

AGREEMENT BETWEEN
INTERNATIONAL SAVINGS BANK, FSB
AND
THE OFFICE OF THRIFT SUPERVISION

This Supervisory Agreement ("Agreement") is entered into and made effective this 14th day of December, 1992, ("Effective Date"), by and between International Savings Bank, FSB, San Diego, California, for itself and any wholly or partly-owned subsidiary ("International" or the "Institution") and the Office of Thrift Supervision ("OTS").

WHEREAS, the OTS and International 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 International have determined that certain actions should be taken by the Institution for the benefit of the Institution;

NOW THEREFORE, International and the OTS agree as follows:

1. Construction Lending

The Institution shall develop and implement improved comprehensive construction loan underwriting policies and procedures. Such policies, at a minimum, shall specifically address such underwriting issues as appraisal ordering and review, loan approval authority, financial capacity of borrowers, economic feasibility, and collateral documentation. In addition, the Institution shall develop and implement improved prudent construction loan administration policies and procedures. Such loan administration policies should address, at a minimum, such issues as prudent disbursement guidelines, maintenance of adequate administrative documentation, modification guidelines, and internal control procedures designed for monitoring compliance with all construction lending policies. The construction lending policies and procedures required by this paragraph shall be completely developed and implemented prior to the Institution's approval of any additional construction loan originations, participations, or purchases.

2. Internal Controls for Lending Policies and Procedures

In addition to the policies and procedures which the Institution must implement with respect to the construction loan area, the Institution shall conduct an evaluation of its existing lending policies and procedures to identify any and all areas in which improvement is appropriate, and shall prepare and adopt revised lending policies and procedures which correct any areas in which improvement is appropriate, and which ensure the Institution's compliance with OTS regulations and safe and sound practices. In addition, the Institution shall ensure that these policies implement adequate internal controls to ensure that compliance with the lending policies can be monitored by the Institution.

3. Internal Audit

International shall improve its internal audit function by overseeing the development and implementation of a revised comprehensive internal audit program designed to monitor all lending-related areas of the Institution.

4. General Valuation Allowances

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

5. Classified Assets

International 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 Effective Date, International shall develop written plans for the resolution of all of its current problem assets. Thereafter, within 30 days after any asset is identified as, or should have been identified as, a problem asset, International shall adopt a written plan for each such problem asset, which shall then be immediately initiated. For the purposes of this requirement, a "problem asset" shall mean any asset (including unfunded commitments) in excess of \$500,000 that:

- 1) has been adversely classified by the OTS as a result of its examination of International conducted as of September 1, 1992, or is adversely classified by the OTS as a result of any subsequent examination of International;

- ii) has been accorded a sub-investment quality rating and/or has been classified as substandard, doubtful or loss as the result of an internal asset review performed by International or by another party on behalf of International;
- iii) is past due in excess of 90 days and/or has been placed in either a non-accrual or non-earning status by International;
- 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 ultimate resolution of any amounts determined to be due International.

6. Capital

Within 60 days from the Effective Date, International shall submit to the OTS a comprehensive business plan indicating the Institution's strategies to increase its existing capital levels to an appropriate amount to reflect the risks inherent in the Institution's portfolio as well as the overall operational risks of the Institution. This provision shall in no way relieve the Institution from meeting the minimum capital requirements as now or hereafter in effect.

7. Capital Distributions

International will not make any capital distributions without obtaining the prior written approval from the OTS.

8. Management

International 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, International shall consider management's ability to:

- i) address any issues relating to International's operations as identified in this Agreement, or in the Institution's Report of Examination, which commenced September 1, 1992;
- ii) operate International in a safe and sound manner;
- iii) comply with applicable laws and regulations;
- iv) comply with the requirements of this Agreement.

9. Corrective Action

International shall ensure that all of the items identified in the OTS Report of Examination that commenced on September 1, 1992, which are not specifically cited herein, are corrected.

10. 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 International nor any of its institution-affiliated parties admit to any matter or thing, and both International 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.

11. 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 Effective 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.

12. 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 International 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 International.

13. 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.

14. Termination and Modification of Agreement

The OTS, acting through its ARD, 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.

~~INTERNATIONAL SAVINGS BANK, FSB~~

By: 151
~~Director Aaron Feldman, Chairman~~

By: 151
Director A. Vincent Siciliano

By: 151
Director Thomas F. Carter

By: 151
Director Brian L. Paul

By: 151
Director Gordon Misenhimer

By: 151
Director Walter A. Turner, Jr.

By: 151
Director Ted R. Odmark

By: 151
Director Richard D. Vann

By: 151
Director Jack H. Parkinson

OFFICE OF THRIFT SUPERVISION

By: 151
Anthony M. Paula
Assistant Regional Director
West Region