
EMPLOYEE CODE OF ETHICAL CONDUCT

TABLE OF CONTENTS

General Policy Statement	1
Administering the Code	1
Complying with the Federal Bank Bribery Law.....	2
Gifts	3
Conflicts of Interest.....	4
Participating in Outside Activities	5
Managing Your Personal Finances	6
Our Lending Practices	6
Giving Advice to Customers.....	7
Maintaining Confidentiality.....	7
Questioning Downey’s Financial Reporting.....	9
Policy on Hiring Former Employees of Independent Auditors.....	10
Policy Against Harassment	10
Responses to Outsiders	11
Additional Guidelines for Ethical Conduct.....	12
Employee Code of Ethical Conduct	14
Acknowledgement of Receipt.....	14
Gift/Benefit Declaration Report Part I	15
Gift /Benefit Declaration Report Part II	16

EMPLOYEE CODE OF ETHICAL CONDUCT

General Policy Statement

Downey Financial Corp. and Downey Savings and Loan Association, F.A. (collectively, "Downey") have established a *Code of Ethical Conduct* ("Code") with the approval of their respective Board of Directors to articulate policies on acceptable business practices and prohibited conflicts of interest, to help ensure that integrity and ethical values of the highest standard are maintained within Downey. The Boards, through the Audit Committee, review the Code periodically and at least annually for changes in content and/or compliance.

Downey's policy is to conduct its business activities in accord with the highest ethical standards of the financial service industry and comply with all laws and regulations applicable to its business. Downey expects all of its employees to:

- conduct themselves in accordance with the letter, spirit, and interest of all relevant laws;
- avoid any form of illegal, dishonest, or unethical conduct;
- maintain their personal affairs in such a way as to avoid discredit or embarrassment to either themselves or Downey; and
- act to protect Downey's reputation as a reputable financial services organization.

Downey expects its employees to use good judgment and high ethical standards in carrying out their job duties and responsibilities. Employees are urged not only to use their best judgment, but also to discuss any situation of questionable ethical or legal propriety with their Supervisor or a representative within either the Human Resources Department or the Legal Department. No set of guidelines can anticipate or provide answers to every ethical dilemma; nor is mere adherence to the letter of these guidelines an assured defense against charges that applicable federal or state law has been violated. You are encouraged to discuss questions of interpretation and questions regarding the applicability of the provisions of this Code with the Director of Human Resources, your immediate supervisor, or the General Counsel. You may reach the Human Resources Department by calling (949) 509-4309.

Administering the Code

It is the responsibility of each employee to be familiar with the Code. Supervisors are expected to make every reasonable effort to ensure their staff members understand and comply with all provisions of the Code.

EMPLOYEE CODE OF ETHICAL CONDUCT

The Director of Human Resources shall administer the Code, address questions or interpretations raised by employees, Supervisors, or senior management, and coordinate periodic revision(s) and changes to the Code. All employees are encouraged to seek their Supervisor's advice regarding questions of interpretation or the applicability of the Code to particular situations. Downey's policy is that all situations involving a conflict of interest or other possible violation of the Code must be reported to the General Counsel. Suspected illegal activity by Downey agents or customers also must be reported to the General Counsel. The act of reporting a questioned situation does not necessarily imply that a violation exists, but affords the opportunity for review.

To encourage all employees to report all possible Code violations, it is Downey's policy not to retaliate or otherwise take action against any employee who in good faith reports what he or she believes to be an actual or potential Code violation by another person. It is your duty to report actual or potential Code violations. An employee who has knowledge of suspected violations of the Code or illegal activities as outlined in this Code and who fails to report those suspected activities may be subject to disciplinary action up to and including termination of employment.

Downey is required by law to report violations of criminal law to the appropriate state and federal enforcement agencies.

All employees must sign a written acknowledgement of receipt of a copy of the Code. It is each employee's responsibility to regularly read the Code, which includes thoroughly reading the contents at least annually. Employees who violate the provisions of the Code may be subject to disciplinary action up to and including termination of employment.

