

UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

WASHINGTON DEPARTMENT OF FINANCIAL INSTITUTIONS
OLYMPIA, WASHINGTON

Written Agreement by and among

U & I FINANCIAL CORP.
Lynnwood, Washington

UNIBANK
Lynnwood, Washington

FEDERAL RESERVE BANK OF SAN FRANCISCO
San Francisco, California

and

WASHINGTON DEPARTMENT OF FINANCIAL
INSTITUTIONS
Tumwater, Washington

Docket Nos. 24-030-WA/RB-HC
24-030-WA/RB-SM

WHEREAS, U & I Financial Corp., Lynnwood, Washington (“U&I”), is a registered bank holding company that owns and controls UniBank, Lynnwood, Washington (the “Bank”), a state-chartered bank that is a member of the Federal Reserve System;

WHEREAS, the Board of Governors of the Federal Reserve System (the “Board of Governors”) is the appropriate federal supervisor of U&I and the Bank;

WHEREAS, the Washington Department of Financial Institutions (the “WDFI”) is the appropriate state banking supervisor of U&I and the Bank;

WHEREAS, the examinations of the Bank, issued February 12, 2024 and July 18, 2024 (the “February 2024 and July 2024 Reports of Examinations”), conducted by the WDFI and the

Federal Reserve Bank of San Francisco (the “Reserve Bank,” together with the WDFI, the “Supervisors”) identified certain deficiencies at the Bank;

WHEREAS, the Reserve Bank’s most recent consumer compliance examination of the Bank, issued on June 4, 2024, identified deficiencies in the Bank’s consumer compliance risk management program;

WHEREAS, it is the common goal of U&I, the Bank, the Reserve Bank, and WDFI to maintain the financial soundness of U&I so that U&I may serve as a source of strength to the Bank, and that the Bank operates in compliance with all applicable federal and state laws, rules, and regulations;

WHEREAS, U&I and the Bank have begun to take steps to address the deficiencies identified in the above examinations;

WHEREAS, U&I, the Bank, the Reserve Bank, and WDFI have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, the boards of directors of U&I and the Bank, respectively, have authorized the undersigned to enter into this Agreement on behalf of U&I and the Bank, and consent to compliance with each and every applicable provision of this Agreement by U&I and the Bank.

NOW, THEREFORE, U&I, the Bank, the Reserve Bank, and the WDFI agree as follows:

Source of Strength

1. The board of directors of U&I shall take appropriate steps to fully utilize U&I’s financial and managerial resources, pursuant to section 38A of the Federal Deposit Insurance Act (the “FDI Act”) (12 U.S.C. § 1831o-1) and section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)), to serve as a source of strength to the Bank, including, but not

limited to, taking steps to ensure that the Bank complies with this Agreement and any other supervisory action taken by the Bank's federal or state regulator.

Board Oversight

2. Within 60 days of the effective date of this Agreement, the Bank's board of directors shall submit a written plan to the Supervisors to strengthen board oversight of the management and operations of the Bank. The plan shall include the following four items:

(a) actions to improve the Bank's condition and maintain effective control over, and supervision of, the Bank's major operations and activities, including but not limited to, asset quality, lending administration, credit risk management, capital, earnings, liquidity, and consumer compliance risk management;

(b) measures for the Bank's board of directors to establish appropriate risk tolerance guidelines and limits, and monitor management's adherence thereto, including any exceptions;

(c) steps to ensure that the Bank's board of directors monitors management's adherence to approved risk tolerance guidelines and limits, policies and procedures, and applicable laws and regulations, including any exceptions to approved policies and procedures; and

(d) steps to improve the information and reports that will be regularly reviewed by the board of directors in its oversight of the operations and management of the Bank, including information on the Bank's loan portfolio, credit risk management practices, allowance for credit losses ("ACL"), capital, earnings, liquidity, and consumer compliance risk management program.

