

**SUPERVISORY AGREEMENT
BETWEEN
SEATTLE HOLDING COMPANY
AND
THE OFFICE OF THRIFT SUPERVISION**

This Supervisory Agreement (Agreement) is entered into and made effective this 22 day of OCTOBER, 2001, (Effective Date), by and between Seattle Holding Company, Seattle, Washington (the Holding Company), and the Office of Thrift Supervision (OTS).

WHEREAS, the OTS and the Board of Directors of the Holding Company (Board) have a common interest in assuring the current and future financial viability and profitability of the insured subsidiary, Seattle Savings Bank (the Institution), and in assuring that the Institution and the Holding Company are operated in a safe and sound manner; and,

WHEREAS, in pursuit of that interest, the Regional Director of the West Region office of the OTS and the Board have determined that certain actions should be taken by the Holding Company for the benefit of the Holding Company, its shareholders, its subsidiary Institution and the depositors thereof;

NOW THEREFORE, THE HOLDING COMPANY AND THE OTS AGREE AS FOLLOWS:

**I. SAFETY AND SOUNDNESS EXAMINATION
CORRECTIVE ACTION PLAN**

a. The Board shall cause the Holding Company and its management to prepare a comprehensive detailed corrective action plan (Corrective Action Plan) designed to correct each of the exceptions, deficiencies, requirements, and concerns (collectively, the exceptions) set forth in the Holding Company Report of Examination (ROE) dated August 13, 2001, including, but

Seattle Holding Company
Supervisory Agreement

not limited to each of the "Matters Requiring Board Attention" identified in the Holding Company ROE dated July 26, 2000 that remained uncorrected as of the August 13, 2001 examination. The Corrective Action Plan shall include a description of the additional procedures, internal controls, and follow-up mechanisms that the Holding Company has developed, or will develop, to prevent a reoccurrence of similar exceptions. No later than November 15, 2001, the Holding Company shall submit to the Assistant Regional Director (ARD) for review and nonobjection its Corrective Action Plan, including a timetable specifying completion dates for each of the items listed. With respect to the items listed under "Matters Requiring Board Attention," the Corrective Action Plan shall specify a completion date for each of the items listed, which completion date shall be no later than the "Due Date" set forth in the ROE. However, for the purpose of this Agreement, the item relating to unsettled intercompany actions that was due on September 30, 2001 shall be due no later than one (1) week after the date of the Effective Date of this Agreement.

b. Once the Corrective Action Plan and timetable are submitted pursuant to this Agreement and the Holding Company obtains the OTS's nonobjection, the Holding Company shall implement and adhere to the Corrective Action Plan. Further, the Holding Company may not amend, suspend, or revoke the Corrective Action Plan or timetable without the prior written nonobjection from the ARD.

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Seattle Holding Company
Supervisory Agreement

2

II. ALLOCATION OF RESOURCES

The Board shall authorize sufficient resources and allocate an adequate amount of experienced and qualified staff to fulfill the obligations under this Agreement.

III. DIRECTOR RESPONSIBILITY

Notwithstanding the requirement that the Holding Company submit a Corrective Action Plan to the Regional Director or the ARD of the OTS for the purpose of review, approval, or nonobjection, such regulatory oversight does not derogate or supplant an individual Board member's responsibility to continue to exercise his or her fiduciary duties to the Holding Company. The Board shall continue to have the ultimate responsibility for overseeing the safe and sound operation of the Holding Company at all times, including compliance with the determinations of the Regional Director or the ARD, as required by this Agreement.

