

95146

AGREEMENT

I. Parties. The parties to this Agreement are (1) Territorial Savings and Loan Association (hereinafter "Territorial" or the "Institution"), a state-chartered savings and loan association, domiciled in Honolulu, Hawaii; (2) the Commissioner of Financial Institutions (hereinafter "Commissioner"), State of Hawaii and, (3) the Office of Thrift Supervision (hereinafter "OTS").

II. Authority. This Agreement is based upon the provisions of Hawaii Revised Statutes (hereinafter "HRS"), Section 401-5, the provisions of Hawaii Administrative Rules, Section 16-27-8, and relevant provisions of federal law.

III. Basis for Agreement. The parties to this Agreement hereby acknowledge the following facts, circumstances, and conditions:

WHEREAS, on October 25, 1985, Territorial, by its Board of Directors, entered into a Supervisory Agreement with the Federal Savings and Loan Insurance Corporation ("FSLIC"), an agency under the direction of the Federal Home Loan Bank Board, the predecessor agency of the OTS. The Agreement was imposed because of severe conditions affecting the operations of the Institution;

WHEREAS, in August 1986, the Board of Directors appointed Allan Kitagawa its chairman. With regulatory approval, Chairman Kitagawa assumed the responsibility of complying with the Supervisory Agreement, bringing Territorial into compliance with all federal and state regulatory laws, protecting funds of depositors and avoiding loss to the FSLIC;

WHEREAS, while the parties are aware that Territorial has made progress in bringing the institution into compliance with the Supervisory Agreement of 1985 and current federal and state laws, the Joint Examination of June 4, 1991, indicates that concerns remain regarding Territorial's capital adequacy and interest rate risk in light of Territorial's level of classified assets and pending regulatory proposals;

WHEREAS, the OTS proposes to rescind its October 25, 1985 Supervisory Agreement because of substantial compliance but revised enforcement action is needed to address the current concerns related to interest rate risk, capital and operating results;

WHEREAS, in entering into this Agreement, Territorial is not admitting that it has violated any law, rule, regulation, or Agreement and is instead seeking to address and resolve the regulatory concerns of the parties in a cooperative manner;

NOW, THEREFORE, in consideration of the facts and circumstances set forth above, it is hereby understood and agreed between the parties as follows:

1. The October 25, 1985 Supervisory Agreement is hereby rescinded.

2. Within 90 calendar days from the Execution Date of this Agreement, Territorial shall provide a business plan to the Commissioner and the OTS for the years 1992 through 1994 containing the expected performance of Territorial for those years. The business plan shall be subject to the review and non-objection of the Commissioner and the OTS.

a. The business plan shall require the Institution to acquire or develop a simulation model to measure the effect of interest rate changes on net interest income and market value of portfolio equity.

b. The business plan shall, in particular, address Territorial's interest rate risk and contain reasonable interest rate risk goals for the period of the plan. Those goals should be consistent with the OTS Thrift Bulletin No. 13.

c. For the one-year maturity gap, the parties agree that a targeted goal of negative 20 to 22 percent is reasonable, and for the three-year maturity gap, the parties agree that a targeted goal of negative 25 to 27.5 percent or less is reasonable. These goals should be reached by December 31, 1992.

d. Should the OTS's proposed market value portfolio equity model and interest rate risk component be finalized, adopted and implemented, as part of the risk based capital or other capital requirements, Territorial shall, within 90 calendar days of the effective date of such regulation, amend its business plan to include those goals.

e. The business plan should also incorporate management's plans for conversion to capital stock and address operating results.

f. Quarterly reports on the performance of Territorial in adhering to the business plan shall be submitted to the Commissioner. In its quarterly progress reports, Territorial will explain any material variance from its efforts to achieve

the targeted one-year and three-year goals, and, why its best efforts were unsuccessful in enabling Territorial to meet these targets. Territorial shall not be deemed in violation of this Agreement if, circumstances beyond Territorial's control, cause the Institution to be unable to meet the targeted goals. The Commissioner and the OTS reserve the right to define "circumstances beyond Territorial's control". Any other material deviation shall also be discussed in detail. A copy of the business plan and any reports shall also be sent to the Assistant Regional Director ("ARD") of the OTS for Territorial. In the event any reports required by this paragraph are not submitted within the deadlines established, Territorial is subject to a civil fine of \$1,000 per day, payable to the State of Hawaii, for each day that a required report or plan is overdue.

