

## SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 20<sup>th</sup> day of June, 1995 (the "Effective Date"), by and between Alaska Federal Savings Bank ("the "Institution"), a federally chartered mutual association, having its main office located at 2094 Jordan Avenue, Juneau, Alaska, and the Office of Thrift Supervision ("OTS"), an office within the United States Department of the Treasury, having its principal executive offices located at 1700 G Street, N.W., Washington, D.C., acting through its Regional Director or his designee ("Regional Director").

WHEREAS, the OTS is the primary federal regulator of the Institution; and

WHEREAS, based on the Report of Examination dated April 24, 1995 ("ROE"), the OTS is of the opinion that the Institution has engaged in acts and practices that: (i) have resulted in violations of certain of the laws or regulations to which the Institution is subject or (ii) are considered to be unsafe and unsound; and

WHEREAS, the OTS is of the opinion that grounds exist for the initiation of administrative proceedings against the Institution; and

WHEREAS, the OTS is of the view that it is appropriate to take measures intended to ensure that the Institution will: (i) comply with all applicable laws and regulations and (ii) engage in safe and sound practices; and

WHEREAS, the Institution, acting through its Board of Directors (the "Board") wishes to cooperate with the OTS and to evidence the intent to engage in safe and sound practices;

NOW THEREFORE, in consideration of the above premises and the mutual undertakings set forth herein, the parties hereto agree as follows:

## CORRECTIVE PROVISIONS

A. Strategic and Business Plans.

1. On or before July 31, 1995, and thereafter, annually, at least 30 days prior to fiscal year-end, the Institution shall develop comprehensive Board-approved strategic and business plans (collectively, "the Plans"). The strategic plan shall specify the Institution's long term goals for the three (3) years following the date of the strategic plan. The business plan shall detail the Institution's operating strategies and financial projections for the twelve (12) months following

the date of the business plan and shall include, among other things: (a) a discussion of short term goals and objectives, including any proposed growth or reduction in assets and the maintenance of capital levels as provided in section J below; (b) plans and quarterly targets for improving core profitability, including specific actions that will be taken by the Board and management to achieve the quarterly targets; (c) a discussion of how the Institution intends to improve its cash management to achieve higher yields, without inappropriate risk, including strategies for maintaining targeted liquidity levels and monitoring the yield and risk associated with current and alternative investments; (d) plans to enhance efficiency and cost-effectiveness and reduce personnel turnover; (e) pro forma financial statements that reflect the proposed operating strategy of the Institution; and (f) a monthly budget formatted consistent with the Thrift Financial Report. The analysis to develop the Plans should consider: (a) ways to increase profitability reasonably, through cost-benefit analyses of current and potential investments; (b) potential cost reductions; and (c) effective management of the risks associated with current and proposed asset concentrations.

2. The Institution shall not materially deviate from goals and objectives set forth in the Plans without the prior written approval of the ARD. To request ARD approval, the Institution shall submit a written proposal, including justification(s) for the modification and any supporting documentation necessary to adequately assess the proposal.

B. Internal Asset Review Policy.

Within sixty (60) days of the Effective Date, the Institution shall develop a revised internal asset review policy ("IAR Policy") that will ensure an effective IAR system and address the deficiencies in the Institution's IAR system identified in the ROE. The IAR Policy shall include, among other things: (a) the completion of adequate, timely and well-documented asset reviews to ensure the timely recognition of losses; (b) a standardized approach, consistent with 12 C.F.R. § 563.160, for the classification of assets; (c) appropriate collection and dissemination of asset information, including current financial statements and, where appropriate, rent rolls and operating statements; (d) minimum documentation requirements; (e) reliable and credible sources of asset information, including, where appropriate, property inspections; (f) minimum threshold levels for asset standards, e.g., debt coverage ratios, collateral coverage and financial capacity of borrowers; (g) appropriate Board and management oversight; and (h) adequate procedures to ensure that asset valuations comply with regulatory requirements and generally acceptable accounting principles, including the guidance in Section 260 of the Thrift Activities Handbook and Financial Accounting Standards Board Statement Nos.

5, 15, and 114.

C. Allowance for Loan and Lease Losses Policy.

Within sixty (60) days of the Effective Date, the Institution shall develop a revised allowance for loan and lease losses ("ALLL") policy, which, at a minimum, addresses the deficiencies identified in the ROE and conforms with pertinent regulatory guidance, including Section 261 of the Thrift Activities Handbook and the Interagency Policy for ALLL. The modified ALLL policy shall include, among other things: the Institution's methodology for establishing sufficient ALLL; at least quarterly Board review of the adequacy of the ALLL; and minimum documentation requirements.

