

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

STATE OF KANSAS
OFFICE OF THE STATE BANK COMMISSIONER
TOPEKA, KANSAS

Written Agreement by and among

1ST FINANCIAL BANK
Overland Park, Kansas

FEDERAL RESERVE BANK OF KANSAS CITY
Kansas City, Missouri

and

STATE OF KANSAS
OFFICE OF THE STATE BANK
COMMISSIONER
Topeka, Kansas

Docket No. 09-063-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of 1st Financial Bank, Overland Park, Kansas (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, the Bank, the Federal Reserve Bank of Kansas City (the “Reserve Bank”), and the State of Kansas Office of the State Bank Commissioner (the “OSBC”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on June 16, 2009, the board of directors, at a duly constituted meeting, adopted a resolution authorizing and directing Michael Acheson to consent to this Agreement on behalf of the Bank and consenting to compliance with each and every provision of this Agreement 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)).

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

Board Oversight

1. Within 60 days of this Agreement, the board of directors shall submit to the Reserve Bank and the OSBC 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, credit administration, processes to mitigate risks associated with credit concentrations, and earnings; 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.

2. Within 60 days of this Agreement, the board of directors shall evaluate the Bank’s staffing needs for credit administration, including the areas of other real estate owned (“OREO”) administration and loan workouts, and take the actions necessary to adequately staff these areas with qualified, experienced personnel.

Credit Risk Management

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

- (a) Procedures to periodically review and revise risk exposure limits to address changes in market conditions;
- (b) strategies to minimize credit losses;
- (c) 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); and
- (d) measures to improve the accuracy of loan risk ratings assigned by loan officers.

Credit Administration

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

- (a) The administration of OREO, including, but not limited to, procedures to ensure that the Bank complies with the State of Kansas regulatory requirements to obtain timely appraisals for OREO (K.A.R. § 17-11-17(b)(4));

- (b) adequate staffing of the loan workout function by qualified individuals;

and

- (c) measures to address the deficiencies in credit administration noted in the report of the examination of Bank conducted jointly by the Reserve Bank and the OSBC that commenced on July 28, 2008 and the report of the examination of the Bank conducted jointly by the Reserve Bank and the OSBC that commenced on February 17, 2009 (collectively, the “Reports of Examination”).

Loan Review Program

5. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the OSBC an acceptable written program for the ongoing internal review and grading of the Bank's loan portfolio by qualified staff that is independent of the Bank's lending function. The program shall, at a minimum, address, consider, and include:

- (a) The scope and frequency of loan review;
- (b) standards and criteria for assessing the credit quality of loans;
- (c) application of loan grading standards and criteria to the loan portfolio; and
- (d) written reports to the board of directors, at least quarterly, that identify and report the status of those loans that are nonperforming or adversely graded and the prospects for full collection or strengthening of the quality of any such loans.

Asset Improvement

6. (a) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, who is obligated to the Bank in any manner on any extension of credit or portion thereof that has been charged off by the Bank or classified, in whole or in part, "loss" in the Reports of Examination or in any subsequent report of examination, as long as such credit remains uncollected.

(b) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, whose extension of credit has been classified "doubtful" or "substandard" in the Reports of Examination or in any subsequent report of examination, without the prior approval of the board of directors. The board of directors shall document in writing the reasons for the extension of credit or renewal, specifically certifying that: (i) the extension of credit is necessary to protect the Bank's interest

in the ultimate collection of the credit already granted or (ii) the extension of credit is in full compliance with the Bank's written loan policy, is adequately secured, and a thorough credit analysis has been performed indicating that the extension or renewal is reasonable and justified, all necessary loan documentation has been properly and accurately prepared and filed, the extension of credit will not impair the Bank's interest in obtaining repayment of the already outstanding credit, and the board of directors reasonably believes 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 board of directors' meetings, 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)).

7. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the OSBC 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 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 Reports 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 and the OSBC 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 and the OSBC 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, extension report, and past due/non-accrual report. The board of directors shall review the progress reports before submission to the Reserve Bank and the OSBC, and shall document the review in the minutes of the board of directors' meetings.