3. Within 90 days of the execution date of this Agreement, Territorial shall develop an asset disposition plan for its classified assets. Unless addressed elsewhere, the asset disposition plan shall address the 5-year restriction on holding property contained in HRS Section 407-94, and the effect on federal capital requirements on equity investments. This plan shall be approved by the Board of Directors and submitted to the Commissioner and the OTS for non-objection. Territorial shall continue to send copies of its monthly internal loan review, problem loans, and major litigation reports to the Commissioner. At least semi-annually, the asset disposition plan shall be comprehensively reviewed and discussed by the Board of Directors and any changes shall be submitted to the Commissioner and the OTS for non-objection. A record of the Board's discussion and review shall be reflected in the Board's minutes. Copies of the asset disposition plan, any changes thereto, and the monthly reports shall also be sent to the OTS. In the event any reports required by this paragraph are not submitted within the deadlines established, Territorial is subject to a civil fine of \$1,000 per day, payable to the State of Hawaii, for each day that a required report or plan is overdue.

4. This Agreement is subject to the authority of the Commissioner under HRS Chapters 401, 407 and Hawaii Administrative Rules, Title 16, Chapter 27, "Supervisory and Enforcement Action Relating to Financial Institutions". Material noncompliance with this Agreement shall be considered grounds for issuance of an Order under HRS Section 401-5, or any amendment or replacement of that section. This Agreement does not waive, estop or diminish any other penalty or enforcement action which may be invoked by the Commissioner if the condition or practices of Territorial warrant more severe action or a modification of the terms of this Agreement. This Agreement may be rescinded, for good cause, upon the written request of Territorial and shall be effective upon the written

consent of the Commissioner with a statement of non-objection or approval by the OTS.

5. In entering into this Agreement, Territorial does not admit that it has violated any law, rule, regulation or Agreement.

6. This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding agreement between Territorial, the Commissioner 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 (12 U.S.C. Section 1818). No amendment or modification of this Agreement shall be valid and binding unless executed in writing by the OTS, the Commissioner, and Territorial.

7. The OTS also joins in this Agreement. By doing so, the OTS does not waive any of its rights to take any other action with respect to Territorial.

8. A certified copy of the Board's resolution authorizing execution of this Agreement, evidencing its intent to be bound thereby and authorizing action to be taken to comply with its terms, is attached and made a part hereof.

Executed this 3rd day of September, 1991.

TERRITORIAL SAVINGS AND LOAN ASSOCIATION

By: JS/

Its Chairman of the Board

Its Board of Directors,

JS/
Director

JS/
Director

JS/
Director

JS/
Director

JS/
Director

STATE OF HAWAII

By: JS/
Commissioner of
Financial Institutions

OFFICE OF THRIFT SUPERVISION

By: JS/
Assistant Regional Director

CERTIFIED COPY OF
RESOLUTION OF BOARD OF DIRECTORS

I, the Undersigned, being the duly qualified Secretary of Territorial Savings and Loan Association, Honolulu, Hawaii, hereby certify that the following is a true copy of a resolution duly adopted by its Board of Directors at a meeting duly called and held on September 3, 1991, that at said meeting a quorum was present and voting throughout, and that said resolution has not been rescinded or modified and is now of full force and effect;

RESOLUTION

WHEREAS, the Commissioner of Financial Institutions, State of Hawaii ("Commissioner"), and the Office of Thrift Supervision ("OTS") believe the Institution's condition warrants corrective action; and

WHEREAS, in entering into this Agreement, Territorial is not admitting that it has violated any law, rule, regulation, or agreement and is instead seeking to address and resolve the regulatory concerns of the parties in a cooperative manner;

WHEREAS, the directors of the Institution have read and considered the proposed Agreement attached to the minutes of the meeting of the Board of Directors held on September 3, 1991, and after due consideration, and in the interest of regulatory compliance and cooperation, have determined to enter into the proposed Agreement;

NOW, THEREFORE, BE IT RESOLVED, that the proposed Agreement, a copy of which is attached hereto, be and is hereby consented to by the Board of Directors of the Institution. The Chairman/Chief Executive Officer of the Institution is authorized to sign and execute the Agreement on behalf of the Institution. The officers and employees of the Institution are directed and authorized to take all necessary steps to implement immediately the terms of the Agreement.

IN WITNESS THEREOF, I have hereto subscribed my name and affixed the seal of Territorial this 3rd day of September, 1991.

/s/

Secretary