

#2002-80

AGREEMENT BY AND BETWEEN
National Bank of Andover
Andover, Kansas
and
The Office of the Comptroller of the Currency

National Bank of Andover, Andover, Kansas (Bank) and the Comptroller of the Currency of the United States of America (Comptroller) wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller, through his National Bank Examiner, has examined the Bank, and his findings are contained in the Report of Examination for the examination that commenced on July 1, 2002 (ROE).

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors (Board), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

ARTICLE I

JURISDICTION

(1) This Agreement shall be construed to be a “written agreement entered into with the agency” within the meaning of 12 U.S.C. § 1818(b)(1).

(2) This Agreement shall be construed to be a “written agreement between such depository institution and such agency” within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).

(3) This Agreement shall be construed to be a “formal written agreement” within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). See 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a “written agreement” within the meaning of 12 U.S.C. § 1818(u)(1)(A).

(5) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to the:

Assistant Deputy Comptroller
Wichita Field Office
3450 North Rock Road, Suite 505
Wichita, KS 67226

ARTICLE II

COMPLIANCE OVERSIGHT

(1) The Board shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement.

(2) The Board shall meet at least monthly to monitor:

- (a) actions taken to comply with each Article of this Agreement; and
- (b) the results of those actions.

ARTICLE III

PROGRESS REPORTING - QUARTERLY

(1) The Board shall submit quarterly progress reports to the Assistant Deputy Comptroller, Wichita Field Office, 3450 North Rock Road, Suite 505, Wichita, Kansas 67226.

These reports shall set forth in detail:

- (a) actions taken to comply with each Article of the Agreement;
- (b) results of those actions; and
- (c) a description of the actions needed to achieve full compliance with each Article of this Agreement.

(2) The progress reports should also include any actions initiated by the Board and the Bank pursuant to the criticisms and comments in the Report of Examination or in any future Report of Examination.

(3) The first progress report shall be submitted for the period ending September 30, 2002, and will be due within thirty (30) days of that date. Thereafter, progress reports will be due within thirty (30) days after the quarter end.

ARTICLE IV

STRATEGIC PLAN

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written strategic plan for the Bank covering at least a three-year period. The strategic plan shall, at a minimum, include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) an assessment of the Bank's present and future operating environment;
- (c) the development of strategic goals and objectives to be accomplished over the short and long term;

- (d) an identification of the Bank's present and future product lines (assets and liabilities) that will be utilized to accomplish the strategic goals and objectives established in (1)(c) of this Article;
- (e) an evaluation of the Bank's internal operations, staffing requirements, board and management information systems, policies, and procedures for their adequacy and contribution to the accomplishment of the goals and objectives developed under (1)(c) of this Article;
- (f) a management employment and succession program to promote the retention and continuity of capable management;
- (g) product line development and market segments that the Bank intends to promote or develop;
- (h) an action plan to improve bank earnings and accomplish identified strategic goals and objectives, including individual responsibilities, accountability and specific time frames;
- (i) a financial forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the period covered by the strategic plan;
- (j) control systems to mitigate risks associated with planned new products, growth, or any proposed changes in the Bank's operating environment;
- (k) specific plans to establish responsibilities and accountability for the strategic planning process, new products, growth goals, or proposed changes in the Bank's operating environment; and

- (1) systems to monitor the Bank's progress in meeting the plan's goals and objectives.
- (2) Upon adoption, a copy of the plan shall be forwarded to the Assistant Deputy Comptroller for review and prior determination of no supervisory objection.
- (3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the plan developed pursuant to this Article.

ARTICLE V

FINANCIAL ANALYSIS

- (1) Within thirty (30) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program requiring the financial analysis of commercial loans. At a minimum, the program shall include the following requirements for each new and existing commercial credit:
 - (a) An analysis of the borrower(s)' net worth and balance sheet, including any changes thereto;
 - (b) An analysis of the status and performance of the borrower(s)' operating line of credit;
 - (c) A review of the value and condition of the collateral securing the credit;
 - (d) A comparison of the borrower(s)' cash flow to total debt service requirements; and
 - (e) An evaluation of the borrower(s)' supplementary source of income, if any.

(2) Written documentation of the Bank's compliance with the requirements of subparagraphs (a) through (e) of paragraph (1) shall be maintained in the credit file of each respective commercial loan.

(3) The Bank shall analyze each new commercial loan prior to the disbursement of loan proceeds and every significant commercial loan at least every twelve (12) months thereafter.

(4) Upon completion, a copy of the written program shall be forwarded to the Assistant Deputy Comptroller.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to implement and adhere to the program developed pursuant to this Article.

