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SUPERVISORY AGREEMENT
BETWEEN THE
OFFICE OF THRIFT SUPERVISION
AND
STERLING SAVINGS BANK

OFFICE OF THRIFT SUPERVISION

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This Supervisory Agreement ("Agreement") is made and is effective this 24th day of May, 1999 (the "Effective Date"), by and between Sterling Savings Bank, a state-chartered stock savings institution, having its main office located at 111 North Wall Street, Spokane, Washington (the "Institution"), and the Office of Thrift Supervision ("OTS"), an office within the United States Department of the Treasury, having its principal executive office at 1700 G Street, N.W., Washington, D.C., acting through its Assistant Regional Director.

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

WHEREAS, based on the OTS compliance examination commencing December 14, 1998, the OTS is of the opinion that the Institution has failed to comply with certain applicable laws and regulations and has not satisfactorily met certain of its compliance-related duties;

WHEREAS, the OTS is of the view that grounds exist for the initiation of administrative proceedings against the Institution and that it is appropriate to take corrective action; and

OFFICE OF THRIFT SUPERVISION
WASHINGTON, D.C.

WHEREAS, the Institution, acting through its Board of Directors (the "Board"), wishes to cooperate with the OTS;

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

A. Compliance with Laws and Regulations.

The Board shall cause the Institution, its directors, officers, employees, agents, service corporation(s), and subsidiaries to comply with all provisions of:

1. the Home Mortgage Disclosure Act, 12 U.S.C. §§ 2801-2810, and its implementing regulation, Regulation C, 12 C.F.R. Part 203;

2. the Expedited Funds Availability Act, 12 U.S.C. §§ 4001-4010, and its implementing regulation, Regulation CC, 12 C.F.R. Part 229;

3. the Flood Disaster Protection Act, 42 U.S.C. §§ 4001 et seq., and its implementing regulations, 12 C.F.R. Part 572;

4. the Electronic Fund Transfers Act, 15 U.S.C. §§ 1693-1693q, and its implementing regulation, Regulation E, 12 C.F.R. Part 205;

5. the Real Estate Settlement Procedures Act, 12 U.S.C. §§ 2601-2617, and its implementing regulation, Regulation X, 24 C.F.R. Part 3500;

6. the OTS mortgage regulation, 12 C.F.R. § 560.210;

7. the Bank Secrecy Act, 12 U.S.C. § 1829b and 31 U.S.C. § 5311-5330, and implementing regulations, 31 C.F.R. § 103.21-103.39 and 12 C.F.R. § 563.177; and

8. Regulation B, 12 C.F.R. Part 202, specifically 12 C.F.R. § 202.9(b)(1).

B. Compliance Program.

The Institution shall develop a comprehensive compliance program ("Compliance Program"). The Compliance Program shall set forth a strategy for improving the Institution's compliance rating to, at least, a satisfactory level and, at a minimum, shall:

1. allocate to the Compliance Program sufficient resources, including experienced, qualified staff, to fulfill the Institution's obligations under this Agreement;

2. specify the responsibilities and powers of each member of management with compliance responsibilities and state how the

Board will measure each member's effectiveness in fulfilling his or her compliance responsibilities;

3. tailor all compliance related policies and procedures to the Institution's operations and update them to ensure compliance with pertinent laws and regulations;

4. establish (i) minimum skill levels for staff and management to ensure implementation of the Institution's policies and procedures and compliance with pertinent laws, including those listed in section A and laws administered by the Office of Foreign Assets Control imposing economic sanctions against selected foreign countries and nationals of sanctioned countries; and (ii) a training program so that staff and management achieve the required skill levels;

5. include schedules for periodic updating of compliance policies and procedures and "refresher" compliance training courses for management and staff;

6. incorporate oversight mechanisms to ensure implementation of the Compliance Program, including:

a. day-to-day internal controls, periodic self-assessments and internal audits relating to compliance issues;

b. procedures for correcting compliance deficiencies as they arise and are identified;

c. regular reports to senior management and the Board regarding the status of the Institution's compliance with consumer compliance requirements;

d. procedures to (i) verify that directors, officers, and employees follow policies and procedures adopted under the Compliance Program, (ii) test the effectiveness of the Compliance Program, and (iii) ensure that management promptly corrects deficiencies as they are identified; and

7. set forth schedules to undertake and complete each action for implementing the Compliance Program.