IV. COMPLIANCE WITH AGREEMENT

- a. The Board and the executive officers of the Holding Company shall cause the Holding Company to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Holding Company to carry out its provisions.
- b. The Board, on a monthly basis, shall adopt a board resolution (the Compliance Resolution) formally resolving that, following a diligent inquiry of relevant information (including reports of management), to the best of its knowledge and belief, during the

Seattle Holding Company
Supervisory Agreement

immediately preceding month, the Holding Company has complied with each provision of this Agreement currently in effect, except as otherwise stated. The Compliance Resolution shall either directly or through reference to a separately proposed report: (i) specify in detail how compliance was achieved with each provision of this Agreement; (ii) specify in reasonable detail how, if at all, full compliance was found not to exist; and (iii) identify all notices of exemption or nonobjection issued by the Regional Director or the ARD that were outstanding as of the date of its adoption.

c. The minutes of each meeting of the Board at which a Compliance Resolution is adopted shall set forth the following information with respect to the adoption of such Compliance Resolution: (i) the identity of each director voting in favor of its adoption; and (ii) the identity of each director voting in opposition to its adoption or abstaining from voting thereon, setting forth each such director's reasoning for opposing or abstaining.

d. No later than fifteen (15) days after the date of the monthly Board meeting, beginning with the first Board meeting after the Effective Date of this Agreement, the Holding Company shall provide to the ARD a certified true copy of the Compliance Resolution(s) adopted by the Board. The Board, by virtue of the Holding Company's submission of a certified true copy of each such Compliance Resolution to the ARD, shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution, except as provided below. In the event that one or more directors do not agree with the representations set forth in a Compliance Resolution, such disagreement shall be noted in the minutes of the Institution.

Seattle Holding Company
Supervisory Agreement

V. 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 Federal Deposit Insurance Act (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 savings and loan industry.

VI. SUCCESSOR STATUTES, REGULATIONS, GUIDANCE, AMENDMENTS

References in this Agreement to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to all amendments to such provisions that have been made as of the Effective Date of this Agreement and references to successor provisions as they become applicable.

VII. NOTICES

a. Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver, or other document (collectively, Notices) provided or permitted by this Agreement to be made upon, given, or furnished to, delivered to, or filed with the OTS or the

Seattle Holding Company
Supervisory Agreement

5

Holding Company shall be in writing and mailed, by first class mail or overnight courier, or delivered by means of electronic transmission or personal delivery, addressed as follows:

Office of Thrift Supervision
101 Stewart Street
Suite 1210
Seattle, WA 98101-1048
Attn: Darrel Dochow

Seattle Holding Company
229 Queen Anne Avenue North
Post Office Box C-19102
Seattle, WA 98109
Attn: Board of Directors

b. Any Notice shall be deemed duly given when received by the addressee thereof. Any party to this Agreement may from time to time change its address for receiving Notices by giving written notice thereof to the other party in the manner set forth above.

VIII. DURATION, AMENDMENT, TERMINATION, OR SUSPENSION OF AGREEMENT

a. This Agreement shall: (i) become effective upon its execution by the OTS, through its authorized representative whose signature appears below; and (ii) remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director or the Regional Director (including any authorized designee thereof). No amendment or modification of this Agreement shall be valid or binding unless executed in writing by the OTS and the Institution, acting through the Director, Regional Director or his or her authorized designee.

b. The Regional Director, or his or her designee, in his or her sole discretion, may, by written notice, suspend or waive (temporarily or permanently) any or all provisions of this Agreement.

Seattle Holding Company
Supervisory Agreement

IX. TIME LIMITS

Time limitations for compliance with the terms of this Agreement run from the Effective Date, unless otherwise noted.

X. EFFECT OF HEADINGS

The Section headings herein are for convenience only and shall not affect the construction hereof.

XI. SEPARABILITY CLAUSE

In case any provision in this Agreement is ruled to be invalid, illegal or unenforceable by the decision of any court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his sole discretion determines otherwise.

XII. NO VIOLATIONS OF LAW, RULE, REGULATION OR POLICY STATEMENT AUTHORIZED; OTS NOT RESTRICTED

- a. Nothing in this Agreement shall be construed as: (i) allowing or requiring the Holding Company to violate any law, rule, regulation, or policy statement to which it is subject; or (ii) restricting the OTS from taking such action(s) that is appropriate in fulfilling the

responsibilities placed upon it by law, including, without limitation, any type of supervisory, enforcement or resolution action that the OTS determines to be appropriate.

b. The OTS does not relinquish any of its rights to take any supervisory or other action whatsoever with respect to the Holding Company as a result of this Agreement. The Holding Company acknowledges that it has not received any oral or written representations to the contrary by the OTS or any of its agents or employees.