Allowance for Loan and Lease Losses

8. (a) 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 OSBC.

(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 Reports of Examination, and submit a description of the revised methodology to the Reserve Bank and the OSBC. 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 and the OSBC 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 and the OSBC 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

9. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the OSBC an acceptable written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include:

(a) 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);

(b) 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; and

(c) the source and timing of additional funds to fulfill the Bank's future capital requirements and loan loss reserve needs.

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

Strategic Plan and Budget

11. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the OSBC a strategic plan to improve the Bank's financial condition and earnings, and a budget for the remainder of 2009. The written plan and budget shall include, but not be limited to:

(i) Identification of the major areas where, and means by which, the board of directors will seek to improve the Bank's operating performance;

(ii) a realistic and comprehensive budget for the remainder of 2009, including income statement and balance sheet projections; and

(iii) a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components.

(b) A strategic plan and budget for each calendar year subsequent to 2009 shall be submitted to the Reserve Bank and the OSBC at least 30 days prior to the beginning of that calendar year.

Liquidity/Funds Management

12. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the OSBC an acceptable written plan designed to improve management of the Bank's liquidity position and funds management practices. The plan shall, at a minimum, address, consider, and include:

(a) Measures to enhance the monitoring, measurement, and reporting of the Bank's liquidity to the board of directors;

(b) a timetable to reduce reliance on short-term wholesale funding, including brokered deposits; and

(c) specific liquidity targets and parameters, and the maintenance of sufficient liquidity to meet contractual obligations and unanticipated demands.

13. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the OSBC an acceptable revised written contingency funding plan that, at a minimum, identifies available sources of liquidity and includes adverse scenario planning.

Interest Rate Risk Management

14. Within 60 days of the Agreement, the Bank shall submit an acceptable policy to improve interest rate risk management practices. The policy shall, at a minimum, address the following parameters:

- (a) Appropriate guidelines for GAP management;
- (b) an adequate system to model and control the vulnerability of net interest income to changes in interest rates; and
- (c) appropriate parameters governing the economic risk to the Bank's capital due to changes in interest rates.

Dividends

15. (a) The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the OSBC, and the Director of the Division of Banking Supervision and Regulation of the Board of Governors.

(b) Any request to declare or pay dividends must be 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). All requests for prior approval shall be received by the Reserve Bank and the OSBC at least 30 days prior to the proposed dividend declaration date and shall contain, at a minimum, current and projected information on the Bank's earnings, capital, asset quality, and ALLL.

Compliance with Laws and Regulations

16. (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, 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) 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

17. (a) Within 10 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 include a majority of outside directors who are not executive officers or principal shareholders of 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 board of directors.

(b) Within 30 days after the end of each calendar quarter following the date of this Agreement, the Bank shall submit to the Reserve Bank and the OSBC 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, and Policy

18. (a) The Bank shall submit written plans, programs, and a policy that are acceptable to the Reserve Bank and the OSBC within the applicable time periods set forth in paragraphs 3, 4, 5, 7, 8(c), 9, 12, 13, and 14 of this Agreement.

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

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

Communications

19. 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. J. Thomas Thull
Commissioner
Kansas Office of the State Bank Commissioner
700 S.W. Jackson, Suite 300
Topeka, Kansas 66603-3796
- (c) Mr. Michael Balsbaugh
President
1st Financial Bank
11120 West 135th Street
Overland Park, Kansas 66211-9631

Miscellaneous

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

21. 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.

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

23. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the OSBC 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.

24. 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 16th day of June, 2009.

1st FINANCIAL BANK

FEDERAL RESERVE BANK OF
KANSAS CITY

By: /s/Michael D. Atcheson
Michael D. Atcheson
Chairman of the Board of
Directors

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

KANSAS OFFICE OF THE STATE
BANK COMMISSIONER

By: /s/J. Thomas Thull
J. Thomas Thull
Commissioner