

SUPERVISORY AGREEMENT

This Supervisory Agreement is entered into and made effective this 15th day of February, 2005 (Effective Date), by and between **First Command Financial Services, Inc.**, Fort Worth, Texas (OTS Docket No. H-3339), (FCFS), a registered savings and loan holding company that owns and controls First Command Bank, Fort Worth, Texas (OTS Docket No. 13570) (FCB), a federally chartered savings and loan association, and the Office of Thrift Supervision (OTS), a bureau of the United States Department of the Treasury, acting through its Midwest Regional Director or his designee (Regional Director).

WHEREAS, OTS, pursuant to 12 U.S.C. §§ 1818 and 1467a(g), has the statutory authority to enter into and enforce supervisory agreements to ensure the establishment and maintenance of appropriate safeguards in the operation of entities that it regulates, such as FCFS and FCB; and

WHEREAS, OTS is of the opinion that FCFS has engaged in unsafe and unsound practices by failing to adopt and implement appropriate risk management systems to identify, monitor, and minimize existing and potential financial and other risks that arise due to the commonality of corporate identity and customer base between FCFS and FCB, and OTS is of the opinion that it has grounds to initiate an administrative proceeding against FCFS pursuant to 12 U.S.C. §1818(b) and 12 U.S.C. § 1467a(g); and

WHEREAS the Board of Directors of FCFS (Board) desires to cooperate with the OTS and to demonstrate its commitment to the continued development and implementation of appropriate risk management practices; and

WHEREAS, OTS is of the view that it is appropriate to formally recognize the steps taken by FCFS to address the risks to its reputation associated with products previously offered through FCFS and its affiliates and to set forth additional actions to ensure that FCFS will: (i) continue to comply with all applicable laws and regulations, and (ii) engage in safe and sound practices; and

WHEREAS, FCFS enters into this Supervisory Agreement without any adjudication on the merits and solely for the purpose of settling this matter in accordance with Rule 408 of the Federal Rules of Evidence and equivalent state provisions and without admitting or denying that such grounds exist to initiate an administrative proceeding or opinions and conclusions of OTS, except as to OTS's jurisdiction to bring such action; and

NOW THEREFORE, in consideration of the above premises and the mutual undertakings set forth herein, the parties hereto agree as follows:

CORRECTIVE PROVISIONS

1. Capital

FCFS shall maintain the minimum consolidated tangible capital levels set forth in the most recent OTS holding company report of examination.

2. Debt Notification

FCFS shall obtain the prior written non-objection of the Regional Director at least 30 days prior to: issuing, renewing, or rolling over any debt; increasing any current lines of credit; guaranteeing the debt of any entity; or entering into a commitment for debt. For purposes of this Paragraph 2, the term "debt" includes hybrid capital instruments such as subordinated debt or trust-preferred securities. For purposes of this Paragraph 2, the term "debt" does not (a) include liabilities incurred in the normal course of business to acquire goods and services and that are normally recorded as accounts payable, and (b) include draws on, or renewals of the lines of credits that were the subject of a non-objection letter from OTS.

3. Business Plan

A. By March 31, 2005, the Board shall adopt and submit to the Regional Director a three-year business plan that addresses the following and that is acceptable to the Regional Director:

1. Corporate strategy and business mission for each subsidiary company that clearly identifies its relationship and contribution to the corporate whole;
2. Identification of major product lines;
3. Impact on profitability resulting from any proposed change in major product lines or a change in customer base;
4. Maintenance of capital levels in accordance with Paragraph 1 of this Supervisory Agreement; and
5. Quarterly financial projections.

B. Except as otherwise authorized through the prior, written non-objection of the Regional Director, FCFS shall comply with the Business Plan.

C. After implementation of the Business Plan, FCFS's management shall submit quarterly variance reports to the Board, and shall submit a copy of the variance report to the Regional Director with the Compliance Resolution required by Paragraph 9 of this Supervisory Agreement. The Board shall submit any material revisions to the Business Plan to the Regional Director for review and a notice of non-objection within 30 calendar

days after the Board's decision.

