OF THRIFT SUPERVISION

This Supervisory Agreement ("Agreement") is entered into and made effective this 13th day of AUGUST, 1992, ("Effective Date"), by and between Fullerton Savings and Loan Association, Fullerton, California, for itself and any wholly or partly-owned subsidiary ("Fullerton" or the "Institution") and the Office of Thrift Supervision ("OTS").

WHEREAS, the OTS and the Board of Directors ("board") of Fullerton have a common interest in assuring the current and future financial viability and profitability of the Institution, and in assuring that the Institution is operated in a safe and sound manner; and,

WHEREAS, in pursuit of that interest, the Assistant Regional Director of the West Region of the OTS ("ARD") and the board have determined that certain actions should be taken by the Institution for the benefit of the Institution, its shareholders and depositors;

NOW THEREFORE, BE IT RESOLVED, that Fullerton and OTS agree as follows:

1. Internal Asset Review

The board is responsible for taking all steps necessary to ensure that management strengthens the Institution's Internal Asset Review ("IAR") function by implementing policies and procedures that will enable management to adequately identify, monitor and resolve problem assets. In addition the board shall ensure that management implements all OTS recommendations set forth in the OTS Report of Examination which commenced May 26, 1992, including:

- i) The establishment of the IAR Committee's independence in developing the Committee's scope of asset review and the decision-making process;
- ii) The Committee shall specifically focus on the review of high risk assets such as real estate investments (REI), major loans, and nonperforming assets;
- iii) The Committee shall include in its scope of review a random sampling of performing major loans. At a minimum such review shall consider specific deteriorating conditions of the asset as well as delinquency;

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- iv) The Committee shall complete detailed asset review forms for all assets reviewed;
- v) Where appropriate, asset reviews shall include discounted cash flow analyses;
- vi) The Committee's chairperson shall present to the board a quarterly report of loans reviewed and actions taken with respect to those loans.

2. Reserves

Fullerton shall establish and maintain appropriate general valuation allowance ("GVA") risk factors to reflect the credit risk inherent in the Institution's asset portfolio. Fullerton's IAR Committee and board shall review and approve the level of GVAs on a quarterly basis, or more frequently if deemed necessary for the prudent operation of the Institution.

Likewise, Fullerton shall establish and maintain an adequate level of specific reserves or appropriately writedown the impacted assets. The specific reserves or writedowns shall be based on adequately supported discounted cash flow analyses and/or recent appraisal reports. Prior to reducing its level of specific or general reserves, the Institution must obtain written approval from the OTS.

3. Classified Assets

Fullerton shall take all reasonable steps necessary to reduce, on an on-going basis, the level of its classified assets as a percentage of generally accepted accounting principles (GAAP) capital plus GVAs, with an ultimate goal of reducing its level of classified assets to not more than 75 percent of GAAP capital plus GVAs.

Within 60 days from the date of this Agreement, Fullerton shall develop written plans for the collection of all of its current problem assets. Thereafter, within 30 days after any asset becomes a problem asset, Fullerton shall adopt a written plan for each such problem asset, which shall then be immediately implemented. For the purposes of this requirement, a "problem asset" shall mean any asset (including unfunded commitments) in excess of \$300,000 that:

- i) has been adversely classified by the OTS as a result of its examination of Fullerton conducted as of May 26, 1992, or is adversely classified by the OTS as a result of any subsequent examination of Fullerton;

- ii) has been accorded a sub-investment quality rating and/or has been classified as the result of an internal asset review performed by Fullerton or by another party on behalf of Fullerton;
- iii) is past due in excess of 90 days and/or has been placed in either a non-accrual or non-earning status by Fullerton;
- iv) has been partially charged-off.

Each such plan shall include, at a minimum, an assessment of the status of each problem asset, the action proposed to eliminate the cause or causes of such asset being a problem, and the time frame for the collection of any amounts determined to be due Fullerton.

