FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

DEPARTMENT OF FINANCIAL INSTITUTIONS

PHOENIX, ARIZONA

In the Matter of FIRST STATE BANK FLAGSTAFF, ARIZONA (INSURED STATE NONMEMBER BANK)	ORDER TO CEASE AND DESIST Docket FDIC-09-171b

First State Bank, Flagstaff, Arizona ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices alleged to have been committed by the Bank and of its right to a hearing on the alleged charges under section 8(b)(1) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b)(1), and Arizona Revised Statutes § 6-137B, and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with counsel for the Federal Deposit Insurance Corporation ("FDIC") and with the Superintendent, Department of Financial Institutions for the State of Arizona ("Superintendent"), dated April 30, 2009, whereby solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC and the Department of Financial Institutions for the State of Arizona ("DFI").

The FDIC and DFI considered the matter and determined that it had reason to believe that the Bank had engaged in unsafe or unsound banking practices. The FDIC and DFI, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED, that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns, cease and desist from the following unsafe and unsound banking practices, as more fully set forth in the FDIC's Report of Examination dated December 8, 2008 (“ROE”):

(a) operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits;

(b) operating with a board of directors (“Board”) which has failed to provide adequate supervision over and direction to the active management of the Bank;

(c) operating with inadequate capital in relation to the kind and quality of assets held by the Bank;

(d) operating with an inadequate loan valuation reserve;

(e) operating with a large volume of poor quality loans;

(f) engaging in unsatisfactory lending and collection practices;

(g) operating in such a manner as to produce operating losses;

(h) operating with inadequate provisions for liquidity, including an elevated reliance on non-core funding sources;

(i) operating with inadequate internal routine and controls policies;

(j) operating in violation of section 7(a)(1) of the Federal Deposit Insurance Act and Part 323 of the FDIC Rules and Regulations; and

(k) operating in contravention of the Interagency Policy Statement on the Allowance for Loan and Lease Losses; the Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices; and the Joint Policy Statement on Interest Rate Risk.

IT IS FURTHER ORDERED, that the Bank, its institution-affiliated parties, and its successors and assigns, take affirmative action as follows:

1. The Bank shall have and retain qualified management.

(a) Each member of management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank. Management shall include a chief executive officer with proven ability in managing a bank of comparable size, and experience in upgrading a low quality loan portfolio, improving earnings, and other matters needing particular attention. Management shall also include a senior lending officer with significant appropriate lending, collection, and loan supervision experience and experience in upgrading a low quality loan portfolio. Each member of management shall be provided appropriate written authority from the Bank's Board to implement the provisions of this ORDER.

(b) The qualifications of management shall be assessed on its ability to:

(i) comply with the requirements of this ORDER;

(ii) operate the Bank in a safe and sound manner;

(iii) comply with applicable laws and regulations; and

(iv) restore all aspects of the Bank to a safe and sound condition, including asset quality, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market risk.

(c) During the life of this ORDER, the Bank shall notify the Regional Director of the FDIC’s San Francisco Regional Office (“Regional Director”) and the

Superintendent in writing when it proposes to add any individual to the Bank's Board or employ any individual as a senior executive officer. The notification must be received at least 30 days before such addition or employment is intended to become effective and should include a description of the background and experience of the individual or individuals to be added or employed.

(d) Within 90 days after the effective date of this ORDER, the Bank's Board shall obtain an independent study of the management and the Board of the Bank to determine whether additional personnel or personnel changes are needed for the safe and profitable operation of the Bank. Such a study shall include, at a minimum, a review of the duties, responsibilities, skills, qualifications, and remuneration of the Bank's executive officers and directorate. The Bank shall formulate and develop a plan to implement the recommendations of the study. The plan shall be acceptable to the Regional Director and the Superintendent as determined at subsequent examinations.

(e) Within 60 days from the effective date of this ORDER, the Bank shall develop, adopt, and implement a written conflicts of interest policy that fully addresses the family control issues raised in the ROE and is acceptable to the Regional Director and the Superintendent as determined at subsequent examinations.

2. (a) Within 30 days from the effective date of this ORDER, the Bank's Board shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of banks of comparable size. This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and

expenses; new, overdue, renewal, insider, charged-off, and recovered loans; investment activity; operating policies; and individual committee actions. The Bank's Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) Within 90 days of the date of this ORDER, the Bank shall document its efforts to increase its Board by the addition of 2 independent directors with bank experience.