XIII. SUCCESSORS IN INTEREST

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. Nothing in this Agreement, express or implied, shall give to any person or entity, other than the parties hereto, and the Federal Deposit Insurance Corporation and their successors and assigns, any benefit or any legal or equitable right, remedy or claim under this Agreement.

XIV. INTEGRATION CLAUSE; IMPACT ON OTHER ENFORCEMENT DOCUMENTS

This Agreement represents the final written agreement of the parties with respect to the subject matter hereof and constitutes the sole agreement of the parties, as of the Effective Date, with respect to its subject matter.

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Seattle Holding Company
Supervisory Agreement

2

XV. ENFORCEABILITY OF AGREEMENT

The Holding Company represents and warrants that this Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Holding Company. The Holding Company acknowledges that this Agreement is a "written agreement" entered into with the OTS within the meaning of Section 8 of the FDIA, 12 U.S.C. § 1818.

XVI. SIGNATURE OF DIRECTORS

Each Director signing this Agreement attests, that she or he, as the case may be, voted in favor of the resolution, in the form attached to this Agreement, authorizing the execution of this Agreement by the Holding Company.

XVII. EXECUTION IN COUNTERPARTS

This Agreement may be executed in several counterparts, each of which shall be deemed an original, but such counterparts shall together constitute one and the same Agreement.

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Seattle Holding Company
Supervisory Agreement

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11/19/01 09:27 FAX 650 746 7001

IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director, and the Holding Company, in accordance with a duly adopted resolution of its Board (copy attached hereto), hereby execute this Agreement as of the effective date.

OFFICE OF THRIFT SUPERVISION

By:

/S/

Name: DARRYL W. DOCHOW
Title: Assistant Regional Director

SEATTLE HOLDING COMPANY

By:

/S/

Name: *ROBERT E. STONEY*
Title: *CHAIRMAN*

DIRECTORS OF SEATTLE HOLDING COMPANY

ATTACHED!

/S/

/S/

/S/

/S/

CERTIFIED COPY OF
RESOLUTION OF BOARD OF DIRECTORS

I, the undersigned, being the duly appointed and qualified Secretary of Seattle Holding Company (the Holding Company), hereby certify as follows:

1. A duly called meeting of the Board of Directors of the Holding Company was held on OCTOBER 22, 2001;

2. At said meeting a quorum was present and voting throughout;

3. The following is a true copy of the resolution(s) duly adopted by the Holding Company's Board of Directors on the above date, which resolution(s) has/have not been rescinded or modified and are now in full force and effect:

WHEREAS, the Board of Directors of the Holding Company wishes to cooperate with the OTS and to demonstrate that said Board and the Holding Company have the intent to engage in safe and sound practices; and

WHEREAS, the Directors of the Holding Company have read and considered the proposed Supervisory Agreement (Agreement), which shall be attached to the minutes of this meeting; and

WHEREAS, after due consideration, the Directors of the Holding Company have determined that the proposed Agreement is in the best interest of the Holding Company and that the Holding Company should enter in the Agreement;

NOW THEREFORE, BE IT RESOLVED, that the Holding Company is hereby authorized to enter into the Agreement in the form attached to the minutes of the meeting,

BE IT FURTHER RESOLVED, that the execution, delivery, and performance of all of the provisions of the Agreement are hereby authorized and approved,

BE IT FURTHER RESOLVED, that the Directors and Officers of the Holding Company are hereby authorized and directed to execute and deliver the Agreement and to take all steps necessary or appropriate to implement the terms of the Agreement and to cause the Holding Company to comply in all respects with the terms of the Agreement.

4. All members of the Board of Directors were present and voted at the meeting (except _____) and all members of the Board of Directors (except _____) voted in favor of the resolution;

Seattle Holding Company
Supervisory Agreement

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of the
Holding Company on this 2 day of October, 2001.

/S/

Name:

Robert E. Stobbe

Title:

Chairman

(SEAL)

(Seattle hldg co 10-01 sup agmt c/daw)