

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is entered into and made effective this 10th day of August, 1992, ("Effective Date"), by and between United California Savings Bank, Santa Ana, California, for itself and any wholly or partly-owned subsidiary ("UCSB" or the "Institution") and the Office of Thrift Supervision ("OTS").

WHEREAS, the OTS is of the opinion that the Institution has not complied with certain statutes and regulations to which the Institution is subject, as more fully discussed in the OTS's most recent Report of Examination of the Institution transmitted to the Institution under cover dated November 1, 1991;

WHEREAS, the OTS is of the view that such non-compliance provides sufficient grounds for the initiation of formal enforcement proceeding against the Institution by the OTS;

WHEREAS, the OTS is willing to forbear at this time from the initiation of formal enforcement proceedings against the Institution for its failure to comply with certain statutes and regulations to which it is subject, provided the Institution enters into this Agreement;

WHEREAS, by entering into this Agreement neither the Institution, nor any subsidiary admits or denies that it has violated any statutes or regulations or has been operating in an unsafe and unsound manner; and

WHEREAS, the Institution, in the interest of regulatory compliance and cooperation, is willing to enter into and abide by the terms of this Agreement to avoid the initiation of formal enforcement proceedings against it by the OTS.

NOW, THEREFORE, in consideration for the above stated forbearance by the OTS from the initiation of formal enforcement proceedings, it is agreed between the parties as follows:

1. Business Plan

Within 60 days of the Effective Date, and annually thereafter, the Institution shall prepare and following approval by the Institution's Board of Directors ("Board"), adopt and submit for the review and approval of the Assistant Regional Director ("ARD"), a comprehensive Business and Operating Plan ("Plan"), which details the Institution's operating strategies and financial projections for the next 12 months, and addresses the Institution's plans for achieving and maintaining core capital in the amount required under paragraph 2 of this Agreement. The

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first Plan filed under this requirement shall establish realistic quarterly capital targets for each of the capital ratios contained in Part 567 of the OTS Regulations, for each fiscal quarter beginning with the quarter in which the Plan is submitted to the ARD, up to and including the quarter ending June 30, 1993.

The Plan shall also include, at a minimum: (1) a discussion of the Institution's short and long-term goals and objectives; (2) pro forma financial statements which reflect the proposed operating strategy of the Institution; (3) any proposed asset growth or reduction; and (4) the establishment of appropriate general valuation allowance risk factors for all categories of assets to reflect the inherent and perceived risk of the overall asset portfolio.

A material violation of this paragraph 1 shall occur if the Institution: (i) fails to meet any of the quarterly capital targets established by the Plan as approved by the ARD; (ii) engages in any type of activity inconsistent with the Plan or in any type of activity that has not received the ARD's prior written approval; (iii) engages in any activity giving rise to a statutory or regulatory violation, or (iv) engages in any type of activity in an unsafe or unsound manner. In addition to those material violations set forth above, it is agreed and understood that the ARD has the discretion to determine that a material violation of this paragraph 1 has occurred when the Institution exceeds the level of any activity contemplated in the Plan by more than five percent (5%).

2. Core Capital Requirement

No later than July 20, 1993, the Institution shall provide the ARD with evidence that as of June 30, 1993, the Institution (i) has achieved a level of core capital in an amount equal to or in excess of five percent (5%) of the Institution's "Adjusted Tangible Assets", and (ii) is otherwise in compliance with all other capital requirements applicable to the Institution, as set forth in Part 567 of the OTS Regulations.

The Board recognizes that these capital levels are required for the safe and sound operation of the Institution and the Institution, acting through its Board, shall use its best efforts to attain these capital levels prior to June 30, 1993.

A material violation of this paragraph 2 shall be deemed to occur if: (i) the Institution fails to maintain core capital in an amount equal to or in excess of three percent (3%) of the Institution's "Adjusted Total Assets"; and/or (ii) the Institution fails to meet the capital requirements set forth above by June 30, 1993.

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Should the capital requirements contained in Part 567 be revised upward, and result in more stringent requirements than those set forth above, the Institution shall then be required to comply with such revised capital requirements.

3. Management/Directorate

The Board acknowledges that each member of management shall have qualifications and experience commensurate with his or her duties at the Institution.

The Board shall evaluate the qualifications and performance of management members based on their ability to: (i) correct any and all deficiencies in the operations of the Institution as identified in the Institution's most recent Report of Examination, this Agreement, or by the Board; (ii) operate the Institution in a safe and sound manner; (iii) comply with applicable laws and regulations; and, (iv) comply with the requirements of this Agreement.

