

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

Written Agreement by and among

PEOPLES, INC.
Lawrence, Kansas

PEOPLES BANK
Lawrence, Kansas

and

FEDERAL RESERVE BANK OF KANSAS CITY
Kansas City, Missouri

Docket Nos. 09-194-WA/RB-HC
09-194-WA/RB-SM

WHEREAS, Peoples, Inc., Lawrence, Kansas (“Peoples”) is a registered bank holding company that owns and controls Peoples Bank, Lawrence, Kansas (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, two national banks, and various nonbank subsidiaries;

WHEREAS, in recognition of their common goal to maintain the financial soundness of Peoples and the Bank, Peoples, the Bank, and the Federal Reserve Bank of Kansas City (the “Reserve Bank”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on January 27, 2010, Peoples’ and the Bank’s boards of directors, at duly constituted meetings, adopted resolutions authorizing and directing Wint Winter, Jr. to consent to this Agreement on behalf of Peoples and the

Bank, respectively, and consenting to compliance with each and every applicable provision of this Agreement by Peoples, the Bank, and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u) and 1818(b)(3)).

NOW, THEREFORE, Peoples, the Bank, and the Reserve Bank agree as follows:

Board Oversight

1. Within 90 days of this Agreement, the Bank’s board of directors shall submit to the Reserve Bank a written plan to strengthen board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the board of directors will take 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, credit risk management, earnings, and liquidity; and

(b) a description of 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 adversely classified assets, allowance for loan and lease losses, capital, earnings, and liquidity.

Credit Risk Management

2. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan to strengthen credit risk management practices. The plan shall, at a minimum, address, consider, and include:

(a) The responsibility of the board of directors to establish appropriate risk tolerance guidelines and risk limits;

- (b) procedures to periodically review and revise risk exposure limits to address changes in market conditions;
 - (c) strategies to minimize credit losses and reduce the level of problem assets;
- and
- (d) procedures to identify, limit, and manage concentrations of credit that are consistent with the Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, dated December 12, 2006 (SR 07-1), including, but not limited to, establishment of concentration of credit risk tolerances or limits by types of loan products, geographic locations, and other common risk characteristics.

Credit Administration

3. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable revised written credit administration program that shall, at a minimum, address, consider, and include:

- (a) Measures to ensure the appropriate valuation of collateral through timely procurement of new appraisals and the adoption of the most appropriate values stated in the appraisals;
- (b) written standards for when reappraisals and reevaluations must be conducted;
- (c) enhancements to the internal loan grading system to ensure timely and accurate risk ratings; and
- (d) adequate staffing of the loan workout function by qualified individuals.

Asset Improvement

4. The Bank shall not, directly or indirectly, extend, renew, or restructure any credit to or for the benefit of any borrower, including any related interest of the borrower, whose loans or other extensions of credit are criticized in the report of examination of the Bank conducted by the Reserve Bank that commenced on June 1, 2009 (the "Report of Examination") or in any subsequent report of examination, without the prior approval of a majority of the full board of directors or a designated committee thereof. The board of directors or its committee shall document in writing the reasons for the extension of credit, renewal, or restructuring, specifically certifying that: (i) the Bank's risk management policies and practices for loan workout activity are acceptable; (ii) the extension of credit is necessary to improve and protect the Bank's interest in the ultimate collection of the credit already granted and maximize its potential for collection; (iii) the extension of credit reflects prudent underwriting based on reasonable repayment terms and is adequately secured; and all necessary loan documentation has been properly and accurately prepared and filed; (iv) the Bank has performed a comprehensive credit analysis indicating that the borrower has the willingness and ability to repay the debt as supported by an adequate workout plan, as necessary; and (v) the board of directors or its designated committee reasonably believes that the extension of credit will not impair the Bank's interest in obtaining repayment of the already outstanding credit and that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the meetings of the board of directors or its committee, as appropriate, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower's credit file for subsequent supervisory review. For purposes of this Agreement, the term "related interest" is defined as set

forth in section 215.2(n) of Regulation O of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. § 215.2(n)).

5. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan designed to improve the Bank’s position through repayment, amortization, liquidation, additional collateral, or other means on each loan or other asset in excess of \$250,000, including other real estate owned (“OREO”), that: (i) is past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) is on the Bank’s problem loan list; or (iii) was adversely classified in the Report of Examination. In developing the plan for each loan, the Bank shall, at a minimum, review, analyze, and document the financial position of the borrower, including source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank’s collateral position.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$250,000, including OREO: (i) becomes past due as to principal or interest for more than 90 days; (ii) is on the Bank’s problem loan list; or (iii) is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank an acceptable written plan to improve the Bank’s position on such loan or asset.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank’s current problem loan list, a list of all loan renewals and extensions without full collection of interest in the last quarter, and past due/non-accrual report. The board of directors shall review the progress

reports before submission to the Reserve Bank and shall document the review in the minutes of the board of directors' meetings.

Allowance for Loan and Lease Losses

6. (a) Within 10 days of this Agreement, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "loss" in the Report of Examination that have not been previously collected in full or charged off. Thereafter, the Bank shall, within 30 days from the receipt of any federal or state report of examination, charge off all assets classified "loss" unless otherwise approved in writing by the Reserve Bank.

(b) Within 60 days of this Agreement, the Bank shall review and revise its allowance for loan and lease losses ("ALLL") methodology consistent with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 (SR 01-17 (Sup)) and December 13, 2006 (SR 06-17), and the findings and recommendations regarding the ALLL set forth in the Report of Examination, and submit a description of the revised methodology to the Reserve Bank. The revised ALLL methodology shall be designed to maintain an adequate ALLL and shall address, consider, and include, at a minimum, 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 collectibility.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure adherence to the revised ALLL methodology and

provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. 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 ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of ALLL for that quarter.

Capital Plan

7. Within 60 days of this Agreement, Peoples shall submit to the Reserve Bank an acceptable written plan to maintain sufficient capital on a consolidated basis and Peoples and the Bank shall submit to the Reserve Bank an acceptable joint written plan to maintain sufficient capital at the Bank as a separate legal entity on a stand-alone basis. The plans shall, at a minimum, address, consider, and include, as applicable:

(a) Peoples' current and future capital requirements, including compliance with the Capital Adequacy Guidelines for Bank Holding Companies: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and D of Regulation Y of the Board of Governors (12 C.F.R. Part 225, App. A and D);

(b) the Bank's current and future capital needs, including compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure and Tier 1

Leverage Measure, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(c) the adequacy of the Bank's capital, taking into account the volume of classified credits, concentrations of credit, ALLL, current and projected asset growth, and projected retained earnings;

(d) the source and timing of additional funds to fulfill the Bank's future capital requirements; and

(e) the requirements of section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)) that Peoples serve as a source of strength to each of its subsidiary banks.

8. Peoples and the Bank shall notify the Reserve Bank, in writing, no more than 30 days after the end of any quarter in which any of Peoples' consolidated capital ratios or the Bank's capital ratios (total risk-based, Tier 1, or leverage) fall below the approved capital plans' minimum ratios. Together with the notification, Peoples and the Bank shall submit an acceptable written plan that details the steps Peoples or the Bank, as appropriate, will take to increase Peoples' or the Bank's capital ratios to or above the approved capital plans' minimums.

Liquidity/Funds Management

9. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan designed to improve management of the Bank's liquidity position and funds management practices, including, but not limited to:

(a) The establishment of specific liquidity targets and parameters; and

(b) the maintenance of sufficient liquidity to meet contractual obligations and unanticipated demands.

10. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written contingency funding plan that, at a minimum, includes appropriate adverse scenario planning and risk limits.

Investment Portfolio Management

11. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank acceptable written policies and procedures to strengthen the management of the Bank's investment portfolio, including but not limited to:

- (a) Periodic written analysis of the investment portfolio; and
- (b) procedures to assess for impairments and to ensure that the Bank's valuation processes and impairment analyses, including recognition of Other Than Temporary Impairment, are in accordance with generally accepted accounting principles, including FASB Staff Position (FSP) FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other Than Temporary Impairments*, and regulatory reporting instructions.

Earnings Plan and Budget

12. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank a written business plan for 2010 to improve the Bank's earnings and overall condition. The plan, at a minimum, shall provide for or describe:

- (i) a realistic and comprehensive budget for 2010, including income statement and balance sheet projections; and
- (ii) a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components.