D. Loan Policies.

Within sixty (60) days of the Effective Date, the Institution shall develop commercial loan and commercial real estate loan policies and procedures, which, at a minimum, address the deficiencies identified in the ROE and conform with pertinent regulatory guidance, including Sections 211, 212, and 214 of the Thrift Activities Handbook and 12 C.F.R. §§ 563.101 and 563.170.

E. Mortgage Banking Policy.

By September 30, 1995

~~Within sixty (60) days of the Effective Date,~~ the Institution shall develop mortgage banking policies and procedures (or amend existing policies) to reflect the mortgage banking activities in which the Institution engages, and which, at a minimum, conform with pertinent regulatory guidance, including Sections 571-576 of the Thrift Activities Handbook.

F. Electronic Data Processing Policy.

By September 30, 1995

~~Within sixty (60) days of the Effective Date,~~ the Institution shall develop an electronic data processing policy, which, at a minimum, conforms with pertinent regulatory guidance, including Thrift Bulletins ("TB") 11, 11-1, 29, and 30 and Federal Home Loan Bank Board Bulletin PA-7-1a (44 Fed. Reg. 2188); and considers the factors discussed in Section 341 of the Thrift Activities Handbook.

G. Disaster Recovery Plan.

By October 30, 1995

~~Within sixty (60) days of the Effective Date,~~ the Institution shall develop a disaster recovery plan.

H. Internal Audit Program.

Within sixty (60) days of the Effective Date, and annually thereafter, the Institution shall develop a Board-

approved internal audit plan ("Audit Plan"). The Audit Plan shall, at a minimum:

- (a) ensure the independence of the audit function;
- (b) delineate the responsibilities of the audit function and all personnel in the audit function;
- (c) detail each area the audit function will review during the current audit cycle in an audit schedule approved by the Board, including internal asset review, asset/liability management, the accounting department, and credit administration;
- (d) require that all responses to audit reports include a timely written response and written plan to correct all deficiencies noted in the audit report;
- (e) require that the minutes of the audit committee meetings are comprehensive and include acknowledgment of receipt of audit reports, a discussion of audit report findings, and ratification of recommendations; and
- (f) provide for at least quarterly reports by the audit committee to the Board.

I. Implementation of Plans, Programs, and Policies.

1. All plans, policies, and programs referenced in Sections A-H above shall be submitted to the Assistant Regional Director ("ARD") for review and non-objection within three business days after they have been developed.

2. The Institution shall submit a revised plan, policy, or program to the ARD within 15 days after receipt of any comments or recommendations from the ARD, regarding any plan, policy, or program submitted pursuant to Sections A-H above.

3. Within 15 days of receiving notice of completion of the ARD's review of any of the plans, programs, or policies, the Board and management shall ensure that such plans, programs, policies, and procedures are fully implemented and adhered to by all directors, officers, employees, and agents.

4. Once the plans, programs, and policies are submitted pursuant to this Agreement and all objections from the ARD, if any, have been satisfactorily resolved, the Institution may not amend, suspend, or revoke the plans, programs, and policies without prior written non-objection from the ARD.

J. Well-Capitalized Category.

The Institution shall maintain the following capital levels: (1) total risk-based capital ratio of 10.0 percent or greater; (b) Tier 1 risk-based capital ratio of 6.0 percent or greater; and (c) leverage ratio of 5.0 percent or greater.

K. Increase in ALLL.

1. The Board shall establish and maintain appropriate ALLL in accordance with the Institution's ALLL policy, based upon: (a) the Board's review of information provided by management and outside auditors and (b) the requirements of the OTS or the Federal Deposit Insurance Corporation ("FDIC").

2. Pursuant to the ROE, the Institution shall increase ALLL to the greater of 27.3 percent of classified assets or \$468,000 and shall not decrease this amount without the prior written approval of the ARD.

L. Books and Records.

In conformance with 12 C.F.R. §§ 562.1 - 562.3 and 552.11, the Institution shall maintain adequate, accurate books and records, including thrift financial reports, and complete and accurate minutes of all Board meetings and formal committee meetings.

MISCELLANEOUS

A. Director Responsibility.

Notwithstanding the requirements of this Agreement that the Board submit various matters to the OTS for the approval, non-objection or notice of acceptability, or completion of review, such regulatory oversight does not derogate or supplant each individual member's continuing fiduciary duty. The Board shall have the ultimate responsibility for overseeing the safe and sound operation of the Institution at all times, including compliance with the determinations of the Regional Director as required by this Agreement.

B. Compliance with Agreement.

1. The Board and officers of the Institution shall take immediate action to cause the Institution to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Institution to continue to carry out the provisions of this Agreement.