A material violation of this paragraph 3 shall occur if the ARD concludes that on the basis of an annual review or the progress of the Institution, that qualified employees, management and/or directors are not employed or maintained by the Institution.

4. Compensation/Benefits

Within 60 days from the Effective Date, the Institution shall adopt a compensation plan for executive officers after undertaking a review of compensation paid to any of the Institution's executive officers. At a minimum, the review shall include the following:

- (a) a critical analysis of each individual's background, experience, duties and responsibilities, and an appraisal of each individual's performance compared to the present level of compensation;
- (b) a comparison of each officer's total compensation with compensation received by officers with similar responsibilities in similar institutions; and
- (c) a determination of whether present executive officers are capable of implementing board directives and policies, operating within the constraints of laws and regulation, and operating the Institution in a prudent manner.

For the purposes of this paragraph 4, "compensation" refers to any and all salaries, bonuses, and other benefits of every kind and nature whatsoever, whether paid directly or indirectly. The Plan shall be submitted to the ARD for review.

The Board shall ensure that any and all direct and indirect compensation and benefits paid to executive officers and directors is limited to those amounts deemed reasonable and prudent for an association of the size and in the financial condition of the Institution. All employment contracts shall comply with the provisions of 12 C.F.R. Sections 563.39 and 563.161, as amended by current OTS Thrift Bulletins and/or guidance, and shall be submitted to the ARD for review and approval.

In no event shall the Institution increase the compensation or benefits paid to any executive officer in an amount which exceeds five percent (5%) per year, without the prior written approval of the ARD. All increases in the compensation and benefits granted to the directors must receive the prior written approval of the ARD.

A material violation of this paragraph 4 shall occur if the Institution (i) fails to conduct the required review and make the required filings within the time indicated; (ii) increases the compensation or benefits paid to any executive officer in an amount which exceeds five percent (5%) per year without the prior written approval of the ARD, and/or (iii) increases the compensation and/or benefits granted to the directors without receiving the prior written approval of the ARD.

5. General Valuation Allowances

The Institution, acting through its Board, shall establish and maintain appropriate general valuation allowances ("GVA") risk factors for all categories of assets to reflect the inherent and perceived risk of the overall asset portfolio. These risk factors shall also reflect the impact of criticized assets. The Institution shall evaluate, and the Board shall review and approve the Institution's level of GVAs on a quarterly basis, or more frequently if deemed necessary for the prudent operation of the Institution.

A material violation of this paragraph 5 shall occur if: (i) the Institution fails to establish or maintain appropriate GVAs as required by the ARD; (ii) the Institution permits its GVAs to fall below the amount required based on the GVA risk factors set forth in the Plan required by paragraph 1 of this Agreement; or (iii) the Institution fails to evaluate the Institution's level of GVAs on a quarterly basis, or more frequently if deemed necessary for the prudent operation of the Institution.

6. Reduction of Criticized Assets

The Institution, acting through its Board, shall take all reasonable steps to reduce, on an on-going basis, the level of its classified assets as a percentage of GAAP capital plus

general valuation allowances, with an ultimate goal of reducing its level of classified assets to not more than 50 percent of GAAP capital plus general valuation allowances.

Within 60 days from the date of this Agreement, the Institution 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, the Institution 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) involving a commitment or an amount in excess of \$300,000 that:

- a) has been adversely classified or criticized by the OTS as a result of its most recent examination of the Institution, or is adversely classified or criticized by either the FDIC or the OTS as a result of any subsequent examination of the Institution;
- b) has been accorded a sub-investment quality rating and/or has been designated a work-out or watch-list asset, or some equivalent designation, as the result of an internal asset review and rating procedure performed by the Institution or by another party on behalf of the Institution;
- c) is past due in excess of 90 days and/or has been placed in either a non-accrual or non-earning status by the Institution; and/or
- d) 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 the Institution.

A material violation of this paragraph 6 shall occur if the Institution fails develop a written plan for any problem asset as set forth above.

7. Board Review of Compliance

The Board shall, at each regular meeting, formally resolve that, to the best of its knowledge and belief, and based on a prudent review of reports prepared by management reflecting the operations of the Institution during the previous calendar month, the Institution and all its subsidiaries complied with each provision of this Agreement, except as otherwise stated. The resolution shall specify in detail how, if at all, full compliance was found to be lacking. The resolution further shall

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set forth any exceptions to any provision of this Agreement approved by the ARD.