(b) A business plan and budget for each calendar year subsequent to 2010 shall be submitted to the Reserve Bank at least 30 days prior to the beginning of that calendar year.

Dividends

13. (a) Peoples and the Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director of the Division of Banking Supervision and Regulation of the Board of Governors (the “Director”).

(b) Peoples shall not take any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank.

(c) Peoples shall not, without the prior written approval of the Reserve Bank, take dividends or any other form of payment representing a reduction in capital from any other subsidiary bank that, at any time during the term of this Agreement, is subject to any restriction by the institution’s federal regulator that limits the payment of dividends or other intercorporate payments.

(d) Peoples and its nonbank subsidiaries shall not make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Director.

(e) All requests for prior approval shall be received at least 30 days prior to the proposed dividend declaration date, proposed distribution on subordinated debentures, and required notice of deferral on trust preferred securities. All requests shall contain, at a minimum, current and projected information on Peoples’ capital, earnings, and cash flow; the Bank’s, or, as appropriate, any other subsidiary bank’s capital, asset quality, earnings and ALLL needs; and identification of the sources of funds for the proposed payment or distribution. For requests to

declare or pay dividends, Peoples and the Bank, as appropriate, must also demonstrate that the requested declaration or payment of dividends is consistent with the Board of Governors' Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323).

Debt and Stock Redemption

14. (a) Peoples and its nonbank subsidiaries shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank. All requests for prior written approval shall 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.

(b) Peoples shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

Compliance with Laws and Regulations

15. (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, Peoples and the Bank shall comply with the notice provisions of section 32 of the FDI Act (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) Peoples 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).

Compliance with the Agreement

16. (a) Within 10 days of this Agreement, Peoples' and the Bank's boards of directors shall appoint a joint committee (the "Compliance Committee") to monitor and coordinate Peoples' and the Bank's compliance with the provisions of this Agreement. The Compliance Committee shall include a majority of outside directors who are not executive officers or principal shareholders of Peoples and the Bank, as defined in sections 215.2(e)(1) and 215.2(m)(1) of Regulation O of the Board of Governors (12 C.F.R. §§ 215.2(e)(1) and 215.2(m)(1)). At a minimum, the Compliance Committee shall meet at least monthly, keep detailed minutes of each meeting, and report its findings to the boards of directors of Peoples and the Bank.

(b) Within 30 days after the end of each calendar quarter following the date of this Agreement, Peoples and the Bank shall submit to the Reserve Bank joint 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 Plans, Programs, Policies, and Procedures

17. (a) The Bank and, as applicable, Peoples shall submit written plans, programs, policies, and procedures that are acceptable to the Reserve Bank within the applicable time periods set forth in paragraphs 2, 3, 5, 6(c), 7, 8, 9, 10, and 11 of this Agreement.

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

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

Communications

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

- (a) Ms. Susan E. Zubradt
Vice President
Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64198
- (b) Mr. Winton Winter, Jr.
Executive Vice President and General Counsel
Peoples, Inc.
Chief Executive Officer
Peoples Bank
4831 West Sixth Street
Lawrence, Kansas 66049

Miscellaneous

19. Notwithstanding any provision of this Agreement, the Reserve Bank may, in its sole discretion, grant written extensions of time to Peoples and the Bank to comply with any provision of this Agreement.

20. The provisions of this Agreement shall be binding upon Peoples, the Bank, and their institution-affiliated parties, in their capacities as such, and their successors and assigns.

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

22. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, or any other federal or state agency from taking any

other action affecting Peoples, the Bank, any other bank or nonbank subsidiary of Peoples, or any of their current or former institution-affiliated parties and their successors and assigns.

23. 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).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 27th day of January, 2010.

PEOPLES, INC.

FEDERAL RESERVE BANK OF
KANSAS CITY

By: /s/ Wint Winter, Jr.
Wint Winter Jr.
Chairman of the Board

By: /s/ Susan E. Zubradt
Susan E. Zubradt
Vice President

PEOPLES BANK

By: /s/ Wint Winter, Jr.
Wint Winter, Jr.
Chief Executive Officer