

UNITED STATES OF AMERICA
BEFORE
THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC

STATE OF MONTANA
DIVISION OF BANKING AND FINANCIAL INSTITUTIONS
HELENA, MONTANA

Written Agreement by and among)
)
FIRST CITIZENS BANK OF BUTTE)
Butte, Montana)
)
FEDERAL RESERVE BANK)
OF MINNEAPOLIS)
Minneapolis, Minnesota)
)
and)
)
MONTANA DIVISION OF BANKING)
AND FINANCIAL INSTITUTIONS)
Helena, Montana)
_____)

Docket No. 05-020-WA/RB-SM

WHEREAS, in recognition of their common goal to ensure the safe and sound operation of First Citizens Bank of Butte, Butte, Montana (the "Bank"), a state chartered bank that is a member of the Federal Reserve System, the Federal Reserve Bank of Minneapolis (the "Reserve Bank"), the Montana Division of Banking and Financial Institutions (the "Division"), and the Bank have mutually agreed to enter into this Written Agreement (the "Agreement"); and

WHEREAS, on 6/21, 2005, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Casey Reilly, 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, the Reserve Bank, and the Division agree as follows:

Management Review

1. (a) Within 10 days of this Agreement, the Bank's board of directors shall conduct a review of the functions and performance of the Bank's officers and senior management and the staffing needs of the Bank (the "Management Review"), and shall prepare a written report of its findings and recommendations (the "Management Report"). The primary purpose of the Management Review shall be to aid in the development of a management and staff structure suitable to the Bank's needs that is adequately staffed by qualified and trained personnel. The Management Review shall, at a minimum, address, consider, and include:

- (i) The identification of the type and number of officer and staff positions needed to manage and properly supervise the affairs of the Bank;
- (ii) an evaluation of each officer and staff member to determine whether the individual possesses the authority, ability, experience, and other qualifications required to competently perform present and anticipated duties, including the ability to adhere to established policies and procedures of the Bank, to maintain the Bank in a safe and sound condition, and to comply with the requirements of this Agreement;
- (iii) a plan to recruit, hire, or appoint additional or replacement personnel with the requisite ability, experience, and other qualifications required to competently perform their assigned duties, including but not limited to staff in the information technology, operations, and compliance areas; and
- (iv) the deficiencies related to management and staffing noted in the report of the most recent examination of the Bank, which concluded on January 4, 2005 (the "Report of Examination").

(b) The Bank shall forward a copy of the Management Report to the Reserve Bank and the Division within 5 days of its completion, no later than 45 days after the date of this Agreement.

(c) Within 30 days of the completion of the Management Report, the Bank shall submit a written management and staffing plan to the Reserve Bank and the Division that fully addresses the findings and recommendations of the Management Report and describes the specific actions that the board of directors proposes to take in order to strengthen the Bank's management and staff.

Board Oversight

2. Within 90 days of this Agreement, the Bank's board of directors shall submit to the Reserve Bank and the Division 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) Maintenance of effective control over and supervision of operational risk, including an independent and effective audit function;
- (b) oversight of internal control systems;
- (c) oversight of the credit risk management program, including loan documentation and administration;
- (d) the responsibility of the board of directors to monitor management's adherence to approved policies and procedures, and compliance with applicable laws and regulations;
- (e) the identification and establishment of board of directors committees that are needed to provide guidance and oversight to Bank management; and
- (f) a description of the detailed information to be included in periodic reports that will be reviewed by the board of directors in its oversight of the operations and management of the Bank, including information sufficient to assess management's compliance with applicable written plans, policies, procedures, and programs.

Internal Controls

3. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division acceptable written policies and procedures designed to strengthen the Bank's internal controls. The procedures shall, at a minimum, address, consider, and include:

- (a) Maintenance of complete and accurate books and records, including financial reports and general ledger;
- (b) regular reconciliation of general and subsidiary ledger accounts, and timely resolution of open items;
- (c) account descriptions for all balance sheet and income statement items;
- (d) appropriate segregation of duties in all areas of the Bank's operations; and
- (e) corrective steps that address the internal controls deficiencies noted in the Report of Examination.

Internal Audit

4. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division acceptable written internal audit policies and procedures that shall, at a minimum, address, consider, and include:

- (a) The adoption of an audit committee charter formally outlining the committee's authority, composition, meeting frequency, and responsibilities;
- (b) procedures for the periodic assessment of the adequacy of internal controls and compliance with the Bank's policies and procedures, and with applicable laws and regulations for each audit area;
- (c) the establishment of audit procedures and an audit schedule to ensure that all areas of the Bank's balance sheet, income and expenses, and internal controls, including information technology operations, are audited at least annually;
- (d) improvement of the Bank's information technology audit function, including but not limited to, appropriate allocation of information technology audit resources and preparation of an annual information

technology audit plan that details the scope, nature, frequency, and scheduling of all information technology audit work;

- (e) the criteria for outsourcing audits where specialized expertise is needed, including the audits of information technology operations;
- (f) procedures for management to review audit reports quarterly, respond in writing to criticisms in audit reports, and implement corrective actions that are responsive to the audit findings;
- (g) direct reporting to the Audit Committee for all audit findings and reports, as well as management responses; and
- (h) corrective steps to address the criticisms of the audit and internal control functions noted in the Report of Examination, including information technology deficiencies.

