



Comptroller of the Currency
Administrator of National Banks

Western District Office
50 Fremont Street, Suite 3900
San Francisco CA 94105
415-545-5900
415-545-5925 (fax)

December 16, 2002

**Conditional Approval #563
January 2003**

Mr. William A. Kenyon, President
Security Trust Company
2390 East Camelback Road, Suite 240
Phoenix, AZ 85016

Re: State to National Charter Conversion
Security Trust Company, N. A., (the "Bank")
Phoenix, Arizona
OCC Control No.: 2002-WE-01-0005

Dear Mr. Kenyon:

The Comptroller of the Currency (OCC) has reviewed your request, dated May 17, 2002, to convert Security Trust Company (STC) to a national bank. After a thorough review of all information available, including the representations and commitments made in the application and the Bank's representatives, we find that your request meets the requirements for conditional approval to convert to a national banking association pursuant to 12 USC 35 and 12 CFR 5.24 as follows:

Title: Security Trust Company, National Association

Location: Phoenix, Arizona

This approval is granted with the understanding that the proposed national bank will apply for membership in the Federal Reserve System and will not be FDIC-insured.

This conditional approval is subject to the following "conditions imposed in writing by the agency in connection with the granting of any application or other request" within the meaning of 12 U.S.C. § 1818 and, as such, are enforceable under 12 U.S.C. § 1818:

1. The Bank's initial Tier 1 capital shall be no less than \$3,000,000, after excluding the book value amounts attributable to the two non-conforming real estate parcels owned by the Bank.
2. At all times, the Bank shall maintain a minimum of \$3,000,000 in Tier 1 capital.

3. If the Bank fails to maintain Tier 1 capital in the amount of \$3,000,000, the Bank shall be deemed “undercapitalized,” for the purposes of 12 U.S.C. § 1831o and 12 C.F.R. § 6, and the OCC shall have the authority to take any action authorized under all provisions of 12 U.S.C. § 1831o and 12 C.F.R. § 6 applicable to an undercapitalized national bank. For purposes of section 1831o (e)(5), an action “necessary to carry out the purpose of this section” shall included restoration of the Bank’s capital so that it is not undercapitalized, and any other action deemed advisable by the OCC to address the Bank’s capital deficiency or the safety and soundness of its operations.
4. The Bank shall divest of the two parcels of non-conforming real estate currently owned by the Bank no later than 24 months of the date of conversion. Prior to conversion, the Bank shall provide the OCC with a written plan to divest of the real estate including the timeframe to accomplish the sale.
5. The Bank shall give the Phoenix, Arizona Field Office at least sixty (60) days prior notice of the Bank’s intent to significantly deviate from its business plan or operations, and shall obtain the OCC’s prior written determination of no objection before the Bank engages in any significant deviation or change from its business plan or operations.
6. All transactions between the Bank and any affiliates, domestic or foreign, shall be conducted subject to the applicable provisions of 12 U.S.C. § 371c and c-1, or other applicable federal law.
7. The Bank must notify all potential technology-related vendors in writing of the OCC’s examination and regulatory authority under 12 U.S.C. § 1867(c). All final technology-related vendor contracts must stipulate that the performance of services provided by the vendors to the Bank is subject to the OCC’s examination and regulatory authority. The provisions of 12 C.F.R. § 9 would be applicable to any fiduciary activities contracted out to vendors.
8. The Bank shall maintain an Audit Committee, a majority of the members of which are not involved in the day-to-day affairs of the trust company.
9. The Bank must maintain on file on its premises current financial information on the parent company (e.g., audited financial reports, quarterly financial statements, 10-K and 10-Q reports as appropriate). The financial information must be provided to the Bank’s OCC supervisory office once it becomes available.

Special Pre-Conversion Requirements:

Prior to conversion STC shall enhance the following Information Technology (IT) risk management practices and submit to the OCC for review and approval:

1. Written, board-approved policies that accurately reflect the company’s practices and comply with FFIEC/OCC guidelines. The extent of coverage afforded to each area

should be based on a comprehensive risk assessment of the IT environment. The following written policies should be revised to comply with FFIEC/OCC guidelines:

- Vendor Management
- Information Security
- Systems Development
- Change Control

2. An expanded audit program to include appropriate coverage of all significant IT-related risks. At a minimum, the audit program must include the following:
 - Risk Assessment
 - Planning & Project Management
 - Vendor Management
 - Information Security
 - Systems Development
 - Change Control
 - Input/Output Controls
 - Capacity and Performance Management
 - Business Continuity Planning

Additionally, you are reminded that the following are required before the effective date of the conversion:

1. The institution must purchase adequate fidelity bond coverage in accordance with 12 CFR 7.2013, which lists four factors the directors should consider to determine adequacy.
2. If a director, officer, employee, or principal shareholder of the Bank (including an entity in which such person owns an interest of 10 percent or more) is involved in the sale of credit life insurance to loan customers, the Bank should ensure compliance with 12 CFR 2, which among other things, prohibits a covered person from retaining commissions or other income from the sale of credit life insurance connected with any loan the Bank makes.
3. The board of directors must adopt and have in place policies, practices, and procedures to ensure the safe and sound operation of the Bank. The board also must review those policies, practices, and procedures continually and ensure bank compliance with them.
4. The converting institution must obtain any other required regulatory approvals. Please provide us with a copy of your application to purchase Federal Reserve Bank stock.
5. The limitations of the Bank's activities must be fully enumerated in the Bank's Articles of Association. Specifically, the articles must state clearly that: 1) the business of the

association will be limited to that of a national trust bank; and 2) the Bank must obtain the OCC's prior written approval before amending its Articles of Association to expand the scope of its activities and service.

The trust officers should become thoroughly familiar with "Fiduciary Activities for National Banks" at 12 C.F.R. § 9 and 12 C.F.R. § 5.26. Management is reminded that 12 C.F.R. § 5.26 requires a national bank which already has approval to engage in fiduciary activities to provide written notice to the OCC when commencing fiduciary activities in a new state.

The OCC will send to you under separate cover an appropriate set of OCC handbooks, manuals, issuances, and selected other publications.

This approval, and the activities and communications by OCC employees in connection with the filing, do not constitute a contract, express or implied, or any other obligation binding upon the OCC, the U.S., any agency or entity of the U.S., or any officer or employee of the U.S., and do not affect the ability of the OCC to exercise its supervisory, regulatory and examination authorities under applicable law and regulations. The foregoing may not be waived or modified by any employee or agency of the OCC or the U.S.

If the conversion is not consummated within six months from the date of the decision, approval will be withdrawn. The OCC is opposed to granting extensions, except under the most extenuating circumstances and expects the conversion to occur as soon as possible.

Upon conversion, please submit a letter certifying that you have completed all steps required to convert to a national banking association (sample enclosed). If you have any questions, please contact Licensing Analyst Sherry R. Gorospe at (415) 545-5922.

A separate letter is enclosed requesting your feedback on how we handled your application. We would appreciate your response so we may improve our service.

Sincerely,

-signed-

James A. Bundy
Licensing Manager
Western District

Enclosures: Conversion Completed Certification Sample Letter
Minimum Policies and Procedures
12 CFR 9