

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

UTAH STATE DEPARTMENT OF FINANCIAL INSTITUTIONS
SALT LAKE CITY, UTAH

Written Agreement by and among)	
)	
CACHE VALLEY BANKING COMPANY)	
Logan, Utah)	
)	
CACHE VALLEY BANK)	Docket Nos. 04-008-WA/RB-HC
Logan, Utah)	04-008-WA/RB-SM
)	
FEDERAL RESERVE BANK)	
OF SAN FRANCISCO)	
San Francisco, California)	
)	
and)	
)	
UTAH STATE DEPARTMENT OF)	
FINANCIAL INSTITUTIONS)	
Salt Lake City, Utah)	

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of Cache Valley Banking Company, Logan, Utah (“Cache Valley”), a registered bank holding company, and its subsidiary bank, the Cache Valley Bank, Logan, Utah (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, Cache Valley, the Bank, the Federal Reserve Bank of San Francisco (the “Reserve Bank”), and the Utah State Department of Financial Institutions (the “UDFI”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on April 19, 2004 the boards of directors of Cache Valley and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing J. Gregg Miller, President, to enter into this Agreement on behalf of Cache Valley and the Bank, respectively, and consenting to compliance by Cache Valley, 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)), with each and every applicable provision of this Agreement.

NOW, THEREFORE, Cache Valley, the Bank, the Reserve Bank, and the UDFI agree as follows:

Management Review

1. (a) Within 30 days of this Agreement, the Bank's board of directors shall retain an independent consultant (the "Management Consultant") acceptable to the Reserve Bank and the UDFI to conduct a review of the functions and performance of the Bank's officers (the "Management Review"), and prepare a written report of findings and recommendations (the "Management Consultant's Report"). The primary purpose of the Management Review shall be to aid in the development of a management structure suitable to the Bank's needs that is adequately staffed by qualified and trained personnel. The terms of the contract with the Management Consultant shall require that the Management Review be completed within 45 days of the retention of the Management Consultant and that the Management Consultant's Report be submitted to the Bank's board of directors within 10 days of the completion of the Management Review. The Management Review shall, at a minimum, address, consider, and include:

- (i) An evaluation of each officer to determine whether the individual possesses the ability, experience, and other qualifications required to perform competently present and anticipated duties, including the 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; and

- (ii) a plan to recruit, hire, or appoint additional or replacement personnel with the requisite ability, experience, and other qualifications required to perform competently their assigned duties.

(b) The Bank shall forward a copy of the Management Consultant's Report to the Reserve Bank and the UDFI at the same time that it is provided to the Bank.

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

(d) In appointing any new officers or directors, 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 of the Federal Reserve System.

(e) 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) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

Board Oversight

2. Within 60 days of this Agreement, the Bank's board of directors shall submit to the Reserve Bank and the UDFI 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 composition of the board of directors to ensure that it has the appropriate independence from Bank management to carry out the board of directors' oversight responsibilities;

- (b) 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 senior management and major operations and activities, including, at a minimum: (i) the credit risk management program, including loan underwriting, documentation, grading, and administration; and (ii) compliance programs;
- (c) the responsibility of the board of directors to monitor management's adherence to approved policies and procedures, and applicable laws and regulations;
- (d) a description of the detailed information to be included in the periodic reports that will be reviewed by the board of directors in its oversight of the operations and management of the Bank; and
- (e) the deficiencies related to the board of directors' oversight of management noted in the report of the examination of the Bank conducted jointly by the Reserve Bank and the UDFI in July 2003 (the "Report of Examination") and the deficiencies noted at the Reserve Bank's targeted examination of the Bank conducted in March 2004 (the "2004 Examination").

Loan Policies and Procedures

3. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the UDFI acceptable revised written loan policies and procedures that shall, at a minimum, address, consider, and include:
- (i) Periodic analysis of current credit and cash flow information during the term of the extension of credit;
 - (ii) procedures for exceptions to the Bank's loan policies, including required documentation by the account officer and approval by the board of directors that the exception to the policies is in the best interest of the Bank; and
 - (iii) the deficiencies noted in the Report of Examination and the 2004 Examination.
- (b) The Bank's board of directors and management shall take all steps necessary to ensure compliance with the Bank's written loan policies and procedures.