Within 2 business days after the next following regularly scheduled monthly Board meeting, the Institution shall submit to the ARD a copy of the minutes of each Board meeting, and the minutes of the Board's committee(s) meetings, and the aforementioned resolution. Each director who shall have participated in the meeting, shall at such time either provide the ARD with a certification that, to the best of his or her knowledge and belief, and based upon a prudent review, the above-referenced resolution is accurate, or provide the ARD with a written statement providing in detail the reason(s) for disagreement with the resolution.

Failure to conduct the required review or the failure to submit the requested findings will be considered a material violation of this paragraph 7.

8. Consequences of Material Violations

It is understood and agreed that this is a "written agreement" between the Institution and the OTS as that term is used in Section 8 of the Federal Deposit Insurance Act ("FDIA") (12 U.S.C. Section 1818).

In the event the OTS concludes that the Institution is in material violation of paragraph 1 or 2 of this Agreement, the OTS, acting through the ARD, may so notify the Institution, by telephone or any other means reasonably designed to place the Institution on notice of its determination, which notice shall be confirmed in writing. Upon receipt of such notice, the Board agrees to demand the resignation of the current Chief Executive Officer and to replace him with a candidate approved by this Office.

In addition, in the event that OTS concludes that a material violation of paragraph 1 or 2 of this Agreement shall have occurred, the Institution hereby authorizes the OTS to provide otherwise confidential information about the Institution to third parties to facilitate the possible acquisition of the Institution by a qualified buyer, provided that: (i) each third party agrees with the OTS, at least orally, not to disclose such information except to its own directors, officer, employees or agents who have a need to know such information ("Confidentiality Agreement"); and (ii) each third party agrees to sign a written statement confirming such Confidentiality Agreement prior to receiving any written information about the Institution. The Institution agrees to assist the OTS in the preparation of marketing packages for dissemination to interested third parties and shall pay for the costs of related activities undertaken on its behalf. This authorization becomes valid and effective upon the Institution's receipt of an OTS notice of non-compliance with

this Agreement ("Non-compliance Notice"), without the execution of additional documents.

Upon the receipt of a written request from the Board, the OTS agrees to stop all efforts to market the Institution as set forth above, if the Board is able to demonstrate to the satisfaction of the ARD that the Institution has maintained core capital in the amount of five percent (5%) as required pursuant to paragraph 2 of this Agreement, for two consecutive quarters subsequent to the Board's receipt of a Non-compliance Notice, and the Institution is otherwise in compliance with paragraphs 1 and 2 of this Agreement.

The Institution also agrees to file status reports with the ARD which summarizes any and all discussions between the Institution and any potential acquirors. Such reports shall be filed every month commencing the month after the activation of this provision.

Finally, the Institution agrees to release the OTS from any and all liability arising out of its disclosure of information about the Institution to third parties which is made in an effort to assist in the possible acquisition of the Institution.

9. Rights and Waivers

This Agreement has been duly authorized, executed, delivered, and constitutes, in accordance with its terms, a valid and binding agreement between the Institution and the OTS. It is understood and agreed that this Agreement is a "written agreement" between the depository institution and the agency, as that term is used in Section 8 of the Federal Deposit Insurance Act ("FDIA") (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 the Institution.

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.

10. Definitions

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, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, the Home Owners' Loan Act ("HOLA"), the FDIA or OTS Memoranda. Any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Memoranda shall have meanings that are in accordance with the best custom and usage in the thrift industry.

11. Successor Regulations and Guidance

Reference in this Agreement to provisions of statutes, regulations, and OTS memoranda shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date, and references to successor provision(s) as they become applicable.

12. Miscellaneous

- (a) In the event that any provision of the Agreement shall be declared invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.
- (b) Nothing in this Agreement shall be construed as permitting the Institution to violate any law, rule, regulation, or policy statement to which it is subject.
- (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) This Agreement shall remain in effect until terminated or modified, in whole or in part, by the OTS. All requests for termination or modification of this Agreement shall be submitted in writing to the ARD. The ARD may grant a written request for termination or modification of this Agreement if, in the ARD's opinion, the Institution has satisfactorily complied with the applicable terms of this Agreement for an appropriate period of time, or that a particular provision is no longer required for the safe and sound operation of the Institution.
- (e) The ARD has the full and unfettered discretion to extend the time frames in all applicable provisions of this Agreement.