(c) The addition of any new Bank directors required by this paragraph may be accomplished, to the extent permissible by state statue or the Bank's by-laws, by means of appointment or election at a regular or special meeting of the Bank's shareholders. For purposes of this ORDER, an independent director shall be any individual who is not an officer of the Bank, any subsidiary, or any of its affiliated organizations; who does not own more than 10 percent of the outstanding shares of the Bank; who is not related by blood or marriage to an officer or director of the Bank or to any shareholder owning more than 10 percent of the Bank's outstanding shares and does not otherwise have a common financial interest with such officer, director or shareholder; who is not indebted to the Bank's director or indirectly, including the indebtedness of any entity in which the individual has a substantial financial interest, in an amount exceeding 10 percent of the Bank's total Tier 1 capital and allowance for loan and lease losses; or who is deemed to be an independent director for purposes of this ORDER by the Regional Director and the Superintendent.

3. (a) Within 120 days from the effective date of this ORDER, the Bank shall increase Tier 1 capital by no less than $2,000,000, and shall thereafter maintain Tier 1 capital in such an amount as to equal or exceed 10 percent of the Bank's total assets. If the Bank reduces the level of classified assets to less than 100 percent of total capital, the Bank shall maintain Tier 1 capital in such an amount as to equal or exceed 9 percent of the Bank's total assets.

(b) Within 60 days from the effective date of this ORDER, the Bank shall develop and adopt a plan to meet and thereafter maintain the minimum risk-based capital requirements as described in the FDIC's Statement of Policy on Risk-Based Capital contained in Appendix A to Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325, Appendix A. The Plan shall be in a form and manner acceptable to the Regional Director and the Superintendent as determined at subsequent examinations.

(c) The level of Tier 1 capital to be maintained during the life of this ORDER pursuant to Paragraph 3 shall be in addition to a fully funded allowance for loan and lease losses, the adequacy of which shall be satisfactory to the Regional Director and the Superintendent as determined at subsequent examinations and/or visitations.

(d) Any increase in Tier 1 capital necessary to meet the requirements of Paragraph 3 of this ORDER may be accomplished by the following:

(i) the sale of common stock; or

(ii) the sale of noncumulative perpetual preferred stock; or

(iii) the direct contribution of cash by the Bank's Board, shareholders, and/or parent holding company; or

(iv) any other means acceptable to the Regional Director and the Superintendent.

Any increase in Tier 1 capital necessary to meet the requirements of Paragraph 3(a) of this ORDER may not be accomplished through a deduction from the Bank's allowance for loan and lease losses.

(e) If all or part of the increase in Tier 1 capital required by Paragraph 3 of this ORDER is accomplished by the sale of new securities, the Bank's Board shall forthwith take all necessary steps to adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held or controlled by them in favor of the plan. Should the implementation of the plan involve a public distribution of the Bank's securities (including a distribution limited only to the Bank's existing shareholders), the Bank shall prepare offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and any other material disclosures necessary to comply with the Federal securities laws. Prior to the implementation of the plan and, in any event, not less than 15 days prior to the dissemination of such materials, the plan and any materials used in the sale of the securities shall be submitted to the FDIC, Registration and Disclosure Unit, Washington, D.C. 20429, for review. Any changes requested to be made in the plan or materials by the FDIC shall be made prior to their dissemination. If the increase in Tier 1 capital is provided by the sale of noncumulative perpetual preferred stock, then all terms and conditions of the issue, including but not limited to those terms and conditions relative to interest rate and convertibility factor, shall be presented to the Regional Director and the Superintendent for prior approval.

(f) In complying with the provisions of Subparagraph 3(e) of this ORDER, the Bank shall provide to any subscriber and/or purchaser of the Bank's securities, a written notice of any planned or existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this paragraph shall be furnished within 10 days from the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every subscriber and/or purchaser of the Bank's securities who received or was tendered the information contained in the Bank's original offering materials.

(g) For the purposes of this ORDER, the terms "Tier 1 capital" and "total assets" shall have the meanings ascribed to them in Part 325 of the FDIC’s Rules and Regulations, 12 C.F.R. §§ 325.2(v) and 325.2(x).

4. (a) Effective immediately, the Bank shall maintain a fully funded allowance for loan and lease losses, the adequacy of which shall be determined at subsequent examinations and/or visitations.