ARTICLE VI

CREDIT AND COLLATERAL EXCEPTIONS

(1) Within ninety (90) days, the Board shall strive to obtain current and satisfactory credit information on all loans lacking such information, including those listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(2) Effective immediately, the Bank may grant, extend, renew, alter or restructure any loan or other extension of credit only after:

- (a) documenting the specific reason or purpose for the extension of credit;
- (b) identifying the expected source of repayment in writing;
- (c) structuring the repayment terms to coincide with the expected source of repayment;

- (d) obtaining and analyzing current and satisfactory credit information, including cash flow analysis, where loans are to be repaid from operations;
 - (i) Failure to obtain the information in (2)(d) shall require a majority of the full Board (or a delegated committee thereof) to certify in writing the specific reasons why obtaining and analyzing the information in (3)(d) would be detrimental to the best interests of the Bank.
 - (ii) A copy of the Board certification shall be maintained in the credit file of the affected borrower(s). The certification will be reviewed by this Office in subsequent examinations of the Bank.

ARTICLE VII

PARTICIPATIONS PURCHASED

(1) The Bank may grant, purchase, assume or acquire in any manner, directly or indirectly, or as a fiduciary or nominee, any loan, loan participation, loan obligation or other asset, as long as such grant, purchase, assumption, or acquisition is consistent with safe and sound banking practices, the guidelines set forth in Appendix E of the Loan Portfolio Management Booklet of the Comptroller's Handbook, dated April 1998, Banking Circular #181, and the requirements of 12 C.F.R. Part 34.

ARTICLE VIII

CONSUMER AND REAL ESTATE LOAN ADMINISTRATION

- (1) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program to improve the administration of the Bank's consumer and real estate loans. The program shall include but not be limited to:
 - (a) Prudent underwriting procedures governing retail and real estate lending, including stratifications by quality categories and renewal practices;
 - (b) Procedures to ensure extensions of credit are granted, by renewal or otherwise, in compliance with the Board approved loan policy;
 - (c) A monitoring system to track approved exceptions to the loan policy in the aggregate and by loan officer;
 - (d) Procedures to ensure that extensions of credit are granted, by renewal or otherwise, to any borrower only after obtaining and analyzing current and satisfactory credit information; and
 - (e) Audit procedures to ensure the accuracy of internal management systems.
- (2) Upon completion, a copy of the written program shall be forwarded to the Assistant Deputy Comptroller.
- (3) The Board shall ensure that the Bank has processes, personnel, and control systems to implement and adhere to the program developed pursuant to this Article.

ARTICLE IX

PERFORMANCE MANAGEMENT PROGRAM

(1) Within ninety (90) days, the Board shall develop, implement, and thereafter adhere to a formal performance appraisal process to be conducted at least annually that includes, at a minimum, consideration of the President/Chief Executive Officer's effectiveness in meeting his/her responsibilities in the following areas:

- (a) Bank compliance with laws and regulations;
- (b) Quality of the Bank's lending practices;
- (c) Quality of the Bank's internal control environment;
- (d) Progress in meeting Board-defined goals and objectives;
- (e) Maintenance of a qualified and effective Bank staff; and
- (f) Timely corrective action on Bank deficiencies identified by auditors or bank regulators.

(2) Within ninety (90) days, the Board shall also develop, implement, and thereafter adhere to a process to monitor the President/Chief Executive Officer's performance on an ongoing basis between formal annual reviews.

(3) Upon completion, a written description of the processes required by paragraphs (1) and (2) of this Article shall be forwarded to the Assistant Deputy Comptroller.

ARTICLE X

CAPITAL

- (1) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a three-year capital program. The program shall include:
- (a) projections for growth and capital requirements based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
 - (b) projections of the sources and timing of additional capital to meet the Bank's current and future needs;
 - (c) the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs;
 - (d) contingency plans that identify alternative methods should the primary source(s) under (c) above not be available; and
 - (e) a dividend policy that permits the declaration of a dividend only:
 - (i) when the Bank is in compliance with its approved capital program;
 - (ii) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
 - (iii) with the prior determination of no supervisory objection by the Assistant Deputy Comptroller.
- (2) Upon completion, the Bank's capital program shall be submitted to the Assistant Deputy Comptroller for prior determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Bank shall implement and adhere to the capital program. The Board shall review and update the Bank's

capital program on an annual basis, or more frequently if necessary. Copies of the reviews and updates shall be submitted to the Assistant Deputy Comptroller.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE XI

VIOLATIONS OF LAW

(1) The Board shall immediately take all necessary steps to ensure that Bank management corrects each violation of law, rule, or regulation cited in the ROE and in any subsequent Report of Examination. The quarterly progress reports required by Article III of this Agreement shall include the date and manner in which each correction has been effected during that reporting period.

(2) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the ROE and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(3) Within sixty (60) days of receipt of any subsequent Report of Examination which cites violations of law, rule, or regulation, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the ROE and shall adopt, implement, and ensure Bank adherence to general procedures addressing

compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(4) Upon adoption, a copy of these procedures shall be promptly forwarded to the Assistant Deputy Comptroller.