2. No later than the last day of the month following the end of a calendar month, the Board shall review a written report by management as to the Institution's compliance with its Business Plan and this Agreement. Such report shall include a comparison of actual results against the projections made in the Business Plan. Within ten (10) days after such review, if the actual results show a material variance from the projections of the Business Plan, the Institution shall deliver a copy of the report, an explanation for the variance and specifications as to the measures to be taken in regard to the variances. No later than the tenth day of the last review for an applicable quarter, the Institution shall deliver to the ARD, a copy of a Board resolution duly certified by the Institution's corporate secretary, which either:

- (a) states that to the Board's knowledge, and the review of the compliance reports provided by management, the Institution was in compliance with its Business Plan and this Agreement; or
- (b) indicates all known instances of noncompliance with the Business Plan and this Agreement and specifies the measures that have been and will be taken to cure such noncompliance.

3. The Board, by virtue of the Institution'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. The minutes of the meeting of the Board shall set forth the following information with respect to the adoption of each 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.

C. Other Enforcement Documents.

This Agreement supersedes the Supervisory Agreement dated July 15, 1991, as amended July 21, 1992.

D. 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"), Federal Deposit Insurance Act ("FDIA") or OTS Memoranda. Any such technical words or terms used in this Agreement and undefined in the 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.

E. Successor Statutes, Regulations, Guidance, Amendments.

Reference 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 and references to successor provisions as they become applicable.

F. Notices.

Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver, or other document provided or permitted by the Agreement to be made upon, given or furnished to, delivered to, or filed with the OTS or the Institution shall be in writing and mailed, first class or overnight courier, or by means of electronic transmission, or physically delivered, and addressed as follows:

Office of Thrift Supervision	Alaska Federal Savings
West Regional Office	2094 Jordan Avenue
101 Stewart Street, Suite 1210	Juneau, Alaska 99801
Seattle, WA 98101	Attn: Board of Directors

G. Duration, Termination of Suspension of Agreement.

1. 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).

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

H. Time Limits.

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

I. Effect of Headings.

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

J. 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.

K. No Violations of Law, Rule, Regulation or Policy Statement Authorized; OTS Not Restricted.

Nothing in this Agreement shall be construed as:  
(i) allowing the Institution 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 are 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.

L. Successors in Interest/Benefit.

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, the Resolution Trust Corporation, and the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

M. Signature of Directors.

Each director signing this Agreement attests, by such act, 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, authorizing the execution of this Agreement by the Institution.

N. Integration Clause.

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 such subject matter.

O. Enforceability of Agreement.

The Institution 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 Institution. The Institution 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.

IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director, and the Institution, 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

ALASKA FEDERAL SAVINGS

By:

By:

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Darrel Dochow  
Assistant Regional Director

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\_\_\_\_\_  
Name: ~~William J. Schmitz~~  
Chief Executive Officer

DIRECTORS OF ALASKA FEDERAL SAVINGS

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Director Avrum M. Grob

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Director Hugh W. Graft

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Director D. Eric McDowell

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Director Rosia Grummett

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Director ~~David H. Randall~~  
David H. Randall

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Director Deborah Marshall

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Director William J. Schmitz

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Director



CERTIFIED COPY OF  
RESOLUTION OF BOARD OF DIRECTORS

I, the undersigned, being the duly appointed and qualified Secretary of Alaska Federal Savings (the "Institution"), hereby certify as follows:

1. A duly called meeting of the Board of Directors of the Institution was held on June 30, 1995;
2. At said meeting a quorum was present and voting throughout;
3. The following is a true copy of resolutions duly adopted by the Institution's Board of Directors, which resolutions have not been rescinded or modified and are now in full force and effect:

WHEREAS, the Board of Directors of the Institution wishes to cooperate with the OTS and to demonstrate that the Board and the Institution have the intent to: (i) comply with all applicable laws and regulations and (ii) engage in safe and sound practices; and

WHEREAS, the Directors of the Institution 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 Institution have determined to cause the Institution to enter into the proposed Agreement which is in the best interest of the Institution;

NOW THEREFORE, BE IT RESOLVED, that the Institution be and it hereby is authorized to enter into the Agreement in the form attached to the minutes of the meeting,

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

FURTHER RESOLVED, that the Directors and Officers of the Institution be, and they hereby are, 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 Institution 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 Deborah Marshall) and all members of the Board of Directors (except Deborah Marshall) voted in favor of the resolution;

IN WITNESS WHEREOF, I have hereto subscribed my name and affixed the seal of the Institution on this 20th day of June, 1995.

KS  
Name: Karen Livingston

Title: Executive Secretary

(SEAL)