(b) Additionally, within 60 days from the effective date of this ORDER, the Bank’s Board shall develop or revise, adopt and implement a comprehensive policy for determining the adequacy of the allowance for loan and lease losses (“ALLL”). For the purpose of this determination, the adequacy of the reserve shall be determined after the charge-off of all loans or other items classified "Loss." The policy shall provide for a review of the allowance at least once each calendar quarter. Said review should be completed at least 10 days prior to the end of each quarter, in order that the findings of the Bank’s Board with respect to the loan and lease loss allowance may be properly reported in the quarterly Reports of Condition and Income. The review should focus on the results of the Bank's internal loan review, loan loss experience, trends of delinquent and non-accrual loans, an estimate of potential loss exposure of significant credits, concentrations of credit, and present and prospective economic conditions. A deficiency in the allowance shall be remedied in the calendar quarter it is discovered, prior to submitting the Report of Condition, by a charge to current operating earnings. The minutes of the Bank’s Board meeting at which such review is undertaken shall indicate the results of the review. Upon completion of the review, the Bank shall increase and maintain its allowance for loan and lease losses consistent with the allowance for loan and lease loss policy established. Such policy and its implementation shall be satisfactory to the Regional Director and the Superintendent as determined at subsequent examinations and/or visitations.

(c) The ALLL policy and adequacy determination shall incorporate the following criteria:

(i) Financial Accounting Standard 5, including;

a. establishment of criteria to ensure that factors utilized in the calculation of FAS 5 reserves are reflective of the conditions of the portfolio, economy, and other relevant factors; and

b. utilization of increasing levels of bank experience to ensure reasonableness of the FAS 5 reserve level.

(ii) Financial Accounting Standard 114, including:

a. impairment analysis that is updated on least a quarterly basis and includes an analysis of borrower cash flow and/or the value of underlying collateral;

b. utilization of increasing levels of bank experience to ensure the reasonableness of FAS 114 appraisal discount percentages in order to increase the precision of the reserve level; and

c. provision of sufficient funds to the ALLL to account for the level of potential exposure when the impairment analysis indicates loan impairment.

5. (a) Within 30 days from the effective date of this ORDER, the Bank shall eliminate from its books, by charge-off or collection, all assets classified "Loss" and one-half of the assets classified "Doubtful" in the ROE that have not been previously collected or charged

off. Elimination of these assets through proceeds of other loans made by the Bank is not considered collection for the purpose of this paragraph.

(b) Within 60 days from the effective date of this ORDER, the Bank shall develop, adopt and implement a written plan for the reduction and collection of delinquent loans. The plan shall be acceptable to the Regional Director and the Superintendent as determined at subsequent examinations.

(c) Within 90 days from the effective date of this ORDER, the Bank shall develop, adopt and implement a written plan to identify and review all problem loans with balances or commitments of more than $250,000. Upon such review, the Bank shall appropriately grade each of the loans and, if necessary, increase the ALLL to reflect any increase in inherent or specific risk.

6. (a) Beginning with the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been charged off or classified, in whole or in part, "Loss" and is uncollected. Subparagraph 6(a) of this ORDER shall not prohibit the Bank from renewing or extending the maturity of any credit in accordance with the Financial Accounting Standards Board Statement Number 15 ("FASB 15").

(b) Beginning with the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank in excess of $100,000 that has been classified, in whole or part, "Doubtful" without the prior approval of a majority of the Bank's Board or the loan committee of the Bank.

(c) Beginning with the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank in excess of $100,000 that has been classified, in whole or part, "Substandard" without the prior approval of a majority of the Bank’s Board or the loan committee of the Bank.

(d) The loan committee or Bank’s Board shall not approve any extension of credit, or additional credit to a borrower in Subparagraphs 6(b) and 6(c) above without first collecting in cash all past due interest.

7. (a) Within 60 days from the effective date of this ORDER, the Bank shall revise, adopt, and implement written lending and collection policies to provide effective guidance and control over the Bank's lending function, which policies shall include specific guidelines for placing loans on a non-accrual basis. In addition, the Bank shall obtain adequate and current documentation for all loans in the Bank's loan portfolio. Such policies and their implementation shall be in a form and manner acceptable to the Regional Director and the Superintendent as determined at subsequent examinations and/or visitations.

(b) The initial revisions to the Bank's loan policy and practices, required by this paragraph, at a minimum, shall include the following:

(i) procedures to improve construction loan disbursements and controls;

(ii) procedures to ensure that reviews of appraisals completed for other financial institutions are properly performed and documented by Bank management;

(iii) controls to ensure that no loan is originated on the basis of a stale real estate appraisal;

(iv) controls to ensure that no loan is originated on the basis of a real estate appraisal prepared for the borrower;

(v) amendments to the loan policy that establish guidelines and hard limits for the volume of loan participations, as percentage of total capital, that can be purchased from third-parties;

(vi) amendments to the loan policy that detail concentration monitoring procedures;

(vii) amendments to the loan policy that require portfolio-level stress tests or sensitivity analysis to quantify the impact of changing economic conditions on asset quality, earnings and capital; and

(viii) amendments to the loan policy to include contingency plans to reduce or mitigate concentrations in the event of adverse commercial real estate market conditions.