Corporate Governance and Management Review

3. (a) Within 30 days of the effective date of this Agreement, the Bank's board of directors shall retain an independent third party acceptable to the Supervisors to: (i) assess the effectiveness of the Bank's corporate governance, board and management structure, and staffing needs (the "Corporate Governance Review"), and (ii) prepare a written report of findings and recommendations (the "Corporate Governance Report"). The Corporate Governance Review shall include the following four items:

(i) an assessment of the current structure, qualifications, and composition of the board of directors and its committees, and a determination of the structure and composition needed to adequately supervise the affairs of the Bank;

(ii) an assessment of the qualifications, skills, experience, and training of each of the Bank's senior management to determine whether the individual possesses the ability to competently perform present and anticipated duties, including their ability to adhere to applicable laws and regulations and the Bank's established policies and procedures; restore and maintain the Bank to a safe and sound condition; and comply with the requirements of this Agreement;

(iii) the identification of present and future management and staffing needs for each area of the Bank, particularly in the areas of credit risk management, lending and credit administration, and problem asset workout; and

(iv) an assessment of whether the board of directors is receiving appropriate information of the operation of the Bank to enable them to fulfill their responsibilities.

(b) Within 10 days of the Supervisors' approval of the Bank's independent third-party, the Bank shall submit an engagement letter to the Supervisors for approval. The engagement letter shall require the independent third party to submit the Corporate Governance Report within 90 days of regulatory approval of the engagement letter and a commitment that the Corporate Governance Report and any drafts thereof will be provided to the Supervisors at the same time that it is provided to the Bank's board of directors.

(c) Within 30 days of receipt of the Corporate Governance Report, the Bank's board of directors shall submit a written board oversight and management plan to the Supervisors that fully addresses the findings and recommendations in the Corporate Governance Report and describes the specific actions that the board of directors will take to strengthen the Bank's management and the corporate governance structure, and to hire, as necessary, additional or replacement directors, officers, or staff to properly oversee, manage, and operate the Bank.

Consumer Compliance Program

4. (a) Within 60 days of the effective date of this Agreement, the Bank shall retain an independent third party acceptable to the Supervisors to: (i) conduct a comprehensive review of the effectiveness of the Bank's program for compliance with consumer laws and regulations (the "Consumer Compliance Review"), and (ii) prepare a written report of findings, conclusions, and recommendations (the "Consumer Compliance Report"). The Consumer Compliance Review shall include the following five items:

(i) an assessment to ensure the risk management framework is commensurate with the Bank's structure, risk profile, complexity, activities, and size;

(ii) an assessment of the staffing and structure of the Bank's consumer compliance program to ensure that the individuals or groups charged with overseeing the

program possess appropriate subject matter expertise and requisite stature and authority, have clearly defined roles and responsibilities, and are allocated adequate resources and staffing levels in order to competently perform present and anticipated duties;

(iii) an evaluation of the Bank's policies, procedures, risk rating methodologies, internal controls, and training to ensure the Bank's compliance with all applicable consumer laws and regulations and established risk limits and thresholds, and exceptions thereto;

(iv) enhanced policies and procedures, including regular training thereon, to ensure that customer complaints are promptly identified, monitored, investigated, analyzed for any root cause, responded to, tracked, escalated, and periodically reported to the Bank's board of directors and senior management; and

(v) an evaluation of the effectiveness of the Bank's procedures to track, address, and validate any audit findings.

(b) Within 10 days of the Supervisors' approval of the Bank's selected independent third party, the Bank shall submit an engagement letter to the Supervisors for approval. The engagement letter shall require the independent third party to submit the Consumer Compliance Report within 90 days of regulatory approval of the engagement letter and a commitment that the Consumer Compliance Report and any drafts thereof will be provided to the Supervisors at the same time that it is provided to the Bank's board of directors.

(c) Within 30 days of receipt of the Consumer Compliance Report, the Bank shall submit a written consumer compliance plan acceptable to the Supervisors that fully addresses the findings and recommendations in the Consumer Compliance Report and describes the specific actions taken or will be taken by the board of directors to strengthen the Bank's consumer compliance risk management program.