Complying with the Federal Bank Bribery Law

Under the federal Bank Bribery Law, it is a crime for Officers, Directors, or employees of Downey to, directly or indirectly, ask for, solicit, promise, accept, receive, or agree to receive anything of value for themselves or for any other person or entity, from any person, or entity, for or in connection with any Downey transaction or business. The penalty for violating this law is a fine up to \$1 million, imprisonment up to thirty (30) years, or both. If the value of the thing given, offered, promised, solicited, demanded, accepted, or agreed to be accepted does not exceed \$1,000, the person shall be fined, imprisoned for not more than one (1) year, or both. The offer or grant of such an improper payment is also prohibited, and employees must immediately report either to their Supervisor.

EMPLOYEE CODE OF ETHICAL CONDUCT

Gifts

Employees and their immediate family members may not solicit, accept, or retain a benefit for themselves or others from:

- any customer of Downey;
- any individual or organization, such as a supplier, doing or seeking to do business with Downey; or
- any other individual or organization which maintains a relationship with Downey

in connection with any business, service, or confidential information of Downey either before or after a transaction is discussed or consummated. A benefit includes any type of gift, gratuity, favor, service, loan, legacy (except from a relative), fee, compensation, or anything of monetary value.

The following specific exceptions to this policy will be made only if no reasonable likelihood of improper influence exists or appears to exist as to an employee's performance of his or her duties:

- Acceptance of meals, refreshments, entertainment, or, with prior approval, accommodations and travel of reasonable value for bona fide business discussions or to foster better business relations;
- Acceptance of advertising or promotional material of reasonable value, such as pens, pencils, note pads, key chains, calendars, and similar items;
- Acceptance of non-cash gifts of reasonable value (\$100 or less) that are related to commonly recognized events or occasions, such as a new job, promotion, birthday, wedding, or retirement, which represent expressions of friendship, provided the circumstances make it clear that it is a family or personal relationship, rather than the business of Downey, which is the motivating factor. Non-cash gifts include gift cards intended to be used at retailer locations to purchase goods or services, but do not include gift cards that can be used to withdraw cash;
- Acceptance of loans from other financial institutions on customary, non-preferential terms to finance proper and usual activities, such as home mortgage loans, except where prohibited by law; or
- Acceptance of discounts, rebates or premiums on merchandise or services that do not exceed those available to other customers, such as frequent flyer benefits on airlines.

EMPLOYEE CODE OF ETHICAL CONDUCT

If Downey purchases merchandise or services, then any discounts, rebates or premiums on such merchandise or services belong to Downey. Employees may retain frequent flyer awards if such awards do not influence the employee's travel choices to the detriment of Downey.

An employee must submit a *Declaration of Gift / Benefit Report* to the employee's Supervisor and Director of Human Resources for any customer or supplier gift that does not fall within one of the above-described exceptions. Approval to accept a gift must be in writing and will require:

- the absence of a lender/borrower relationship between the employee and the customer; and
- a personal or familial relationship between the customer and the employee, separate and apart from the customer's relationship with Downey.

The employee's Supervisor, after consulting with the Human Resources Department and reviewing the relationship of the parties and the circumstances of the gift, shall instruct the employee regarding the action to be taken. The Supervisor and the Human Resources Department shall keep updated, written records of all Code disclosures made by employees.

Conflicts of Interest

Employees of Downey should avoid personal conduct that will conflict with the interests of Downey. Also, Federal law requires that employees disclose all potential conflicts of interest to Downey. A conflict of interest includes the employee's involvement in an outside interest, which interest (a) might conflict with the employee's duty to Downey, (b) might adversely affect the employee's judgment in the performance of his or her responsibilities, or (c) would knowingly or potentially interfere with any interests of Downey. Any employee conflict of interest or potential conflict of interest must be reported immediately in writing to the employee's Supervisor (Division or Department Manager) and the Director of Human Resources, both of whom shall review the situation and one of whom shall advise the employee of any action to be taken.

While Downey does not intend to unreasonably limit the personal investing of employees, no employee may enter into an investment transaction which would knowingly create or give the appearance of creating a potential or actual conflict of interest between (1) the employee and Downey or (2) Downey and any customer. While enumerating all potential conflicts is impossible, the following situations should be avoided when making personal investment decisions:

- Investing in the stock of a customer, supplier, borrower, or competitor, unless such stock is either regularly listed on a national securities exchange or *over the counter* or Downey's prior written approval is obtained and the use of insider information is

EMPLOYEE CODE OF ETHICAL CONDUCT

not involved, as it may be otherwise construed as affecting an employee's professional judgment;

- Investing in a company, including Downey, on the basis of material, nonpublic information (whether such information is gained in the course of employment or otherwise) for Downey-owned or managed accounts, for personal accounts, or for any accounts that associates may influence, including, but not limited to, accounts of family members. This type of activity is known as "insider trading" and is prohibited by securities laws and Downey policy;
- Selling assets to or purchasing assets from Downey or any estate administered by an employee and his or her family, whether acting individually or in a fiduciary capacity, without the prior consent of the employee's Supervisor; provided, however, assets offered by Downey at public sale or public auction or approved by a court having jurisdiction do not require prior approval; or
- Taking any business opportunity sought on behalf of Downey by employees for their own or others' benefit.

Participating in Outside Activities

Downey discourages employees from holding significant regular outside employment, and written approval from a Supervisor is required. No outside employment or activity will be approved if it is prohibited by law, subjects Downey to potential criticism, encroaches upon regular working hours, or interferes, in any fashion, with an employee's regular duties, or the business interests of Downey. Employees of Downey may not be employed (at the same time) by any other financial institution.

Every employee must obtain prior approval from Downey to become or continue to serve as a director of an outside, for profit, business corporation, whether or not such corporation(s) is customers of Downey. Serving as a director of corporations closely held by an employee's family as well as those of nonprofit social, civic, religious, or philanthropic institutions are permissible, but disclosure is required.

A director or a member of a board of trustees owes a fiduciary duty to the organization being represented to act always in the best interest of the organization. To avoid potential conflict, employees should not serve on the boards of directors or boards of trustees of organizations, other than nonprofit organizations that are not borrowers of Downey.

Downey encourages individual participation in political civic activities as individuals. Downey's name, logo, or any reference (whether explicit or implicit) to any affiliation of Downey may not be used in connection with an employee's participation in any outside activities without prior

EMPLOYEE CODE OF ETHICAL CONDUCT

written approval from the General Counsel. Additionally, a Supervisor's approval is required when an employee's participation requires business time.

Employees may not accept appointment as executor, administrator, trustee, guardian or conservator, attorney-in-fact, or in any other fiduciary capacity, or any appointment as consultant in connection with Downey's fiduciary matters. However, employees may accept fiduciary appointments on behalf of their family members.

Managing Your Personal Finances

Downey depends upon public confidence in this financial institution. Therefore, all employees should manage their personal finances in a manner consistent with maintaining such confidence. Employees and their immediate families should borrow only from reputable organizations that regularly lend money. Employees should not borrow from any Downey customer, unless the customer is a recognized lending institution. Loans to employees from Downey should carry the prevailing market rates of interest and not involve favored treatment of any kind, except to the extent of any company-wide loan program being offered to employees generally.

Borrowing from an employee's relatives is not subject to any restrictions. However, employees should not borrow from, or make loans to, other employees, customers, or suppliers of Downey. Any employee experiencing a financial emergency should discuss the situation with the Human Resources Department.

No employee is authorized to sign on a customer's account, act as an attorney-in-fact, or as a deputy or co-renter of a customer's safe deposit box, or otherwise represent customers.

Our Lending Practices

It is the policy of Downey to maintain prudent lending services to supply the credit needs of its customers. Any rate concessions shall be based solely upon a borrower's credit worthiness and overall business relationship with Downey.

Employees may not represent or exercise authority on behalf of Downey:

- to grant direct or indirect accommodations; or
- to make credit recommendations with respect to members of their families, any individual or organization to which the employee or his or her immediate family is

EMPLOYEE CODE OF ETHICAL CONDUCT

indebted, or any organization with which the employee or his or her immediate family are associated or in which a material financial interest is held.

Giving Advice to Customers

From time to time, Downey customers ask employees to comment upon a particular transaction. Downey employees may not practice law or give legal, tax, or investment advice to customers. Employees must tell customers this, exercise care in discussing transactions with customers, and offer nothing that may be interpreted as legal, tax, or investment advice. Even recommending the services of a particular attorney, investment advisor, or accountant to a customer may expose Downey to liability, if the customer become dissatisfied with the services rendered.