4. Interest Rate Risk

The board shall revise the Institution's interest rate risk (IRR) policy to incorporate IRR strategies that reflect the current economic environment and the Institution's current operating condition. The policy shall also include contingency strategies to be implemented in the event primary strategies fail to yield desired results.

The board shall also revise the Institution's IRR exposure limits to reflect the Institution's current financial condition as required by Thrift Bulletin No. 13. The board shall document the rationale in selecting the IRR exposure limits and correlate these limits with Fullerton's actual results.

The board is also directed to increase its awareness of Fullerton's exposure to IRR. Overall, the monitoring of IRR needs to be enhanced through better utilization and analyses of IRR reports.

5. Internal Audit

The board shall improve Fullerton's internal audit function by focusing its efforts on the areas of higher risk, such as real estate investments, IAR function, and IRR management.

6. Strategic Planning

By December 31, 1992, Fullerton, acting through its board, shall formulate and maintain a three-year operating plan that will set forth long-term and short-term goals and objectives. The board shall correlate its operating plan with its divestiture plan and asset/liability strategies to be implemented in response to the regulatory environment.

7. Corrective Action

The board shall ensure that all of the deficiencies cited in the OTS Report of Examination that commenced on May 26, 1992, which are not specifically cited herein, are corrected.

8. Capital

Fullerton shall continue to meet the standards of a "well capitalized" institution as defined in the upcoming new regulations.

9. Capital Distributions

Fullerton will not pay dividends to its shareholders unless it has obtained the prior written approval from the OTS.

10. Management

(a) Fullerton, through its board, shall take all steps necessary to strengthen and enhance the Institution's existing management. In evaluating management's performance for the purposes of this requirement, the board shall consider management's ability to:

- i) correct any deficiencies in Fullerton's operations as identified in this Agreement; or in the Institution's Report of Examination, which commenced May 26, 1992;
- ii) operate Fullerton in a safe and sound manner;
- iii) comply with applicable laws and regulations; and
- iv) comply with the requirements of this Agreement.

11. No Waiver by OTS

Any rights, powers, and remedies given to the OTS by this Agreement shall be in addition to all rights, powers, waivers and remedies given to it by any applicable statute or rule of law. The OTS does not relinquish any of its rights to take any supervisory or other action whatsoever with respect to the Institution as a result of this Agreement. The Institution acknowledges that it has not received any oral or written representation to the contrary by the OTS or any of its agents or employees. By executing this Agreement, neither Fullerton nor any of its institution-affiliated parties admit to any matter or thing, and both Fullerton and its institution-affiliated parties retain all rights to contest any other supervisory or other actions brought by the OTS or any other governmental agency.

12. Terms, Words and Phrases

All technical words or terms used in this Agreement, for which meanings are not specified or otherwise provided by the provisions of this Agreement, shall have meanings as defined in the pertinent regulations of the OTS in effect as of the date of this Agreement, or any successor thereto. Any such technical words or terms used in this Agreement in said regulations shall have meanings that accord with the best custom and usage in the savings and loan industry.

13. Authorization; Binding Written Agreement Under FDIA; Amendments

This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding agreement between Fullerton and the OTS. It is understood and agreed that this Agreement is a "written agreement" between the depository institution and the agency, as the term is used in Section 8 of the Federal Deposit Insurance Act (12 U.S.C. Section 1818). No amendment or modification of this Agreement shall be valid and binding unless executed in writing by both the OTS and Fullerton.

14. Successors and Assigns

The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto, their successors in interest, and respective assigns.

15. Termination and Modification of Agreement

The OTS, acting through its Assistant Regional Director (ARD) of the West Region, shall have the power to terminate this Agreement at any time. The ARD shall only grant a modification of this Agreement if such modification is deemed necessary or desirable, in his or her sole discretion.

IN WITNESS WHEREOF, the OTS, acting through the ARD, and the Institution, by its duly elected directors, have executed this Agreement on the date first above written.

FULLERTON SAVINGS AND LOAN ASSOCIATION

By: 15/
Director

OFFICE OF THRIFT SUPERVISION

By: 15/
Anthony M. Paula
Assistant Regional Director
West Region