Loan Administration

4. (a) Within 60 days of this Agreement, the Bank shall take all steps necessary to correct all documentation and credit information deficiencies 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, the reason the information could not be obtained, and shall maintain such documentation in the appropriate file for subsequent supervisory review.

(b) The Bank shall not accrue interest on any asset that is or becomes 90 days or more past due as to principal or interest, unless such asset is “well-secured” and “in the process of collection” as those terms are used in the Instructions for the Preparation of Reports of Condition and Income.

(c) The Bank shall not accept overdrafts as loan payments.

(d) The Bank shall not pay any overdrafts or pay on any nonsufficient funds transactions on or for the account of any borrower, including any related interest of the borrower, who is obligated in any manner to the Bank on any extension of credit or portion thereof that has been charged-off by the Bank or classified “loss,” “doubtful,” or “substandard” in the Report of Examination or in any subsequent report of examination as long as such credit remains uncollected.

(e) The Bank shall not extend any additional credit to any borrower, including any related interest of the borrower, who is obligated in any manner to the Bank on any extension of credit or portion thereof that has been charged-off by the Bank or classified “loss,”

“doubtful,” or “substandard” in the Report of Examination or in any subsequent report of examination as long as such credit remains uncollected unless: (i) the proposed transaction is approved by the Bank’s board of directors; and (ii) the Bank provides written notice of the proposed transaction to the Reserve Bank and the UDFI at least 10 days before the request for credit approval is presented to the Bank’s board of directors.

Loan Review

5. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the UDFI an acceptable revised written loan review program. The program shall be designed to identify, categorize, and monitor problem credits, to assess the overall quality of the Bank’s loan portfolio, and to address the loan review deficiencies described in the Report of Examination.

The program shall, at a minimum, address, consider, and include the following:

- (a) The scope and frequency of the loan review;
- (b) procedures for the independent review of all risk grades assigned by the Bank’s loan officers to confirm their accuracy; and
- (c) periodic reporting to the Bank’s board of directors of the status of the loan reviews and the actions taken by management to improve the Bank’s position on each loan adversely graded.

Asset Improvement

6. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the UDFI 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 \$100,000 that was past due as to principal or interest more than 90 days as of the date of this Agreement, is on the Bank’s watch list, or that was adversely classified or listed as special mention in the Report of Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$100,000 becomes past due as to principal and interest for more than 90 days, is adversely classified internally by the Bank, or is adversely classified or listed for special mention in any subsequent report of examination or visitation of the Bank, the Bank shall submit to the Reserve Bank and the UDFI an acceptable written plan to improve the Bank's position on such loan or asset.

(c) The plan for each loan or other asset shall be formally approved by the Bank's loan committee and shall, at a minimum, include:

- (i) The current status of the loan or other asset, including book and nonbook carrying value;
- (ii) financial analysis that is based on current cash flows and collateral valuations;
- (iii) proposed actions to improve, reduce, or eliminate the loan or other asset, including collection or sale of collateral, and realistic time frames for such actions; and
- (iv) where appropriate, the borrower's acknowledgement of and response to the plan.

(d) Within 30 days of the end of the next calendar quarter following the due date for submission of the initial asset improvement plans, and within 30 days of the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank and the UDFI to update the asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset, changes in the nature and value of supporting collateral, and a copy of the Bank's current internal watch list, time renewal report, extension report, and past due/non-accrual report.

Allowance for Loan and Lease Losses

7. (a) The Bank shall maintain, through charges to current operating income, an adequate valuation reserve for loan and lease losses (the "ALLL"). The adequacy of the ALLL shall be determined in light of the volume of criticized loans, the current level of past due and nonperforming loans, past loan loss experience, evaluation of the probable losses in the Bank's loan portfolio, including the potential for the existence of unidentified losses in loans adversely classified, the imprecision of loss estimates, the requirements of the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated December 21, 1993 and July 2, 2001, and examiners' criticisms noted in the Report of Examination.