C. Implementation of the Compliance Program.

1. Within forty-five (45) days of the Effective Date of this Agreement, the Board shall submit the Compliance Program to the Assistant Regional Director, Compliance ("ARD") for review and non-objection.

2. Within fifteen (15) days of receipt of the ARD's objection to any aspect of the Compliance Program, the Institution shall submit a revised Compliance Program to the ARD.

3. Once the Compliance Program is 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 Compliance Program without the prior written non-objection from the ARD.

4. Within fifteen (15) days of receiving notice of the ARD's non-objection to the Compliance Program, the Institution shall implement the Compliance Program and ensure that all directors, officers, employees, and agents adhere to it.

D. Director and Officer Responsibility.

1. Notwithstanding the requirements of this Agreement that the Institution submit various matters to the ARD for the purpose of review, approval, or non-objection, such regulatory oversight does not derogate or supplant each individual Board member's continuing fiduciary duties. 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 ARD as required by this Agreement.

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

3. Monthly, the Board 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 the Board's knowledge and belief, during the immediately preceding month, the Institution 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 specify in detail the actions taken to achieve compliance and to fulfill the Institution's obligations under this Agreement.

4. 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; (ii) the identity of each director voting in opposition to its adoption or abstaining from voting on the Compliance Resolution; and (iii) as to each director opposing or abstaining, his or her reasons for doing so.

5. Each Board member in attendance or otherwise participating in a meeting of the Board whose abstention or opposition is not noted in minutes pursuant to Section D.4. of this Agreement shall be deemed to have certified to the accuracy of the statements set forth in the Compliance Resolution.

6. Except for Compliance Resolutions indicating the Institution was in full compliance with this Agreement, no later than fifteen (15) days after the date of the monthly Board meeting in which the Board adopted a Compliance Resolution, the Institution shall provide to the ARD a certified true copy of the Compliance Resolution. The Institution shall otherwise retain copies of all Compliance Resolutions.

E. Information Requests.

The Institution shall promptly respond to any request from the OTS for documents or other information that the OTS requests to monitor compliance with this Agreement.

F. 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 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.

G. 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.

H. Notices.

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

Office of Thrift Supervision
West Region Office
One Montgomery Street
Suite 400
San Francisco, CA 94104

Sterling Savings Bank
111 North Wall Street
Spokane, WA 99201-0696
Attn: Board of Directors

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.

I. Duration, Termination, or Suspension of Agreement.

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, the Regional Director, or authorized designee thereof.

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.

J. Time Limits.

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

K. Effect of Headings.

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

L. 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.

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

Nothing in this Agreement shall be construed as: (i) allowing or requiring the Institution to violate any law, rule, regulation, or policy statement to which it is subject; or (ii) restricting the OTS from taking any action(s) that is appropriate in fulfilling the responsibilities placed upon it by law, including, without limitation, any type of supervisory or enforcement action that the OTS determines to be appropriate.

N. 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 Federal Deposit Insurance Corporation, and their successors and assigns, any benefit or any legal or equitable right, remedy, or claim under this Agreement.

O. Signature of Directors.

Each Director signing this Agreement attests that she or he voted in favor of the resolution, in the form attached to this Agreement, authorizing the execution of this Agreement by the Institution.

P. 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.

Q. 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 its Assistant 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

STERLING SAVINGS BANK

By: E 151
Name: Edwin L. Chow
Title: Assistant Regional Director

By: 151
Name: William W. Zuppe
Title: President

DIRECTORS OF STERLING SAVINGS BANK

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Harold B. Gilkey

151
Robert D. Larrabee

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Ned M. Barnes

151
Robert E. Meyers

151
Rodney W. Barnett

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David O. Wallace

151
James P. Fugate

151
Thomas H. Boone

**CERTIFIED COPY OF
RESOLUTIONS OF BOARD OF DIRECTORS**

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

1. A duly called meeting of the Board of Directors of the Institution was held on May 24, 1999;
2. At the 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 on the above date, 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 Institution have the intent to comply with pertinent legal requirements; 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;

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 and all members of the Board of Directors voted in favor of the resolution;

IN WITNESS WHEREOF, I have hereto subscribed my name and affixed the seal of the Institution on this 25th day of May, 1999.

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NED M. BARNES, Secretary