

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

_____)	
Written Agreement by and between)	
)	
BARNES BANKING COMPANY)	Docket No. 03-006-WA/RB-SM
Kaysville, Utah)	
)	
and)	
)	
FEDERAL RESERVE BANK OF)	
SAN FRANCISCO)	
San Francisco, California)	
_____)	

WHEREAS, in recognition of their common goal to maintain the financial soundness of the Barnes Banking Company, Kaysville, Utah (the "Bank"), a state chartered bank that is a member of the Federal Reserve System, the Bank and the Federal Reserve Bank of San Francisco (the "Reserve Bank") have mutually agreed to enter into this Written Agreement (the "Agreement");

WHEREAS, as the result of the identification of deficiencies, the Bank is taking steps to enhance and improve its policies and procedures for complying with the Currency and Foreign Transactions Reporting Act (31 U.S.C. 5311 et seq.) and the accompanying regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. 103.11 et seq.) (collectively referred to as the Bank Secrecy Act (the "BSA")), and with the applicable provisions of Regulation H (12 C.F.R. 208.62 and 208.63) of the Board of Governors of the Federal Reserve System (the "Board of Governors"), and

WHEREAS, on March 12, 2003, the board of directors, at a duly constituted meeting, adopted a resolution authorizing and directing Curtis H. Harris, to

enter into this Agreement on behalf of the Bank, and consenting to compliance by the Bank and its institution-affiliated parties, as defined in section 3(u) of the Federal Deposit Insurance Act, as amended (the "FDI Act") (12 U.S.C. 1813(u)), with each and every provision of this Agreement.

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

Bank Secrecy Act

1. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable enhanced customer due diligence program. The program shall be designed to reasonably ensure the identification and timely, accurate, and complete reporting of known or suspected criminal activity committed against or involving the Bank to law enforcement and supervisory authorities as required by the suspicious activity reporting provisions of Regulation H of the Board of Governors (12 C.F.R. 208.62). The enhanced customer due diligence program shall include:

- (a) A risk focused assessment of the customer base of the Bank to:
 - (i) identify the categories of customers whose transactions do not require monitoring because of the routine and usual nature of their banking activities; and
 - (ii) determine the appropriate level of enhanced due diligence necessary for those categories of customers that the Bank has reason to believe pose a heightened risk of illicit activities at or through the Bank.

- (b) For those customers whose transactions require enhanced due diligence, procedures to:
 - (i) determine the appropriate documentation necessary to confirm the identity and business activities of the customer;
 - (ii) understand the normal and expected transactions of the customer; and
 - (iii) report suspicious activities in compliance with existing reporting requirements set forth in section 208.62 of Regulation H of the Board of Governors (12 C.F.R. 208.62).

2. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written compliance program, as required by applicable provisions of Regulation H of the Board of Governors (12 C.F.R. 208.63) and the BSA (31 U.S.C. 5318(h)), designed to ensure and maintain compliance with all provisions of the BSA. The program shall, at a minimum, include all elements required by Regulation H, but not be limited to:

- (a) Adequate internal controls to ensure BSA compliance;
- (b) independent testing of compliance with the BSA and the rules and regulations issued thereunder, including all steps necessary to ensure that compliance audits are performed frequently, are fully documented, and are conducted with the appropriate segregation of duties;
- (c) all steps necessary to ensure that the Bank's BSA compliance program is managed by a qualified officer who shall have responsibility for all BSA compliance and related matters, and have adequate resources to implement and maintain an effective compliance program; and
- (d) the training of all appropriate personnel (including, but not limited to tellers, operations staff, and all customer contact personnel) conducted on a regular basis by competent personnel in all aspects of regulatory and internal policies and procedures related to the BSA.

3. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan designed to ensure compliance with the regulations of the U.S. Department of the Treasury's Office of Foreign Asset Control ("OFAC") (31 C.F.R. 500 et seq.), as well as any guidelines issued or administered by OFAC. The plan shall include, at a minimum, procedures to ensure that customer transactions are processed in accordance with

OFAC requirements and in accordance with a regularly updated list of entities and individuals whose transactions or assets are required to be blocked, frozen, or monitored.

Approval of Policies, Procedures, Programs, and Plan

4. The written programs and plan required by paragraphs 1, 2, and 3 of this Agreement shall be submitted to the Reserve Bank for review and approval. Acceptable programs and an acceptable plan shall be submitted within the time periods set forth in the Agreement. The Bank shall adopt all approved programs and the approved plan within 10 days of approval by the Reserve Bank and then shall fully comply with them. During the term of this Agreement, the Bank shall not amend or rescind the approved programs and plan without the prior written approval of the Reserve Bank.

Compliance with Agreement

5. (a) Within 15 days of this Agreement, the board of directors shall appoint a committee (the "Compliance Committee") to monitor and coordinate the Bank's compliance with the provisions of this Agreement. The Compliance Committee shall be comprised of a majority of outside directors who are not executive officers or principal shareholders of the Bank, as defined in section 215.2(m)(1) of Regulation O of the Board of Governors (12 C.F.R. 215.2(m)(1)). At a minimum, the Compliance Committee shall keep detailed minutes of each meeting, and shall report its findings to the board of directors on a monthly basis.

(b) Within 30 days after the end of each calendar quarter (March 31, June 30, September 30, and December 31) following the date of this Agreement, the board of directors shall furnish to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof. Such reports

may be discontinued when the corrections required by this Agreement have been accomplished and the Reserve Bank has, in writing, released the Bank from making further reports.

Communications

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

(a) Mr. Philip Ryan
Director
Federal Reserve Bank of San Francisco
101 Market Street
San Francisco, California 95105

(b) Mr. Curtis Harris
President and Chief Executive Officer
Barnes Banking Company
33 South Main Street
Kaysville, Utah 84037

Miscellaneous

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

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

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

10. 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 the Bank or any of its current or former institution-affiliated parties and their successors and assigns.

11. This Agreement is a "written agreement" for the purposes of, and is enforceable by the Board of Governors as an order issued 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 13th day of MARCH, 2003.

Barnes Banking Company

Federal Reserve Bank of San Francisco

By:

By: