

SUPERVISORY AGREEMENT
BETWEEN
PRIMERIT BANK, FEDERAL SAVINGS BANK
AND THE
OFFICE OF THRIFT SUPERVISION

This Supervisory Agreement ("Agreement") is made and is effective this 16th day of October 1991 ("Effective Date"), by and between PriMerit Bank, Federal Savings Bank, Las Vegas, Nevada (hereinafter "PriMerit Bank" or the "Institution") and the Office of Thrift Supervision ("OTS"), an Office of the United States Department of the Treasury. References in this Agreement to the Institution shall be understood to include all wholly owned or majority-owned subsidiaries of the Institution unless a contrary meaning is apparent.

WHEREAS, the OTS is of the opinion that PriMerit Bank has engaged in practices or failed to take certain actions in operating the business of the Institution that warrant supervisory correction;

WHEREAS, the OTS acknowledges that PriMerit Bank has initiated and implemented some supervisory corrections; and

WHEREAS, in the interest of resolving OTS' supervisory concerns in a cooperative manner,

NOW THEREFORE, PriMerit Bank and OTS agree as follows:

1. MANAGEMENT AND BOARD OF DIRECTORS

PriMerit Bank shall have and retain competent and qualified management and Board of Directors ("BOD"). The BOD will develop, submit for approval by the Assistant Regional Director of OTS ("ARD"), and implement (subject to the ARD's approval) a Management Plan within 35 calendar days of the Effective Date of this Agreement to ensure the Institution maintains competent and qualified management at the senior and middle management levels. Each member of the Institution's management and the BOD shall have qualifications and experience commensurate with his or her duties at PriMerit Bank. The BOD shall provide management with appropriate written authority to implement the provisions of this Agreement.

2. ASSET CLASSIFICATIONS

The Institution shall acquire prior written approval from the ARD before upgrading any asset classifications. Any asset classifications that are recommended for upgrading should have the reasons for upgrading fully documented and be submitted on a quarterly basis for approval by the ARD.

3. INTERNAL ASSET REVIEW

Although PriMerit Bank has corrected several of OTS' concerns regarding the Internal Asset Review ("IAR") System and Policy, PriMerit Bank shall ensure that its assets are accurately classified and categorized in all applicable reports to its BOD, the OTS, and the public. PriMerit Bank shall within 35 calendar days of the Effective Date revise the IAR to reflect the following:

- a. The scope of the IAR department review of assets shall be redefined to follow up and review any changes in classified assets. The scope of review shall be designed to identify problem assets on a timely basis and provide reliable information concerning the appropriate levels of specific and general valuation allowances to be maintained.
- b. All consolidated assets shall be systematically analyzed, the frequency of review shall be specified, and the method or methods by which an asset will be selected for review shall be identified.
- c. Line officers shall be trained in credit analysis techniques to enhance their ability to identify and classify problem assets on a pro-active basis.

4 MAJOR LOAN/CREDIT ADMINISTRATION

PriMerit Bank shall within 60 calendar days from the Effective Date:

- a. Establish policies and procedures designed to identify troubled assets on a timely basis.
- b. Restructure the loan workout function to ensure that troubled or potentially troubled loans are being actively monitored. Workout strategies shall be thoroughly analyzed, documented, and supported. Modifications/extensions shall not be made unless terms and repayment plans are realistic and in the best interest of the Institution.
- c. Perform net realizable value (NRV) calculations for all current troubled debt restructurings, and make demonstrable progress in performing NRV calculations for potential problem loans. NRV calculations for future troubled debt restructurings and problem loans should be performed in a timely manner.
- d. Make demonstrable progress to ensure that personal and business financial statements, and/or rent rolls are obtained and analyzed for current troubled assets and for such future assets in a timely manner.

- e. Ensure that all current and future delinquent loans are aggressively acted upon through foreclosure, other legal remedies, or reasonable workout strategies.
- f. Ensure that all current in-substance foreclosure assets are recognized and valued at fair value (FV), and that all such future assets are so treated on a timely basis.

5. CLASSIFIED ASSET REDUCTION PLAN

The Institution shall within 60 calendar days from the Effective Date develop, submit for approval by the ARD, implement (subject to the ARD's approval) and adhere to a classified asset reduction plan. The classified asset reduction plan shall be comprehensive and outline how the Institution intends to reduce the amount of its classified and/or nonperforming assets, and the Institution's related loss exposure. This classified asset reduction plan shall provide a detailed workout strategy for the highest priority assets and assign primary and secondary responsibility for the implementation of such strategies to the appropriate staff members. The current internal management reporting

system for review of the Institution's asset quality shall be improved to better report management's progress toward the resolution of classified assets.

6. REAL ESTATE OWNED

The Institution shall acquire prior written approval from the ARD before "building out" or continuing to "build out" for development, any real estate-owned properties. The Institution's analysis must clearly support the "build out" decision, include an appraisal/feasibility study, and take regulatory capital issues into consideration. Adequate valuation analysis shall be performed on both a NRV and FV basis.

7. REI BUSINESS PLANS

PriMerit Bank shall within 35 calendar days from the Effective Date:

- a. Complete business plans for all remaining real estate investments (REI) in its subsidiary, First Nevada Ltd. (FNL), whose remaining net investment balance at September 30, 1991, exceeds \$1.0 million or is a criticized or classified asset. Each business plan should contain financial analysis comparing whether the Institution's interests would

be best served by "building out" projects, selling projects in their current state, or some combination of the two.