8. During the life of this ORDER, the Bank will not originate any new speculative construction loans. In addition, the Bank shall develop, adopt and implement a plan to reduce the level of commercial real estate loans. The plan shall be acceptable to the Regional Director and Superintendent as determined at subsequent examinations and/or visitations.

9. Within 90 days of the effective date of this ORDER, the Bank shall develop and submit to the Regional Director and the Superintendent a written three-year strategic plan. Such plan shall include specific goals for the dollar volume of total loans, total investment securities, and total deposits. The plan shall be in a form and manner acceptable to the Regional Director and the Superintendent as determined at subsequent examinations and/or visitations.

10. Within 90 days from the effective date of this ORDER, the Bank shall formulate and implement a written profit plan. This plan shall be forwarded to the Regional Director and the Superintendent for review and comment and shall address, at a minimum, the following:

(a) goals and strategies for improving and sustaining the earnings of the Bank, including:

(i) an identification of the major areas in, and means by which, the Bank's Board will seek to improve the Bank's operating performance;

(ii) realistic and comprehensive budgets;

(iii) a budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections; and

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

(b) coordination of the Bank's loan, investment, and operating policies, and budget and profit planning, with the funds management policy.

11. Within 30 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, as more fully set forth in the ROE as of December 8, 2008. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations.

12. (a) The Bank shall develop, adopt and implement a plan to immediately improve the Bank's liquidity management practices and liquidity position. Such plan shall include a requirement that the Bank reduce and maintain a ratio of total loans to total assets of less than 80 percent within 365 days. Such plan and its implementation shall be satisfactory to

the Regional Director and the Superintendent as determined at subsequent examinations and/or visitations.

(b) During the life of this ORDER, the Bank shall not solicit, retain or rollover brokered deposits unless it has applied for and been granted a waiver of this prohibition by the FDIC in accordance with the provisions of Section 337.6 of the FDIC's Rules and Regulations.

(c) Upon the effective date of this ORDER, the Bank shall not increase the total amount of brokered deposits above the amount outstanding on that date.

13. Within 60 days from the effective date of this ORDER, the Bank shall adopt and implement a policy for the operation of the Bank in such a manner as to provide adequate internal routine and control policies consistent with safe and sound banking practices. Such policy and its implementation shall be satisfactory to the Regional Director and the Superintendent as determined at subsequent examinations and/or visitations.

14. The Bank shall not pay cash dividends without the prior written consent of the Regional Director and the Superintendent.

15. The Bank shall develop, adopt and implement a plan to improve the overall quality of economic and real estate market data utilized by management and provided to the Board. The information should enhance the overall knowledge and understanding of the level and direction of activity within the Bank's key markets. At a minimum, this should include the following:

(a) improvement in the quality of monthly and quarterly economic and real estate market data presented to and reviewed by management and the Board;

(b) ensure the board minutes specifically note that the data was reviewed and whether management made any recommendations for changes in the Bank’s business model, loan risk underwriting criteria, and/or commercial real estate or other concentration levels based on the data; and

(c) on an annual basis, management should conduct a back-test of the pro forma economic and real estate market data utilized during the year to determine its effectiveness.

16. The Bank shall develop and implement a disaster recovery/business resumption plan in accordance with the guidance contained in the ROE dated December 8, 2008. Such plan shall be tested on at least a bi-annual basis.

17. Within 30 days of the end of the first quarter, following the effective date of this ORDER, and within 30 days of the end of each quarter thereafter, the Bank shall furnish written progress reports to the Regional Director and the Superintendent detailing the form and manner of any actions taken to secure compliance with this ORDER and the results thereof. Such reports shall include a copy of the Bank's Report of Condition and Income. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director and the Superintendent have released the Bank in writing from making further reports.

18. Following the effective date of this ORDER, the Bank shall send to its shareholder(s) or otherwise furnish a description of this ORDER in conjunction with the Bank's next shareholder communication and also in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe the ORDER in all material respects. The description and any accompanying communication, statement, or

notice shall be sent to the FDIC, Accounting and Securities Section, Washington, D.C. 20429, at least 15 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

This ORDER will become effective upon its issuance by the FDIC. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provisions of this ORDER shall have been modified, terminated, suspended, or set aside by the FDIC.

Pursuant to delegated authority.

Dated at San Francisco, California

this 1st day of May, 2009.

/s/

J. George Doerr
Deputy Regional Director
Division of Supervision and
Consumer Protection
San Francisco Region
Federal Deposit Insurance Corporation

Dated at Phoenix, Arizona

this 30th day of April, 2009.

/s/

Felecia A. Rotellini
Superintendent
Department of Financial Institutions for the
State of Arizona