

AGREEMENT BY AND BETWEEN  
The First National Bank of Newman Grove  
Newman Grove, Nebraska  
and  
The Office of the Comptroller of the Currency

The First National Bank of Newman Grove, Newman Grove, Nebraska (“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 September 29, 2003 (“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).

## Article II

### STRATEGIC PLAN

(1) Within one hundred fifty (150) days, the Board shall review and amend as necessary the Bank’s strategic plan. The strategic plan shall cover at least a three-year period, and shall establish objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, liability structure, capital adequacy, reduction in the volume of nonperforming and classified assets, and market segments that the Bank intends to promote or develop, together with strategies to achieve those objectives and, 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, including, but not limited to, an evaluation of primary risks and challenges facing the Bank both presently, and those expected over the life of the plan;
- (c) the development of strategic goals and objectives to be accomplished over the short and long term;
- (d) an evaluation of the Bank's internal operations, staffing requirements, board and management information systems and policies and procedures

for their adequacy and contribution to the accomplishment of the goals and objectives developed under (1)(c) of this Article;

- (e) an action plan to improve bank earnings and accomplish identified strategic goals and objectives, including individual responsibilities, accountability and specific time frames;
- (f) 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;
- (g) 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. After the Assistant Deputy Comptroller has advised the Board in writing that there is no supervisory objection to the strategic plan, the Board shall immediately implement, and shall thereafter ensure adherence to, the terms of the strategic plan.

### Article III

#### CREDIT RISK MANAGEMENT

(1) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program to reduce the high level of credit risk in the Bank, and to improve credit risk management practices. The program shall include, but not be limited to:

- (a) procedures to strengthen credit underwriting, to ensure that proper consideration is given to borrower cash flow and profitability, liquidity, and solvency, and to prevent over reliance upon character and collateral;
- (b) 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;
- (c) procedures to ensure satisfactory and perfected collateral documentation;
- (d) a system to track and analyze exceptions;
- (e) a credit risk rating and classification system that at a minimum incorporates the regulatory risk ratings as discussed in the Rating Credit Risk, A-RCR and Agricultural Lending, A-AL booklets of the Comptroller's Handbook;
- (f) procedures to ensure early problem loan identification and timely and accurate loan risk ratings based on lending officer submissions;
- (g) procedures for strengthening collections, to include follow-up efforts that are systematically and progressively stronger;
- (h) procedures that limit the type and size of loans that may be made by loan officers without prior approval by the Board or a committee established by the Board;
- (i) procedures to ensure conformance with Call Report instructions;
- (j) procedures to ensure the accuracy of internal management information systems; and

- (k) procedures to ensure compliance with the Bank's lending policies, and laws, rules, and regulations pertaining to the Bank's lending function.

(2) The Board shall submit a copy of the program to the Assistant Deputy Comptroller for review and prior determination of no supervisory objection. After the Assistant Deputy Comptroller has advised the Board in writing that there are no supervisory objections to the credit risk management program, the Bank shall implement and adhere to the credit risk management program.

(3) At least quarterly, the Board shall prepare a written assessment of the bank's credit risk, which shall evaluate the Bank's progress under the aforementioned program. The Board shall submit a copy of this assessment to the Assistant Deputy Comptroller.

(4) Beginning April 30, 2004, on a quarterly basis management will provide the Board with written reports including, at a minimum, the following information:

- (a) the identification, type, rating, and amount of problem loans and leases;
- (b) the identification and amount of delinquent loans and leases;
- (c) credit and collateral documentation exceptions;
- (d) the identification and status of credit related violations of law, rule or regulation;
- (e) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (a) through (d) of this Article and Paragraph;
- (f) the identification of loans and leases not in conformance with the Bank's lending and leasing policies, and exceptions to the Bank's lending and leasing policies.

## Article IV

### CREDIT AND COLLATERAL EXCEPTIONS

(1) Within thirty (30) days the Board shall 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) Within thirty (30) days the Board shall ensure proper collateral documentation is maintained on all loans and correct each collateral exception 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.

(3) Effective immediately, the Bank may grant, extend, renew, alter or restructure any loan or other extension of credit, of fifty thousand dollars (\$50,000) or more, only after:

- (a) 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 (3)(d) shall require a majority of the full Board (or a delegated committee thereof) to certify in writing the specific reasons why obtaining the information in (3)(a) 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; and

- (b) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable.