4. Transactions Involving Insured Subsidiary

- A. FCFS shall not direct any dividend payments by, or accept any dividend payments from FCB without the prior written non-objection of the Regional Director.
- B. FCFS shall not direct any payments by, or accept any payments from FCB for any legal, lobbyist, media or other expenses attributed to the activities, products, or regulation of FCFS or its non-thrift subsidiaries.

5. Corporate Governance

By March 31, 2005, the Board shall adopt and submit to the Regional Director a code of ethics for the consolidated enterprise. At a minimum, the code of ethics shall:

- A. Require each director, officer, employee, and other individuals who perform functions or services for the consolidated enterprise to deal fairly with customers, and prohibit taking unfair advantage of customers through manipulation, concealment, abuse of privileged or confidential information, misrepresentation of material facts, or any other unfair dealing practice;
- B. Establish a mechanism for reporting of deviation from the code of ethics, policies and procedures, or regulatory requirements without repercussions and require the retention of reports of possible deviations, complaints, and investigative reports in accordance with applicable legal and regulatory requirements and best practices for the industry;
- C. Prohibit the appearance of conflicts or occurrence of conflicts between FCFS's corporate goals and material personal gain for directors, officers, employees, or individuals who perform functions or services for the consolidated enterprise and address how to encourage and reward professional integrity in FCFS's operations;
- D. Prohibit directors, officers, employees, and where appropriate, individuals who perform functions or services for the consolidated enterprise from engaging in usurpation of corporate opportunity, misusing company assets, or using improperly confidential information of the company or customers;
- E. Encourage the continued training of all applicable personnel about regulatory requirements and policies and procedures affecting their operations as well as the code of ethics; and
- F. Provide for periodic communication of the Board's support of the code of ethics and the Board's periodic review of compliance with the code of ethics, including but not limited to the internal controls for monitoring and auditing the retribution-free reporting of possible deviations from the code of ethics, policies and procedures, and regulatory requirements; investigating the reports; and responding to the reports; and

G. Require the Board and senior management to strive to create a firm-wide corporate culture that is sensitive to ethical issues as well as the potential risks to FCB.

6. **Reputation Risk Analysis**

A. By March 31, 2005, the Board must conduct a review of its reputation risks, including the following:

1. Analysis of reputation risks of all existing products and services within FCFS's consolidated enterprise, and the impact, if any, on First Command Bank; and
2. Analysis of litigation risks by qualified independent counsel.

For purposes of this Paragraph 6, a qualified independent counsel is counsel who is a recognized expert in the field and who has not performed legal work for FCFS or any subsidiary thereof in designing or implementing the subject matter of the risk analysis.

B. By March 31, 2005, the Board must adopt and submit to the Regional Director a Reputation Risk Policy (Policy) that: (1) establishes independent processes to identify, monitor, and address material reputation risks and litigation risks, and (2) is acceptable to the Regional Director. The Policy must provide for oversight of these processes by a committee of outside directors. Except as otherwise authorized through the prior written non-objection of the Regional Director, FCFS shall comply with the Policy.

C. The Board shall notify the Regional Director regarding any material events or litigation that may materially affect FCFS or its subsidiaries, including any investigations or inquiries by state or federal agencies within seven (7) calendar days of the event.

7. **Review of Board and Management Changes**

A. FCFS shall comply with 12 C.F.R. § 563.560, regarding the employment or designation of senior executive officers, the appointment or replacement of any director, or a change in responsibilities of a senior executive officer.

B. FCFS shall not make any "golden parachute payments" (as that term is defined in 12 U.S.C. § 1828(k) and 12 C.F.R. Part 359), except as permitted under the applicable statute and regulation.

BOARD OF DIRECTORS

8. **Director and Board Responsibility**

A. Notwithstanding the requirements of this Supervisory Agreement that the Board submit various matters to the Regional Director, the Board affirms that for the purpose of receiving approval, notice of non-objection, or notice of acceptability, such regulatory

oversight does not derogate or supplant each individual member's continuing fiduciary duty. The Board shall have the ultimate responsibility for overseeing the safe and sound operation of FCFS, at all times, including compliance with the determinations of the Regional Director as required by this Supervisory Agreement.

B. The Board further shall oversee the safe and sound operation of FCFS at all times and shall take all reasonable and prudent actions necessary to satisfy this responsibility.

9. **Compliance with Supervisory Agreement**

A. The Board and officers of FCFS shall take immediate action to cause FCFS to comply with the terms of this Supervisory Agreement and shall take all actions necessary or appropriate thereafter to cause FCFS to continue to carry out the provisions of this Supervisory Agreement.

B. The Board, on a quarterly basis, beginning with the second calendar quarter of calendar year 2005, shall adopt a board resolution (Compliance Resolution), formally resolving that, following a diligent inquiry of relevant information (including reports of management), to the best of its knowledge and belief, during the immediately preceding calendar quarter, FCFS has complied with each provision of this Supervisory Agreement currently in effect, except as otherwise stated. The Compliance Resolution shall specify in detail how, if at all, full compliance was found not to exist; and identify all notices of exemption or non-objection issued by the Regional Director that were outstanding as of the date of its adoption.

C. The minutes of the meetings of the Board shall set forth the following information with respect to the adoption of each Compliance Resolution: (i) the identity of each director voting in favor of its adoption; and (ii) the identity of each director voting in opposition to its adoption or abstaining from voting thereon, setting forth each director's reasoning for opposing or abstaining.

D. FCFS shall provide to the Director a certified true copy of each Compliance Resolution as adopted by the Board within ten (10) calendar days of the Board meeting at which the Compliance Resolution was adopted. The Board, by virtue of FCFS's submission of a certified true copy of each such Compliance Resolution to the Regional Director, respectively, shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution, except as provided below. In the event that one or more Directors do not agree with the representations set forth in a Compliance Resolution, such disagreement shall be noted in the minutes of FCFS.

E. The Board shall promptly respond to any request from OTS for documents that OTS requests to demonstrate compliance with this Supervisory Agreement.

MISCELLANEOUS

10. Definitions

- A. All technical words or terms used in this Supervisory Agreement for which meanings are not specified or otherwise provided by the provisions of this Supervisory Agreement shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, Home Owners' Loan Act (HOLA), FDIA or OTS Publications. Any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations, HOLA, Federal Deposit Insurance Act (FDIA), or OTS Publications shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.
- B. For purposes of this Supervisory Agreement, nothing shall be deemed "acceptable" to the Regional Director unless the Regional Director or the assigned Regional Deputy Director or Assistant Director has stated in writing that it is acceptable or has stated in writing that there is no objection to it.

11. Successor Statutes, Regulations, Guidance, Amendments

Reference in this Supervisory Agreement to provisions of statutes, regulations, and OTS Publications shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date of this Supervisory Agreement and references to successor provisions as they become applicable.

12. Notices

- A. Except as otherwise provided herein, any request, demand, authorization, directive, notice, consent, waiver or other document provided or permitted by this Supervisory Agreement to be made upon, given or furnished to, delivered to, or filed with:
1. The OTS, by FCFS, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Regional Director, Office of Thrift Supervision, Department of the Treasury, 225 East John Carpenter Freeway, Suite 500, Irving, Texas 75062-2327 or telecopied to (972) 277-9501 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address;
 2. FCFS, by OTS, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid, or sent via overnight delivery service or physically delivered, in each case addressed to Chief Executive Officer, FCFS, at 1 FirstComm Plaza, Fort Worth, Texas 76109-4999.
- B. Notices hereunder shall be effective upon receipt, if by mail, overnight delivery service or telecopy, and upon delivery, if by physical delivery. If there is a dispute about the

date on which a written notice has been received by a party to this Agreement, then, in the event such notice was sent by United States mail, there shall be a presumption that the notice was received two business days after the date of the postmark on the envelope in which the notice was enclosed.