Lending Administration and Credit Risk Management

5. Within 60 days of the effective date of this Agreement, the Bank shall submit written policies and procedures acceptable to the Supervisors to improve its lending and credit risk practices. The policies and procedures shall include the following six items:

- (a) underwriting standards that require documented analyses of:
 - (i) the borrower's repayment sources, global cash flow, and overall debt service ability; and
 - (ii) the value of any collateral;
- (b) standards to require periodic updating of borrowers' financial information and credit analysis, and collateral evaluations;
- (c) policies and procedures to ensure compliance with loan documentation and collateral requirements to minimize exceptions, including:
 - (i) standardized financial documentation required of each borrower;
 - (ii) establishment of an exception tracking system; and
 - (iii) required continuous monitoring by senior management and periodic reporting to the board of directors;
- (d) steps to enhance the policies and procedures for the timely identification and categorization of problem loans, and processes to detect weaknesses in the Bank's loan approval, monitoring, and grading function;
- (e) measures to ensure segregation of duties and dual controls related to the administration and oversight of the Bank's lending and credit risk management functions; and

(f) improvements to the Bank's management information systems to ensure that the board of directors and senior management obtain timely and accurate credit-related information.

Loan Grading and Loan Review

6. Within 60 days of the effective date of this Agreement, the Bank shall submit a written program for the effective, ongoing grading of the Bank's loan portfolio. The program shall provide for policies, procedures, and processes for the timely and ongoing grading of loans. The program shall include the following five items:

- (a) standards and criteria for assessing the credit quality of loans, including a discussion of the factors used to assign appropriate risk grades to loans;
- (b) procedures to re-evaluate the grading of loans in the event of material changes in the borrower's performance or the value of the collateral;
- (c) procedures to evaluate the grading of all loans that are adversely classified at least quarterly;
- (d) controls to ensure staff's consistent application and adherence to the loan grading system; and
- (e) enhanced procedures and monitoring systems to ensure that deteriorating credits are promptly identified, properly risk rated, and accurately and timely placed on the watch list.

7. Within 60 days of the effective date of this Agreement, the Bank shall submit a written program for the effective, ongoing review of the Bank's loan portfolio by a qualified independent third party or by qualified staff that is independent of the Bank's lending function acceptable to the Supervisors. The program shall provide for policies and procedures for the

timely identification and categorization of problem loans, and processes to detect weaknesses in the Bank's loan approval, monitoring, and grading process. The program shall include the following four items:

- (a) the scope, depth, and frequency of the independent loan review;
- (b) clearly defined responsibilities for the loan review function;
- (c) an objective and timely assessment of the overall quality of the loan portfolio and the accuracy of assigned loan grades; and
- (d) regular written reports documenting the findings of the loan review.

8. The board of directors, or a committee thereof, shall evaluate the loan review report(s) and take appropriate steps to ensure management takes prompt action to address findings noted in the report(s).

Allowance for Credit Losses

9. (a) Within 60 days of the effective date of this Agreement, the Bank shall review and revise its ACL methodology consistent with relevant supervisory guidance, including the Interagency Policy Statement on the Allowances for Credit Losses, dated May 8, 2020 (revised April 21, 2023) (SR 20-12) and the findings and recommendations regarding the ACL set forth in the February 2024 and July 2024 Reports of Examinations, and submit a description of the revised methodology to the Supervisors. The revised ACL methodology shall be designed to maintain an adequate ACL and shall, at a minimum, include the reliability of the Bank's loan grading system, the volume of criticized loans, concentrations of credit, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses in the Bank's loan portfolio, including adversely classified loans, and the impact of market conditions on loan and collateral valuations and collectability.

(b) Within 120 days of the effective date of this Agreement, the Bank shall submit to the Supervisors a written program for the maintenance of an adequate ACL. The program shall, at a minimum, include policies and procedures to ensure adherence to the ACL methodology and provide for periodic reviews and updates to the ACL methodology. The program also shall provide for a review of the ACL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ACL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Report of Condition and Income. The board of directors shall maintain written documentation of its review, including the factors considered and conclusions reached by the Bank in determining the adequacy of the ACL. During the term of this Agreement, the Bank shall submit to the Supervisors, within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ACL and a description of any changes to the methodology used in determining the amount of the ACL for that quarter.