Bank Secrecy Act and Regulation H Compliance

5. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written anti-money laundering program designed to improve the Bank's compliance with the Bank Secrecy Act ("BSA") and the rules and regulations issued thereunder, as required by section 208.63 of Regulation H of the Board of Governors (12 C.F.R. 208.63). The program, at a minimum, shall provide for:

- (a) Adequate internal controls to ensure compliance with the BSA and rules and regulations issued thereunder;
- (b) independent testing of compliance with the BSA and the rules and regulations issued thereunder;
- (c) the management of the anti-money laundering program by a qualified compliance officer; and
- (d) the training of all appropriate personnel conducted on a regular basis by qualified personnel in all aspects of regulatory compliance and internal policies and procedures related to the BSA.

Loan Policy Compliance and Documentation Deficiency Corrections

6. Within 60 days of this Agreement, the Bank shall take all steps necessary to ensure compliance with the Bank's written loan policies and procedures, and take all steps to

correct all documentation and credit information deficiencies and loan policy exceptions noted in the Report of Examination, including obtaining accurate and current financial statements and appraisals. During the term of this Agreement, the Bank shall maintain current and complete documentation on all loans consistent with its approved loan policies. In all cases where the Bank is unable to obtain needed documentation or credit information, it shall document the actions taken to secure the information and the reason the information could not be obtained, and shall maintain such documentation in the appropriate file for subsequent supervisory review.

Compliance with Laws and Regulations

7. The Bank shall immediately take all necessary steps consistent with sound banking practices to correct all violations of laws and regulations set forth in the Report of Examination. In addition, the Bank shall take necessary steps to ensure the Bank's future compliance with all applicable laws and regulations.

Compliance Committee and Periodic Reporting

8. (a) Within 15 days of this Agreement, the board of directors of the Bank shall appoint a joint 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 three or more outside directors who are not executive officers or principal shareholders of the Bank, as defined in sections 215.2(e)(1) and (m) of Regulation O of the Board of Governors (12 C.F.R. 215.2(e)(1) and (m)). 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 (June 30, September 30, December 31, March 31) following the date of this Agreement, the board of

directors of the Bank shall submit to the Reserve Bank and the Division 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 and the Division have, in writing, released the Bank from making further reports.

Approval of Policies, Procedures, and Program

9. The written policies, procedures, and program required by paragraphs 3, 4, and 5 of this Agreement shall be submitted to the Reserve Bank and the Division for review and approval. Acceptable policies and procedures, and an acceptable program shall be submitted within the time periods set forth in this Agreement. The Bank shall adopt the approved policies, procedures, and program within 10 days of approval by the Reserve Bank and the Division and then shall fully comply with them. During the term of this Agreement, the approved policies, procedures, and program shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Division.

Communications

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

- (a) Mr. Mark A. Rauzi
Assistant Vice President
Division of Supervision, Regulation, and Credit
Community Bank Supervision
Federal Reserve Bank of Minneapolis
90 Hennepin Avenue
P.O. Box 291
Minneapolis, MN 55401

(b) Ms. Annie M. Goodwin
Commissioner
State of Montana
Division of Banking and Financial Institutions
301 South Park Street, Suite 316
Helena, MT 59620

(c) ~~Mr. Herb Kelsey~~ Casey Reilly
~~President~~ Chief Executive Officer
First Citizens Bank of Butte
3220 Harrison Avenue
Butte, MT 59701-3542

Miscellaneous

11. Notwithstanding any provision of this Agreement to the contrary, the Reserve Bank and the Division may, in their sole discretion, grant written extensions of time to the Bank to comply with any provision of this Agreement.

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

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

14. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors of the Federal Reserve System ("Board of Governors"), the Reserve Bank, the Division 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 its successors and assigns.

15. 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).

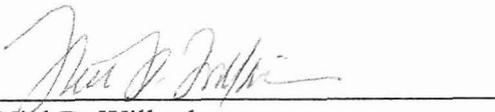
IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of this 30th day of June, 2005.

First Citizens Bank of Butte

By: 
Herb Kelsey
President

CEO
CASEY Reilly

Federal Reserve Bank of Minneapolis

By: 
Niel D. Willardson
Senior Vice President

**Montana Division of Banking and
Financial Institutions**

By: 
Annie M. Goodwin
Commissioner