If a customer requests the name of a recommended professional, employees must explain that Downey's policy generally prohibits such referrals. In those rare instances where an employee, after obtaining prior approval, makes such a referral, the employee should recommend more than one professional, allowing the customer a choice.

Maintaining Confidentiality

Employees of Downey are trusted with confidential and proprietary information which is not available in the public domain. Each Downey employee has a duty to protect confidential information, and agrees not to use confidential information in a manner detrimental to Downey. Confidential information may be disclosed or otherwise made available to the employee by Downey, or may otherwise come to the attention of the employee in the course of employment with Downey. Confidential information is all non-public information that might be of use to competitors, or harmful to Downey or its customers if disclosed, and includes, but is not limited to:

- Nonpublic personal information of Downey customers, including the customer's name, address, telephone number, social security number, mother's maiden name or credit report;
- Nonpublic corporate information concerning Downey or its subsidiaries, including financial information, budgets and projections, business plans, sales or marketing information, or information about potential acquisitions or divestitures;
- Information regarding Downey employees, including employee lists or directories, salary and personal information; and

EMPLOYEE CODE OF ETHICAL CONDUCT

- Intellectual property, including trade secrets, secret processes and information regarding past, present or future products.

Each employee's duty of confidentiality continues even following the termination of the employee's employment with Downey.

Employees should always take care to protect confidential information, including taking reasonable steps to protect confidential information from unintentional disclosure to unauthorized persons. Such steps include locking computer workstations when vacant, maintaining a clean and neat work area, and shredding documents containing confidential information instead of throwing them in the trash.

Customer Confidentiality: Safeguarding the confidential financial information concerning consumers and customers is not only essential to maintaining the public trust, but required by federal legislation (i.e., the Gramm-Leach-Bliley Act) and the California Constitution. Consequently, the Board of Directors has adopted a *customer privacy policy*. It is the duty of all employees to protect confidential customer information. This includes safeguarding confidential information from the time the information is received from a customer of Downey through the proper destruction of all related data. Several operational units have developed various privacy policies and procedures in support of this customer privacy policy. Employees are required to review and follow all of Downey's policies and procedures, including any periodic bulletins or updates released by Downey from time to time.

Confidential customer information must be held in the strictest confidence and should be used only for Downey business activities, and never as a basis for personal gain. Information regarding a customer may be released to private persons, organizations or governmental bodies only (a) with the customer's consent, (b) upon receipt of legal process (such as a subpoena or court order), or (c) as permitted by law. Confidential customer information may not be discussed with either those outside of Downey or those within Downey, except for those within Downey who have a legitimate business reason to know.

Corporate Confidentiality: Additionally, financial or other information regarding Downey or their subsidiaries is not to be released to any outside person or organization unless it has been published in reports to shareholders, made available otherwise to the public through authorized news releases, or approved by the Director of Human Resources or General Counsel.

The use or disclosure of *material, inside information* exposes employees, Downey, and others to whom the information is communicated to severe penalties under federal and state securities laws. *Material* information is that which a reasonable investor would regard as important in

EMPLOYEE CODE OF ETHICAL CONDUCT

making an investment decision regarding Downey. Information is *inside* when it has not been disseminated or released to the public at large. Any employee possessing material inside information may not trade in or recommend the purchase or sale of the securities of Downey until Downey has officially released such information to the public.

Questioning Downey's Financial Reporting

All employees should report any concerns regarding any irregular or questionable financial reporting at Downey. Concerns might include the following:

- You raise a financial reporting issue with a superior, and the superior decides nevertheless to proceed with what you believe may be inaccurate financial reporting; or
- You read some aspect of Downey's financial reporting that concerns you as being inaccurate, you ask questions about it, and you are not satisfied with the explanation.

Other types of concerns relating to financial reporting no doubt could arise.

If you are aware of or suspect a breach of Downey policy that in any way involves financial reporting, financial statements or accounting practices, or any other violation of law, you must report it immediately to Downey's senior management or *MySafeWorkplace*, an independent, third-party service provider from which Downey has arranged for services to be provided. This anonymous and confidential incident reporting system is not affiliated with Downey. We want you to know that you can report your concerns anonymously and without fear of reprisal through *MySafeWorkplace*. This system is accessible 24 hours a day, 7 days a week through the Internet at www.MySafeWorkplace.com or by calling the toll free number 1-800-461-9330.

Downey is using the *MySafeWorkplace* system to allow you to submit concerns and complaints regarding such workplace financial concerns as accounting discrepancies, fraud, accounting misrepresentations, auditing matters, accounting omissions, ethics violations, or any other financially related concerns you may have. If you have any other workplace concerns that are unrelated to financial reporting, please feel free to contact the Human Resources Department for assistance.

Your confidential report to *MySafeWorkplace* will instantly be forwarded for review to the independent directors of Downey comprising the Audit Committee of Downey's Board of Directors. Upon submission, you will be provided a confidential access number, as well as be asked to generate a personal password, that enables you to anonymously re-enter the site at any time. You will then be able to anonymously send and receive messages pertaining to your report and if desired participate in any follow-up.

EMPLOYEE CODE OF ETHICAL CONDUCT

Whenever a report is received about irregular or questionable financial reporting at Downey, whether through *MySafeWorkplace* or by other means, the Audit Committee of Downey's Board of Directors and Downey's senior management will investigate the complaint, and if appropriate, take corrective action.

Policy on Hiring Former Employees of Independent Auditors

Employees or former employees of Downey's independent auditors can be valuable additions to Downey. It is Downey's policy, as determined by the Audit Committee, not to hire any person as its chief executive officer, president, chief financial officer, controller, chief accounting officer, or any other senior financial officer if such person was employed by Downey's independent auditors and participated in an audit of Downey within two (2) years before Downey extends an offer to such person.

Policy Against Harassment

Downey is committed to providing a workplace free of sexual harassment (which includes harassment based on gender, pregnancy, childbirth, or related medical conditions), as well as harassment based on such factors as race, color, gender, gender status, religion, national origin, ancestry, age, physical disability, mental disability, medical condition, marital status, sexual orientation, family care leave status, or current and veteran military status. Downey strongly disapproves of, and will not tolerate, harassment of employees by Managers, Supervisors, or co-workers. Similarly, Downey will not tolerate harassment by its employees of non-employees with whom Downey employees have a business, service, or professional relationship. Downey also will attempt to protect employees from harassment by non-employees in the workplace.

Harassment includes verbal, physical, and visual conduct that creates an intimidating, offensive, or hostile working environment or that interferes with work performance and is based on one or more of the types of discrimination identified above. Such conduct constitutes harassment when:

- Submission to the conduct is made either an explicit or implicit condition of employment;
- Submission to or rejection of the conduct is used as the basis for an employment decision; or
- The harassment creates an intimidating, hostile, or offensive work environment or interferes with an employee's work performance.

EMPLOYEE CODE OF ETHICAL CONDUCT

Harassing conduct can take many forms and includes, but is not limited to, slurs, jokes, statements, gestures, pictures, or cartoons regarding an employee's race, color, gender, gender status, religion, national origin, ancestry, age, physical disability, mental disability, medical condition, marital status, sexual orientation, family care leave status, or current and veteran military status.

Sexually harassing conduct in particular includes all of these prohibited actions as well as other unwelcome conduct such as requests for sexual favors, conversation containing sexual comments, and sexual advances.

Any incident of harassment, including work-related harassment by any Downey employee or any other person, must be reported promptly to the employee's Supervisor or Manager (or to any other member of management) or to the Human Resources Director, who is responsible for seeing that the matter is properly and promptly investigated. Supervisors and Managers who receive complaints or who observe harassing conduct must inform the Human Resources Director immediately. Downey emphasizes that an employee is not required to complain first to his or her Supervisor or Manager. This applies whether or not the employee's Supervisor or Manager is the individual who is harassing the employee.

Every reported incident of harassment is investigated thoroughly, promptly, and in a confidential manner. In the case of Downey employees, if harassment is established, Downey will discipline the offender. Disciplinary action for a violation of this policy can range from verbal or written warnings up to and including immediate termination of employment, depending upon the circumstances. With regard to acts of harassment by customers or vendors, corrective action will be taken after consultation with the appropriate management personnel.

Lastly, Downey will not tolerate retaliation against any employee for cooperating in an investigation or for making a complaint to the Human Resources Director or to any other Manager.

