

SUPERVISORY AGREEMENT

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

WHEREAS, the OTS and the Board of Directors of Inland ("Board") have a common interest in assuring the current and future 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 Board and the Regional Director of the West Regional Office of the OTS, or his designee ("Regional Director") have determined that certain actions should be taken by Inland for the benefit of the Institution, its shareholders and depositors;

NOW, THEREFORE, it is agreed between the parties hereto as follows:

1. Regulatory Compliance

Each member of the Board and each officer, employee, agent, and institution-affiliated party of Inland and/or its service corporation(s), shall take all steps necessary to ensure that Inland, its service corporations, and each person acting in his/her individual capacity, do not engage in activities which would violate, or otherwise aid and/or abet the violation of the following rules and/or regulations:

- (a) the lending limits and limitations on loans-to-one-borrower, set forth in 12 C.F.R. Section 563.93;
- (b) the interest-rate-risk management procedures set forth in 12 C.F.R. Section 563.176; and,
- (c) the limitations on investment in nonresidential loans as set forth in 12 C.F.R. Section 545.35.

2. Business Plan

Within 30 days of the Effective Date, the Board shall submit to the OTS for review by the Assistant Regional Director an interim business plan ("Interim Plan"), detailing the Institution's operating strategies and financial projections for the remainder of 1992. The Interim Plan shall also generally address the strategies that will be considered by the Board in the event that the pending merger transaction does not take place.

In the event that the definitive agreement relating to the pending merger transaction is canceled by either party or the transaction is not

completed by January 1, 1993, the Board shall develop and submit for review by the Assistant Regional Director a comprehensive business plan ("Comprehensive Plan") by no later than March 31, 1993. The Comprehensive Plan shall cover a period of not less than three years and shall include, at a minimum, a detailed review of the Institution's operating plan, lending strategies, interest rate risk management, asset/liability structure and composition, loan and deposit pricing structure, as well as the establishment of provisions for loan losses. The Business Plan shall also address potential economic scenarios, and provide an evaluation of the impact of these environments on the Institution's ability to reach the goals set forth in the Comprehensive Plan.

3. Growth Restriction

Inland shall not increase its assets, as calculated on a consolidated basis, above the amount of total assets reported as of January 1, 1991, without receiving the prior written approval of the Assistant Regional Director.

4. Service Corporation Investment

Inland is prohibited from investing in, or extending additional advances or loans to any service corporation or subsidiary, without receiving the prior written approval of the Assistant Regional Director.

5. Directors and Management

Pursuant to the requirements of Thrift Bulletin 45, Inland is deemed to be in "troubled condition" and is required to notify the Assistant Regional Director prior to adding directors or hiring senior executive officers.

6. Internal Audit Function

The Board shall develop, adopt and implement an Internal Audit Plan ("Audit Plan"), reflecting the internal audit needs of the Institution. At a minimum, the Audit Plan shall:

- (a) detail each area to be reviewed during the next 12 month period and should include, but not be limited to, procedures to ensure that the audit committee monitors the audit schedule on a regular basis;
- (b) contain an analysis of the Institution's resources to determine whether the goals as set forth in the Audit Plan can be completed by the current internal audit staff or whether the department needs to be expanded to adequately perform the internal audit function; and
- (c) require the audit committee to meet on a monthly basis and that all audit committee findings, conclusions and proposed corrective actions be fully documented and reflected in the minutes of the audit committee meetings.

7. Additional Policies and Procedures

- (a) Within 30 days of the Effective Date, the Board shall develop, adopt and implement the following policies and procedures:
 - (i) procedures to provide for the valuation of Inland's Excess Servicing Fee Receivable ("ESFR"), on at least a quarterly basis, as required by Thrift Bulletin 43; and
 - (ii) policies and procedures designed to ensure accurate reporting on all filings with the OTS, including the Thrift Financial Reports ("TFR").
- (b) Within 60 days of the Effective Date, the Board shall develop and submit to the OTS for review by the Assistant Regional Director a realistic plan for the reduction of the Institution's current level of criticized assets.

8. Board Review of Agreement Compliance

- (a) On a monthly basis, management shall provide the Board with reports assessing the Institution's compliance with the provisions of this Agreement. After a review of this information, the Board shall adopt a Board Resolution (the "Compliance Resolution") formally resolving that, following a diligent inquiry of relevant information, to the best of its knowledge and belief, during the immediately preceding calendar month, the Institution has complied with each provision of the Agreement currently in effect, except as otherwise specifically stated in the Compliance Resolution.
- (b) No later than the 10th Business Day of each month, the Institution shall provide the Assistant Regional Director a certified copy of the Compliance Resolution adopted by the Board at the meeting of the Board for the preceding month. The Board by virtue of the Institution's submission of a certified true copy of each Compliance Resolution to the Assistant Regional Director shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution, except as provided below.
- (c) In the event that one or more Directors do not agree with the representations set forth in the Compliance Resolution, such disagreement shall be noted in the minutes of the Board meeting and furnished to the Assistant Regional Director.

9. Definitions and Miscellaneous Provisions

- (a) This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Institution. It is understood and agreed that this Agreement is a "written agreement" entered into with the OTS within the meaning of 12 U.S.C. Section 1818(b)(1) and (1)(2) of the Federal Deposit Insurance Act ("FDIA").

- (b) For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:
- (i) all terms not otherwise defined herein that are defined in the HOLA, the FDIA, the Rules and Regulations of the OTS or its Bulletins and Advisory Memoranda, shall have the meanings assigned to them in such statutes, Rules and Regulations;
 - (ii) all accounting terms not otherwise defined herein or in the Rules and Regulations of the OTS, shall have the meanings ascribed to them in accordance with generally accepted accounting principals; and
 - (iii) all technical words or terms not otherwise defined herein shall have the meanings that accord with the best custom and usage in the thrift and/or banking industry.
- (c) The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest.
- (d) Upon execution by the Assistant Regional Director ("Final Execution") this Agreement shall supersede the Cease and Desist Order dated April 5, 1991 ("C&D"), and shall remain in full force and effect until terminated or suspended by the OTS acting through the Assistant Regional Director. Upon Final Execution of this Agreement, the C&D shall be terminated and have no continuing force or effect for events or activities occurring after its termination.

