

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)	
)	
UTAH BANCSHARES, INC.)	
Ephraim, Utah)	
)	
BANK OF EPHRAIM)	Docket Nos. 04-007-WA/RB-HC
Ephraim, Utah)	04-007-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 Utah Bancshares, Inc., Ephraim, Utah ("Utah Bancshares"), a registered bank holding company, and its subsidiary bank, the Bank of Ephraim, Ephraim, Utah (the "Bank"), a state chartered bank that is a member of the Federal Reserve System, Utah Bancshares, 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 May 11, 2004, the boards of directors of Utah Bancshares and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing CARL W. BARTON to enter into this Agreement on behalf of Utah Bancshares and the Bank, respectively, and consenting to compliance by Utah Bancshares, 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, Utah Bancshares, the Bank, the Reserve Bank, and the UDFI agree as follows:

Capital

1. Within 30 days of this Agreement, Utah Bancshares and the Bank shall submit to the Reserve Bank and the UDFI an acceptable joint written plan to achieve and maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include:

- (a) The Bank's current and future capital requirements, including compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measures and Tier 1 Leverage Measures, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);
- (b) any planned asset growth;
- (c) the level of the Bank's concentrations of credit;
- (d) the volume of the Bank's adversely classified assets;
- (e) the anticipated level of retained earnings;
- (f) the adequacy of the Bank's allowance for loan and lease losses (the "ALLL");
- (g) the risk profile of the Bank's asset and liability structure;

- (h) the source and timing of additional funds to fulfill the future capital and ALLL needs of the Bank; and
- (i) the requirements of section 225.4(a) of Regulation Y of the Board of Governors that Utah Bancshares serve as a source of strength to the Bank (12 C.F.R. 225.4(a)).

Management

2. (a) Within 60 days of this Agreement, Utah Bancshares and the Bank shall submit to the Reserve Bank and the UDFI a joint written plan to strengthen the Bank's executive management. The plan, at a minimum, shall address, consider, and include the hiring of additional senior officers and/or external consultants to:

- (i) Implement fully the corrective actions needed to restore and maintain the Bank to a safe and sound condition;
- (ii) correct the deficiencies and violations of law noted in the report of the examination of the Bank conducted jointly by the Reserve Bank and the UDFI in November 2003 (the "Report of Examination") and the report of the consumer affairs examination of the Bank conducted by the Reserve Bank in October 2003 (the "Consumer Affairs Report of Examination"); and
- (iii) comply with the requirements of this Agreement.

(b) In appointing any new officers or directors, Utah Bancshares 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.).

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

Board Oversight

3. 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 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, administration, and collections; (ii) the consumer compliance program; and (iii) profitability and the budget process;
- (b) the responsibility of the board of directors to monitor management's adherence to approved policies and procedures, and applicable laws and regulations; and
- (c) the deficiencies related to the board of directors' oversight of management noted in the Report of Examination and Consumer Affairs Report of Examination.

Loan Administration

4. 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:

- (a) Underwriting standards that require loan officers to assess the financial condition of the borrower, including an analysis of the borrower's repayment capacity, the identification of the sources of repayment, and the value of any supporting collateral;
- (b) periodic analysis of current credit, cash flow, and value of supporting collateral during the term of the extension of credit; and
- (c) the deficiencies noted in the Report of Examination and the Consumer Affairs Report of Examination.

Asset Improvement

5. (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 \$50,000 that was past due as to principal or interest more than 90 days as of the date of this Agreement, that 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 \$50,000 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

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 and the UDFI.

(b) The Bank shall maintain, through charges to current operating income, an adequate 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 related to: (i) the use of reliable collateral valuations; (ii) recognition of credit losses in a timely manner; (iii) correct calculation of the both the classified and pass ALLL factors; and (iv) the qualitative factors for delinquent loan trends.

(c) 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 to determine 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.

Consumer Affairs

7. The Bank shall immediately take all necessary steps to correct all violations of law and regulation set forth in the Consumer Affairs Report of Examination.

8. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the UDFI an acceptable written program to ensure the Bank's compliance with all applicable federal and state consumer protection laws and regulations. At a minimum, the program shall address, consider, and include:

- (a) The responsibilities of the board of directors and senior management for the oversight and direction of the Bank's compliance and fair lending activities;
- (b) sufficient authority and resources for the Bank employees responsible for compliance to (i) carry out assigned duties and responsibilities; and (ii) implement and maintain an effective compliance program;
- (c) compliance procedures for each Bank product subject to consumer protection laws and regulations, including but not limited to: (i) disclosure statement requirements; (ii) standardized underwriting and loan documentation requirements to ensure compliance with fair lending laws and regulations; and (iii) due diligence requirements for proposed new products or services;
- (d) compliance controls and internal reviews designed to ensure adherence to the Bank's policies and procedures and applicable consumer laws and regulations;

- (e) independent internal audit;
- (f) periodic reports to the Bank's board of directors and management;
- (g) training designed to ensure that all current and future directors, officers, and employees of the Bank develop and maintain a sufficient understanding of the requirements of all consumer laws and regulations that pertain to their respective responsibilities; and
- (h) the deficiencies noted in the Consumer Affairs Report of Examination.

Strategic Plan and Budget

9. (a) Within 60 days of this Agreement, Utah Bancshares and the Bank shall jointly submit to the Reserve Bank and the UDFI a written strategic business plan for the remainder of 2004 to improve the earnings and overall condition for the Bank. The plan, at a minimum, shall provide for or describe:

- (i) The identification of the major areas in and means by which the board of directors will seek to improve the Bank's operating performance;
- (ii) management, lending, and earnings objectives, appropriate to the Bank's condition, and specific strategies for achieving such objectives;
- (iii) a realistic and comprehensive budget;
- (iv) a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components and provisions needed to establish and maintain an adequate loan loss reserve; and
- (v) a budget review process incorporating the use of pro forma income statements in the analysis of budgeted versus actual income and expenses.

(b) A business plan and budget for each calendar year subsequent to 2004 shall be submitted to the Reserve Bank and the UDFI at least one month prior to the beginning of that calendar year.

(c) During the term of this Agreement, the Bank shall submit to the Reserve Bank and the UDFI quarterly reports of the variance of actual income and expenses from the budgetary projections, including a narrative explanation of any significant variances.

Dividends

10. (a) Utah Bancshares 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) Utah Bancshares 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) Utah Bancshares 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) Utah Bancshares and the Bank shall not redeem any stock without the prior written approval of the Reserve Bank and the UDFI.

Compliance with Agreement

12. (a) Within 15 days of this Agreement, the boards of directors of Utah Bancshares and the Bank shall appoint a joint committee (the "Compliance Committee") to monitor and coordinate Utah Bancshares's and 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 Utah Bancshares or 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 boards of directors on a monthly basis.

(b) 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 Utah Bancshares 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 Utah Bancshares and the Bank from making further reports.

Approval of Policies, Procedures, Plans, and Program

13. The written policies, procedures, plans, and program required by paragraphs 1, 4, 5, and 8 of this Agreement shall be submitted to the Reserve Bank and the UDFI for review and approval. Acceptable policies, procedures, plans, and an acceptable program shall be submitted within the time periods set forth in the Agreement. The Bank and, where applicable, Utah

Bancshares shall adopt the approved policies, procedures, plans, 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, plans, 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. Keith Church
President and Chief Executive Officer
Bank of Ephraim
P.O. Box 705
Ephraim, Utah 84627-0705

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 Utah Bancshares and the Bank to comply with any provision of this Agreement.

16. The provisions of this Agreement shall be binding upon Utah Bancshares, 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 Utah Bancshares 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 11th day of May, 2004.

Utah Bancshares, Inc.

Federal Reserve Bank of San Francisco

By: Carl W. Bant
President

By: [Signature]

Bank of Ephraim

Utah State Department of
Financial Institutions

By: Carl W. Bant
Chairman

By: [Signature]