Responses to Outsiders

Employees occasionally may receive inquiries from the media, financial analysts, government agencies, employers or other outsiders. Even with the best of intentions, employee communications with outsiders can present business and legal risks. Accordingly, all inquiries pertaining to Downey or its operations must be directed to either Downey's Chief Financial Officer, Downey's Chief Operating Officer or Downey's General Counsel, who will either respond to the inquiry or help formulate the response by any other authorized Downey employee. No employee, unless specifically authorized in writing by the Chief Financial Officer, the Chief Operating Officer, the General Counsel or Downey's President, is permitted to make

EMPLOYEE CODE OF ETHICAL CONDUCT

statements to outsiders. As well, any employee wishing to write and/or publish an article, paper, or other publication on behalf of or about Downey must first obtain written approval from the General Counsel or President.

Additionally, all requests to verify employment should be referred to Human Resources.

Additional Guidelines for Ethical Conduct

Employees must observe fair and ethical conduct in dealing with Downey's customers, suppliers, competitors, and other employees. No employee shall take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair-dealing practice. Remarks regarding the safety and soundness of competitor institutions are considered inappropriate, unethical and may be unlawful.

Employees are prohibited from involving Downey in arrangements with its competitors, which provide for the setting or controlling of rates, prices, or marketing policies.

The sale of services to a customer, conditioned upon that customer's purchase of other services from or exclusive purchase of any other services from Downey, must be approved by a senior officer (e.g., Senior Vice President and above) as the tying together of certain services may be prohibited by law.

Employees must respond honestly, candidly, and completely when dealing with Downey's independent and internal auditors, regulators, and attorneys. Employees are required to cooperate fully with investigations relating to the Code and any examinations and audits conducted by Downey's regulators or external auditing firms.

Employees must comply with all internal control procedures established by Downey for the safeguarding of assets and proper reporting and disclosure of financial information. All records and accounting information must be maintained with reliability and integrity, and accurately and timely reflect Downey's assets, liabilities, receipts, and disbursements. The falsification of any books, records, or documents by an employee is grounds for termination of employment.

Compliance with all laws, rules, and regulations applicable to Downey is mandatory, and employees must conduct themselves in a manner that avoids even the appearance of impropriety. Violations knowingly committed by an employee may result in disciplinary action up to and including termination of employment.

Personal use of Downey's letterhead, envelopes, name, and/or logo is strictly prohibited.

EMPLOYEE CODE OF ETHICAL CONDUCT

If any provision of this Code of Conduct is found to be invalid or unenforceable for any reason, the remaining provisions shall continue to be valid and enforceable. If any provision of this Code of Conduct is found to be invalid or unenforceable, but that by limiting such provision, it would become valid and enforceable, then such provision shall be deemed to be written, construed and enforced as so limited.



Employee Code of Ethical Conduct

Acknowledgement of Receipt

I acknowledge I have received information on how to access the electronic version of the Downey *Employee Code of Ethical Conduct* ("Code"). I understand that I am responsible for knowing and adhering to the policies set forth in the Code and all other policies of Downey during my employment with Downey. I also understand that the policies contained in the Code are not intended to create any real or implied employment agreement, contractual rights, or obligations between Downey and me. I further understand that Downey reserves the right to amend, interpret, modify, or withdraw any portion of the Code at any time.

I agree to abide by the policies and procedures of Downey and the Code. I further acknowledge that my employment with Downey is *at will*, which means that my employment is for no definite period and may be terminated by me or Downey at any time and for any reason with or without cause or advance notice. I also understand that Downey may demote or discipline me or alter the terms of my employment at any time in its discretion with or without cause or advance notice.

The Code requires that I file a *Gift/Benefit Declaration Report* under certain circumstances. I am not now aware of any circumstance or activity which requires disclosure or which would potentially conflict with the interests of Downey except as may be indicated and identified below.

_____	_____
Employee's Signature	Date

Employee's Name	

Title	

Department	Department Number

If you have nothing to report, please write *NONE*.

Reported Activity or Circumstance



Gift /Benefit Declaration Report Part II

The employee's Supervisor **and** the Director of Human Resources complete Part II of the Gift/Benefit Declaration Report.

1. What is the specific action recommended or required for the employee to take?

2. The following written directive was given to the employee on (specify date)

3. The employee must take the above action by (specify deadline date)

Supervisor's Name and Title

Supervisor's Signature

Date

Director of Human Resources
Name

Director's Signature

Date