## Article V

### CREDIT ANALYSIS

(1) Effective immediately, the Bank may grant, renew or restructure any commercial and industrial, farmland, nonfarm nonresidential, or agricultural loans, as defined in the Call Report Instructions, of fifty thousand dollars (\$50,000) or more only after preparing a written analysis.

The written analysis shall include, but not be limited to:

- (a) the specific purpose and terms of the credit;
- (b) the primary and secondary sources of repayment;
- (c) repayment terms that coincide with the source of repayment;
- (d) an assessment of current and historic cash flow, profitability, and debt service coverage;
- (e) an assessment of current and historic solvency and liquidity;
- (f) the value and adequacy of perfected collateral;
- (g) the assigned risk rating and support for the rating;
- (h) loan pricing considerations; and
- (i) compliance with applicable law and Bank policy.

## Article VI

### CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in the ROE, in any subsequent Report of Examination, by internal or

external loan review, or in any list provided to management by the National Bank Examiners during any examination.

(2) Within thirty (30) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written program designed to eliminate the basis of criticism of assets criticized in the ROE, in any subsequent Report of Examination, or by any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination as "doubtful," "substandard," or "special mention." This program shall include, at a minimum:

- (a) an identification of the expected sources of repayment;
- (b) the appraised value of supporting collateral and the position of the Bank's lien on such collateral where applicable;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations. The written analysis required by Article V of this Agreement may be attached to the program in lieu of completing a separate analysis, provided the written analysis addresses the most up-to-date information available at the time the program is developed; and
- (d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

(3) Upon adoption, a copy of the program for all criticized assets shall be forwarded to the Assistant Deputy Comptroller.

(4) The Board, or a designated committee, shall conduct a review, on at least a monthly basis, to determine:



- (a) the status of each criticized asset or criticized portion thereof that equals or exceeds fifty thousand dollars (\$50,000);
- (b) management's adherence to the program adopted pursuant to this Article;
- (c) the status and effectiveness of the written program; and
- (d) the need to revise the program or take alternative action.

(5) A copy of each review required under Paragraph (4) of this Article shall be forwarded to the Assistant Deputy Comptroller on a quarterly basis in a format similar to Appendix A, attached hereto.

(6) The Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination and whose aggregate loans or other extensions exceed fifty thousand dollars (\$50,000) only if each of the following conditions is met:

- (a) the Board or designated committee finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, extending or capitalizing any additional credit, a majority of the full Board (or designated committee) approves the credit extension and records, in writing, why such extension is necessary to promote the best interests of the Bank; and
- (b) a comparison to the written program adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised.

(7) A copy of the approval of the Board or of the designated committee shall be maintained in the file of the affected borrower.

## Article VII

### NONACCRUAL LOANS

(1) The Bank shall immediately reverse or charge off all interest that has been accrued contrary to the requirements contained in the Instructions for Preparation of Consolidated Reports of Condition and Income (“Call Report Instructions”) governing nonaccrual loans. Further, the Bank shall immediately reverse or charge off that portion of the remaining accrued interest on such loans that, when combined with principal, is not protected by sound collateral values.

(2) Within ninety (90) days, the Board shall adopt and implement written policies and procedures governing the supervision and control of nonaccrual loans. Such policies and procedures shall:

- (a) be consistent with the accounting requirements contained in the Call Report Instructions;
- (b) address the circumstances under which accrued interest due on a loan may be added to the outstanding principal amount when the loan is renewed or restructured; and
- (c) require a quarterly presentation to the Board of all loans meeting any of the nonaccrual criteria.

(3) Upon adoption, a copy of the written policies and procedures shall be forwarded to the Assistant Deputy Comptroller, and the Board shall thereafter ensure Bank adherence to all policies and procedures developed pursuant to this Article.

## Article VIII

### LOAN REVIEW CONSULTANT

(1) Within sixty (60) days, the Board shall employ a qualified independent consultant to perform at least a semi-annual asset quality review of the Bank. The consultant shall be utilized until such time as an ongoing internal asset quality review system is developed by the Board, implemented and demonstrated to be effective.

(2) Prior to the appointment or employment of any individual to this loan review consultant or entering into any contract with a consultant, the Board shall submit the name and qualifications of the proposed consultant, detailed scope of the review to be conducted, and the proposed terms of employment to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection.