(5) The Board shall ensure that the Bank has policies, processes, personnel, and control systems to ensure implementation of and adherence to the procedures developed pursuant to this Article.

ARTICLE XII

EXTERNAL AUDIT

(1) Within thirty (30) days, the Bank shall retain the services of a qualified and independent external audit firm to:

- (a) Perform a Director's Examination that includes an assessment of the Bank's internal controls; and
- (b) Assess the level of Bank compliance with consumer laws and regulations, including the Bank Secrecy Act and 12 U.S.C. § 30, Appendix B.

(2) A copy of the Bank's written agreement with the external audit firm describing the services the firm will provide to the Bank shall be forwarded to the Assistant Deputy Comptroller within seven (7) days of the Bank's retention of the firm.

ARTICLE XIII

INTERNAL AUDIT

- (1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to an independent, internal audit program sufficient to:
 - (a) detect irregularities in the Bank's operations;
 - (b) determine the Bank's level of compliance with all applicable laws, rules and regulations;
 - (c) evaluate the Bank's adherence to established policies and procedures;
 - (d) ensure adequate audit coverage in all areas; and
 - (e) establish an annual audit plan using a risk based approach sufficient to achieve these objectives.

- (2) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

- (3) As part of this audit program, the Board shall evaluate the audit reports of any party providing services to the Bank, and shall assess the impact on the Bank of any audit deficiencies cited in such reports.

- (4) All audit reports shall be in writing. The Board shall ensure that immediate actions are undertaken to remedy deficiencies cited in audit reports, and that auditors maintain a written record describing those actions.

- (5) The audit staff shall have access to any records necessary for the proper conduct of its activities. National bank examiners shall have access to all reports and work papers of the audit staff and any other parties working on its behalf.

(6) Upon adoption, a copy of the internal audit program shall be promptly submitted to the Assistant Deputy Comptroller.

ARTICLE XIV

INTEREST RATE RISK POLICY

(3) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written interest rate risk policy. In formulating this policy, the Board shall refer to the Interest Rate Risk booklet, L-IRR, of the Comptroller's Handbook. The policy shall provide for a coordinated interest rate risk strategy and, at a minimum, address:

- (a) The establishment of adequate management reports on which to base sound interest rate risk management decisions;
- (b) Establishment and guidance of the Bank's strategic direction and tolerance for interest rate risk;
- (c) Implementation of effective tools to measure and monitor the Bank's performance and overall interest rate risk profile;
- (d) Employment of competent personnel to manage interest rate risk;
- (e) Prudent limits on the nature and amount of interest rate risk that can be taken; and
- (f) Periodic review of the Bank's adherence to the policy.

(4) Upon adoption, a copy of the written policy shall be forwarded to the Assistant Deputy Comptroller for review.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to implement and adhere to the policy developed pursuant to this Article.

ARTICLE XV

SAFEGUARDING CUSTOMER INFORMATION

(1) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written information security program to comply with the Standards for Safeguarding Customer Information in 12 C.F.R. § 30, Appendix B. In developing this program, the Board shall refer to OCC Bulletin 2001-8, dated February 15, 2001.

(2) Upon completion, a copy of the program shall be forwarded to the Assistant Deputy Comptroller.

ARTICLE XVI

CLOSING

(3) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or approval, the Board has the ultimate responsibility for proper and sound management of the Bank.

(4) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him/her by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(5) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(6) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

(7) In each instance in this Agreement in which the Board is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (a) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Agreement;
- (b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (c) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (d) require corrective action be taken in a timely manner of any non-compliance with such actions.

(8) This Agreement is intended to be, and shall be construed to be, a supervisory “written agreement entered into with the agency” as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the OCC or the United States. Notwithstanding the absence of mutuality of obligation, or of

consideration, or of a contract, the OCC may enforce any of the commitments or obligations herein undertaken by the Bank under its supervisory powers, including 12 U.S.C. § 1818(b)(1), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the OCC has any intention to enter into a contract. The Bank also expressly acknowledges that no OCC officer or employee has statutory or other authority to bind the United States, the U.S. Treasury Department, the OCC, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the OCC's exercise of its supervisory responsibilities. The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or arrangements, or negotiations between the parties, whether oral or written.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller, has hereunto set his hand on behalf of the Comptroller.

/s/ C. Scott Schainost
C. Scott Schainost
Assistant Deputy Comptroller
Wichita Field Office

9/26/2002
Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

Signed
Dennis L. Bush

9/26/02
Date

Robert W. Kaplan

Date

Signed

9/26/02

Signed

Yale J. Kaplan

Signed

Lane Kvasnicka

Signed

Calvin McMillan

9-26-2002

Date

9-26-2002

Date

9/26/02

Date

Date

Date