- b. Review and, if necessary, revise on a quarterly basis FNL's assumptions used for its preparation of existing business plans and valuation of REI projects, especially the reasonableness of cost estimates, absorption, and selling prices provided by the developer. Perform a sensitivity analysis to determine risk versus return.
- c. Include within the business plans the regulatory capital implications of "a build out versus a sale" of a REI project.

8. LOAN MODIFICATIONS

The Institution shall acquire prior written approval from the ARD before entering into any major loan modification in excess of \$3.0 million. Such loan modification recommendations shall be fully documented and supported, and include a complete analysis outlining the reasons for the modification.

"Modification" means any reduction in the interest rate to be paid or accrued, other than those occasioned by

"Modification" means any reduction in the interest rate to be paid or accrued, other than those occasioned by declines in an index rate; any lengthening of the term over which principal is to be amortized; and any increase in the principal amount of a loan (other than as a result of normal fees and closing costs) not offset by additional collateral. The conversion of an interest only "bullet" loan to an amortizing loan will not be considered a modification.

9. INTEREST RATE RISK

The Institution shall within 35 calendar days from the Effective Date develop, submit for approval by the ARD, implement (subject to the ARD's approval), and adhere to an interest rate risk (IRR) reduction plan. This IRR reduction plan shall outline a plan to reduce the Institution's IRR to comply with its revised BOD approved exposure limits within a period of six months or less from the Effective Date. The Institution shall also continue to revise its assumptions used in its IRR simulation model to make them acceptable to the OTS.

10. AGREEMENT GUIDELINES

For good cause shown, the ARD may extend the time to complete any act required by this Agreement, specifically:

- a. If the ARD disapproves any policy, plan or act under the terms of this Agreement, PriMerit Bank shall revise the policy, plan or act within 15 days after receiving written notice of disapproval. Any notice of disapproval shall state the basis and reasons for disapproving the policy, plan or act. The failure to submit a revised policy acceptable to the ARD within 15 days after receiving written notice of disapproval shall be considered to be a violation of this Agreement unless the ARD has provided PriMerit Bank with prior written approval to extend the resubmission timeframe;
- b. No policy, plan, or act approved by the ARD may be amended, suspended or revoked without the prior written approval of the ARD. However, the ARD may terminate any requirement imposed on PriMerit Bank by this Agreement after receiving a written request to do so and if PriMerit Bank has been in substantial compliance with the provision to the satisfaction of the ARD.

- c. The ARD will respond promptly to PriMerit Bank's requests for approval of asset classification upgrades, real estate owned "build out" proposals, loan modifications, and any other approvals required by this Agreement. All requests that require the approval of the ARD shall be reviewed and approved by the BOD prior to being submitted to the ARD.

11. BOARD IMPLEMENTATION

Except as to those plans, policies, procedures or evidence of corrective or other actions expressly required by this Agreement to be submitted directly to the OTS, all plans, policies, procedures, and corrective or other actions required by this Agreement that shall be prepared or implemented by PriMerit Bank management shall be submitted to the BOD for review and approval. Upon review and approval by the BOD, the BOD shall direct management to implement and adhere to such plan, policy, procedure, or action.

12. OTS REVIEW

Except as provided for in this Agreement, all plans, policies, procedures, or evidence of corrective or other actions required by this Agreement shall be maintained by

PriMerit Bank for review by OTS for compliance with this Agreement.

13. The BOD shall submit to OTS by the tenth calendar day following the regularly scheduled BOD meeting following each calendar quarter during the duration of this Agreement a report detailing PriMerit Bank's progress, status and/or adherence to each of the requirements set forth in Paragraphs 1 through 9 of this Agreement. Included in such quarterly report shall be sufficient detail of the evidence the BOD reviewed to establish the progress, status and/or adherence to the requirements of Paragraphs 1 through 9.

14. AGREEMENT TERMS

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

15. 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 have meanings as defined in the applicable OTS laws, rules or regulations,

and any such technical words or terms used in this Agreement and undefined in such laws, rules or regulations shall have meanings that accord with the best custom and usage in the savings and loan industry.

16. This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding agreement of PriMerit Bank and the OTS. It is understood and agreed that this Agreement is a "written agreement" between the depository institution and the OTS, as that term is used in Section 8 of the Federal Deposit Insurance Act (12 U.S.C. Section 1818).
17. This Agreement constitutes the entire agreement between the OTS and the Institution, but does not supersede any prior order, directive, or agreement imposed upon, or agreed to, by PriMerit Bank. The OTS RB 3a letter dated June 20, 1991, which restricted asset growth of PriMerit Bank still remains in full effect. No amendment or modification of this Agreement shall be valid and binding unless executed in writing by both the OTS and PriMerit Bank.
18. The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto, their successors in interest, and respective assigns.

19. This Agreement shall remain in effect until terminated by the OTS, acting through the Regional Director of the West Region from its offices in San Francisco, or such Regional Director's duly authorized designee.
20. A certified copy of the BOD's resolution authorizing the execution of this Agreement, evidencing its intent to be bound thereby and requiring action to be taken to comply with its terms, shall be attached hereto as Exhibit A and made part thereof.

IN WITNESS WHEREOF, the OTS, acting through the Assistant Regional Director, and the Institution, acting through its duly elected directors, have executed this Agreement as of the date first above written.

OFFICE OF THRIFT SUPERVISION

PRIMERIT BANK. FEDERAL SAVINGS BANK
BOARD OF DIRECTORS

By:

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Nicholas J. Dyer
Assistant Regional Director

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