Conflicts of Interest

10. Within 60 days of the effective date of this Agreement, the Bank shall submit a revised code of ethics and conflicts of interest policy applicable to the Bank's directors, officers, employees, agents, and contractors ("Covered Persons") to set out the fiduciary duties of all Covered Persons and the avoidance of conflicts of interest, acceptable to the Supervisors. The code of ethics and conflicts of interest policy shall include the following six items:

(a) the avoidance of conflicts of interest and the appearance thereof, in transactions involving affiliates or related interest, as defined in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. § 225.2(n));

(b) the designation of an appropriate person (“Ethics Officer”) responsible for developing, implementing, and administering the Bank’s code of ethics and conflicts of interest policy;

(c) a requirement that a Covered Person identify and promptly report to the Ethics Officer situations involving potential conflicts of interest;

(d) a requirement that a Covered Person not participate in the underwriting, approval, or renewal of any loan, the proceeds of which are transferred to or used for the tangible economic benefit of such Covered Person or related interest, as defined in section 215.2(n) of Regulation O (12 C.F.R. § 225.2(n));

(e) internal controls that monitor compliance with the code of ethics and conflicts of interest policy, investigate allegations of misconduct, and report any noncompliance or exceptions to the policy to the board of directors; and

(f) training for all Covered Persons within 60 days of approval of the code of ethics and conflicts of interest policy.

Liquidity and Funds Management

11. Within 60 days of the effective date of this Agreement, the Bank shall submit an enhanced liquidity risk management program acceptable to the Supervisors that, at a minimum, includes steps to diversify sources of funding, enhanced liquidity stress test scenarios, and periodic independent review and evaluation of all components of the Bank’s liquidity risk management process.

12. Within 60 days of the effective date of this Agreement, the Bank shall submit a revised written contingency funding plan acceptable to the Supervisors that, at a minimum, is

consistent with the Interagency Policy Statement on Funding and Liquidity Risk Management, dated March 17, 2010 (SR 10-6), and includes adverse scenario planning.

Capital Plan

13. Within 60 days of the effective date of this Agreement, U&I and the Bank shall submit a written plan acceptable to the Supervisors to maintain sufficient capital at U&I on a consolidated basis, and at the Bank as a separate legal entity on a stand-alone basis. The plan shall include the following three items:

(a) U&I's and the Bank's current and future capital requirements, including compliance with the applicable requirements of Regulation Q of the Board of Governors (12 C.F.R. Part 217);

(b) the adequacy of the Bank's capital, taking into account the volume of adversely classified assets, the adequacy of the ACL, current and projected asset growth, projected earnings, and anticipated and contingency funding needs; and

(c) the source and timing of additional funds to fulfill U&I's and the Bank's future capital requirements.

14. (a) U&I and the Bank shall notify the Supervisors, in writing, no more than 30 days after the end of any calendar quarter in which any of U&I's consolidated capital ratios or the Bank's capital ratios (total risk-based, Tier 1 risk-based, common equity Tier 1 or leverage) fall below the approved capital plan's minimum ratios. Together with the notification, U&I and the Bank shall submit a plan acceptable to the Supervisors that details the steps U&I or the Bank, as appropriate, will take to increase U&I's or the Bank's capital ratios to or above the approved capital plan's minimums.

(b) During the term of this Agreement, the Bank shall not enter into any agreement to sell or purchase any loan or other asset that, in the aggregate, would exceed 5 percent of the Bank's total assets at the end of the prior quarter without the prior written approval of the Supervisors.

Capital Conservation

15. (a) Effective immediately, U&I and the Bank shall not, directly or indirectly, declare or pay dividends, engage in share repurchases, or make any other capital distribution in respect of common shares, preferred shares, or other capital instruments, including, without limitation, any interest payments due on subordinated debentures, without the prior written approval of the Supervisors. All requests for prior approval shall be received in writing at least 30 days prior to the earlier of the proposed declaration, payment, or distribution date, or required notice of deferral, and shall contain, at a minimum, current and projected information, as appropriate, on U&I and the Bank's respective capital, earnings, and cash flow; the Bank's asset quality, earnings, and allowance for credit losses; and identification of the source(s) of funding for the proposed payment or distribution.