(b) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the UDFI a description of the methodology used to determine the amount of the Bank's ALLL. The Bank shall conduct, at least on a calendar quarterly basis, an assessment of its ALLL and, within 30 days of the end of each calendar quarter, shall submit to the Reserve Bank and the UDFI the quarterly assessment, including the methodology used in determining the amount of ALLL for that quarter. The Bank shall maintain for subsequent supervisory review documentation to support the methodology used for each quarterly assessment.

Compliance with Laws and Regulations

8. The Bank's board of directors shall take all necessary steps to ensure the Bank's future compliance with all applicable laws and regulations, including, but not limited to Utah Code Section 7-3-19, Limitations on Loans and Extension of Credit, and Section 7-3-26, Overdrafts as Assets; and Utah Administrative Code Section R331-23, Lending Limits for Banks, and Section R333-11-4, Limitation on Holding of Other Real Estate Owned.

Regulatory Communications and Cooperation

9. (a) Cache Valley and the Bank shall ensure complete and prompt access to all documentation requested by the Reserve Bank and the UDFI as needed to fulfill regulatory and supervisory responsibilities.

(b) The Bank shall promptly report to the Reserve Bank and the UDFI any violations of any applicable federal or state laws or regulations, and any violations of any conditions imposed in connection with any exemptions from state law or regulation granted by the UDFI.

Dividends

10. (a) Cache Valley and the Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors, and the UDFI. All requests for prior approval shall be received by the Reserve Bank and the UDFI at least 30 days prior to the proposed dividend declaration date and shall contain, but not be limited to, current and projected information on consolidated earnings, and cash flow, capital, asset quality, and ALLL needs of the Bank.

(b) Cache Valley shall not take dividends or any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank and the UDFI.

Debt and Stock Redemption

11. (a) Cache Valley shall not, directly or indirectly, incur any debt without the prior written approval of the Reserve Bank and the UDFI. 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) Cache Valley and the Bank shall not redeem any stock without the prior written approval of the Reserve Bank and the UDFI.

Compliance with Agreement

12. Within 30 days after the end of each calendar quarter (June 30, September 30, December 31, and March 31) following the date of this Agreement, the boards of directors of Cache Valley and the Bank shall submit to the Reserve Bank and the UDFI 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 UDFI have, in writing, released Cache Valley and the Bank from making further reports.

Approval of Policies, Procedures, Plan, and Program

13. The written policies, procedures, plan, and program and the identification of the independent consultant required by paragraphs 1(a), 3, 5, and 6 of the Agreement shall be submitted to the Reserve Bank and the UDFI for review and approval. Acceptable policies and procedures, and an acceptable plan and program shall be submitted within the time periods set forth in the Agreement and an acceptable independent consultant shall be retained within the time period set forth in paragraph 1(a). The Bank shall adopt the approved policies, procedures, plan, and program within 10 days of approval by the Reserve Bank and the UDFI and then shall fully comply with them. During the term of this Agreement, the approved policies, procedures, plan, and program shall not be amended or rescinded without the prior written approval of the Reserve Bank and the UDFI.

Communications

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

- (a) Mr. Philip Ryan
Director, Banking Applications and Enforcement
Federal Reserve Bank of San Francisco
101 Market Street
Mail Stop 615
San Francisco, California 94105
- (b) Mr. James K. Thomas
Supervisor of Banks, State of Utah
Department of Financial Institutions
P.O. Box 146800
Salt Lake City, Utah 84114-6800
- (c) Mr. J. Gregg Miller
President and Chief Executive Officer
Cache Valley Bank
101 N. Main Street
P.O. Box 3227
Logan, Utah 84321-4525
- (d) Mr. N. George Daines
Barrett & Daines
108 North Main Street
Logan, Utah 84321

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

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

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


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

19. 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).

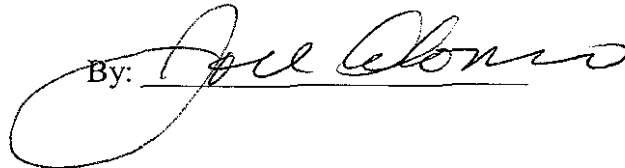
IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 19th day of APRIL, 2004.

Cache Valley Banking Company


Federal Reserve Bank of San Francisco

By: 
APR 17, 2004

Cache Valley Bank

By: 

Utah State Department of
Financial Institutions

By: 
April 17, 2004

By: 