13. **Time Limits**

Time limitations for compliance with the terms of this Supervisory Agreement run from the Effective Date, unless otherwise noted. The Regional Director or the assigned Regional Deputy Director or Assistant Director may extend any time limits set forth in this Agreement by specifically granting that extension in writing.

14. **Effect of Headings**

The section and paragraph headings herein are for convenience only and shall not affect construction hereof.

15. **Separability Clause**

In case any provision in this Supervisory Agreement is ruled to be invalid, illegal, or unenforceable by the decision of any court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his/her sole discretion determines otherwise.

16. **No Violations Authorized; OTS Not Restricted**

Nothing in this Supervisory Agreement shall be construed as: (a) allowing FCFS to violate any law, rule, regulation, or policy statement to which it is subject, or (b) restricting or estopping OTS from taking any action(s), including without limitation any actions that it believes are appropriate in fulfilling the responsibilities placed upon it by law.

17. **OTS Review of Actions Required**

The Regional Director or the assigned Regional Deputy Director or Assistant Director may provide a written notice of non-objection or request additional information with respect to any submission to OTS required by this Supervisory Agreement.

18. **Duration, Termination or Suspension of Supervisory Agreement**

A. This Supervisory Agreement shall:

1. Become effective upon its execution by the OTS, through its authorized representative whose signature appears below; and
2. Remain in effect until terminated, modified or suspended in writing by OTS,

acting through its Director or the Regional Director (including any authorized designee thereof).

B. The Regional Director in his sole discretion, may, by written notice, suspend any or all provisions of this Supervisory Agreement.

19. **Successors in Interest/Benefit**

The terms and provisions of this Supervisory Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Supervisory Agreement, express or implied, shall give to any person or entity, other than the parties hereto and the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Supervisory Agreement.

20. **Integration Clause**

This Supervisory Agreement represents the final written agreement of the parties with respect to the subject matter hereof and constitutes the sole agreement of the parties, as of the Effective Date, with respect to such subject matter. However, as noted herein, all Policies and Procedures required by this Supervisory Agreement shall, upon modification consistent with the direction of the Regional Director, become part of this Supervisory Agreement and any deviation from these policies shall be deemed a violation of this Agreement.

21. **Signature of Directors**

Each Director signing this Supervisory Agreement attests, by such act, that she or he voted in favor of a Board resolution authorizing the execution of this Supervisory Agreement by FCFS to evidence FCFS's agreement with every provision of the Supervisory Agreement. A copy of the resolution of the Board of Directors authorizing the execution of the Supervisory Agreement shall be delivered to OTS along with the executed original of the Supervisory Agreement.

22. **Counterparts**

This Supervisory Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and each of which shall be deemed an original.

23. **Enforceability of Agreement**

FCFS represents and warrants that this Supervisory Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of FCFS. FCFS acknowledges that this Agreement, is a "written agreement" entered into with OTS within the meaning of 12 U.S.C. §§ 1818 and 1467a(g).

IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director and FCFS, in accordance with a duly adopted resolution of its Board, hereby execute this Supervisory Agreement as of the Effective Date.

OFFICE OF THRIFT SUPERVISION

By:

Frederick R. Casteel
Frederick R. Casteel
Midwest Regional Director

Effective Date: 2-15-05

FIRST COMMAND FINANCIAL SERVICES, INC., FORT WORTH, TEXAS

Accepted by a majority of its directors:

By: *Lamar C. Smith*
Lamar C. Smith, Chairman and Chief
Executive Officer

Robert F. Watson
Robert F. Watson, Director and
Executive Vice President

James A. Peterson
James A. Peterson, Director and
Senior Vice President

Robert W. Blucke
Robert W. Blucke, Director

Logan Dickinson
Logan Dickinson, Director

Howard M. Crump
Howard M. Crump, Director and
President

Martin R. Durbin
Martin R. Durbin, Director and
Senior Vice President

Richard E. Giles
Richard E. Giles, Director and
Senior Vice President

James N. Lanier
James N. Lanier, Director

James J. Ellis
James J. Ellis, Director

Carroll H. Payne, II, Director