(b) Effectively immediately, U&I and the Bank shall not, directly or indirectly, incur, increase, prepay, or guarantee any debt without the prior written approval of the Supervisors. All requests for prior approval shall be received at least 30 days prior to the proposed transaction date and contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

Compliance with Laws and Regulations

16. (a) In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, U&I and the Bank shall comply with the notice provisions of section 32 of the FDI Act, as amended, (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. §§ 225.71 *et seq.*).

(b) U&I and the Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

Progress Reports

17. Within 30 days after the end of each calendar quarter following the effective date of this Agreement, the board of directors of U&I and the Bank, as applicable, shall submit to the Supervisors written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

Approval and Implementation of Plan and Programs

18. (a) U&I and the Bank, as applicable, shall submit the written plans, policies, procedures, programs, and methodology that are acceptable to the Supervisors within the applicable time periods set forth in paragraphs 2, 3(c), 4(c), 5, 6, 7, 9(b), 10, 11, 12, and 13 of this Agreement. Each plan, policy, procedure, and program shall contain a timeline for full implementation of the plan, policy, procedure, and program with specific deadlines for the completion of each component of the plan, policy, procedure, and program. Independent third parties acceptable to the Supervisors shall be retained by the Bank in accordance with the Supervisors' requirements within the time periods set forth in paragraphs 3, 4, and 7 of this

Agreement. The engagement letters acceptable to the Supervisors shall be submitted within the time period set forth in paragraph 3(b) and 4(b) of this Agreement.

(b) Within 10 days of approval by the Supervisors, U&I and the Bank, as applicable, shall adopt the approved plans, policies, procedures, programs, and methodology. Upon adoption, U&I and the Bank, as applicable, shall promptly implement the approved plans, policies, procedures, programs, and methodology, and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans, policies, procedures, programs, and engagement letters shall not be amended or rescinded without the prior written approval of the Supervisors.

Communications

19. All communications regarding this Agreement shall be sent to:

- (a) Monique Ysaguirre
Senior Manager
Supervision and Credit
Federal Reserve Bank of San Francisco
950 South Grand Avenue
Los Angeles, California 90015
- (b) Roberta Hollinshead
Director of Banks
Washington Department of Financial Institutions
150 Israel Road SW
Tumwater, Washington 98501
- (c) Stephanie J. Yoon
President and Chief Executive Officer
U & I Financial Corp.
UniBank
19315 Highway 99
Lynnwood, Washington 98036

Miscellaneous

20. Notwithstanding any provision of this Agreement, the Supervisors may in their sole discretion, grant written extensions of time to U&I and the Bank to comply with any provision of this Agreement.

21. The provisions of this Agreement shall be binding upon U&I, the Bank, and their institution-affiliated parties, as defined in section 3(u) and 8(b)(3) of the FDI Act (12 U.S.C. §§ 1813(u) and 1818(b)(3)), in their capacities as such, and their successors and assigns.

22. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Supervisors.

23. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the WDFI, or any other federal or state agency from taking any other action affecting the Bank or any of its current or former institution-affiliated parties and their successors and assigns.

24. Pursuant to section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under section 8 of the FDI Act (12 U.S.C. § 1818), and by the WDFI under Section 30A.04.450 of the Revised Code of Washington.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 21st day of October, 2024.

U & I FINANCIAL CORP.

FEDERAL RESERVE BANK
OF SAN FRANCISCO

By: /s/ Stephanie Yoon
Stephanie Yoon
President and
Chief Executive Officer

By: /s/ Mongkha Pavlick
Mongkha Pavlick
Senior Vice President

UNIBANK

WASHINGTON DEPARTMENT
OF FINANCIAL INSTITUTIONS

By: /s/ Stephanie Yoon
Stephanie Yoon
President and
Chief Executive Officer

By: /s/ Roberta Hollinshead
Roberta Hollinshead
Director of Banks