(3) Before terminating the consultant's asset quality review services, the Board shall both certify the effectiveness of the internal asset quality review system, and receive prior written determination of no supervisory objection from the Assistant Deputy Comptroller.

(4) The requirement to submit information and the provisions for prior determination of no supervisory objection in this Article are based on the authority of 12 U.S.C. § 1818(b) and do not require the Comptroller or the Assistant Deputy Comptroller to complete his/her review and act on any such information or authority within ninety (90) days.

## Article IX

### ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) The Board shall review the adequacy of the Bank's Allowance for Loan and Lease Losses ("Allowance") and shall establish a program for the maintenance of an adequate

Allowance. This review and program shall be designed in light of the comments on maintaining a proper Allowance found in the Allowance for Loan and Lease Losses booklet, A-ALLL, of the Comptroller's Handbook, and shall focus particular attention on the following factors:

- (a) results of the Bank's internal loan review;
- (b) results of the Bank's external loan review;
- (c) an estimate of inherent loss exposure on each credit classified “substandard,” or “doubtful” in excess of fifty thousand dollars (\$50,000);
- (d) an estimate of inherent loss exposure on all other significant credits that are analyzed individually (if no allocation can be determined for such credits on an individual basis, they shall be provided for as part of an appropriate pool of loans);
- (e) loan loss experience;
- (f) trends of delinquent and nonaccrual loans;
- (g) concentrations of credit in the Bank; and
- (h) present and prospective economic conditions; and

(2) The program shall provide for a review of the Allowance by the Board at least once each calendar quarter. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

(3) A copy of the Board's quarterly Allowance reviews shall be provided to the Assistant Deputy Comptroller.

## Article X

### BOOKS AND RECORDS

(1) The Board shall immediately take all necessary actions to ensure that, within ninety (90) days, the Bank's books, records and management information systems (MIS) are restored to a complete and accurate condition.

(2) Within sixty (60) days, the Board shall submit to the Assistant Deputy Comptroller an action plan detailing how the Board will restore the Bank's books, records and MIS to a complete and accurate condition, setting forth a timetable for implementing the plan. In the event the Assistant Deputy Comptroller recommends changes to the action plan, the Board shall immediately incorporate those changes into the plan. The plan shall include, but not be limited to, procedures for:

- (a) establishing controls to ensure the accuracy and confidentiality of information;
- (b) ensuring that data are processed and compiled accurately and uniformly to facilitate meaningful trend analysis, and provide for future systems changes;
- (c) producing complete, accurate and relevant information in a summarized form, for Board and management reports, to permit effective decision making; and
- (d) generating periodic reports, including but not limited to, loan portfolio reports on at least a monthly basis which accurately identify emerging problem loans, identified problem loans, past due loans, and nonaccrual loans.

(3) The Board shall ensure that, once restored to complete and accurate condition, the Bank's books, records and MIS are maintained in a complete and accurate condition. As a part of the Board's ongoing responsibility to ensure that the Bank has accurate books, records and MIS, the Board shall designate a senior officer to coordinate the execution of this program.

## Article XI

### CAPITAL PLAN AND HIGHER MINIMUMS

(1) The Bank shall achieve and maintain the following capital level (as defined in 12 C.F.R. Part 3):

- (a) Tier 1 capital at least equal to seven percent (7.0%) of adjusted total assets.
- (b) "Adjusted total assets," for purposes of subparagraph (a) above is defined as the average total asset figure used for Call Report purposes minus end-of-quarter intangible assets.

(2) The requirement in this Agreement to meet and maintain a specific capital level means that the Bank may not be deemed to be "well capitalized" for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 6 pursuant to 12 C.F.R. § 6.4(b)(1)(iv).

(3) 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) specific plans for the maintenance of adequate capital that may in no event be less than the requirements of paragraph (1);
- (b) projections for growth and capital requirements based upon a detailed analysis of the Bank's assets, liabilities, earnings, and fixed assets. The projections prepared under Paragraph (1)(f) of Article II may be used in

lieu of completing separate projections, provided such projections meet the requirements of both Article II and this Article;

- (c) projections of the sources and timing of additional capital to meet the Bank's current and future needs;
- (d) the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs;
- (e) contingency plans that identify alternative methods should the primary source(s) under (d) above not be available; and
- (f) 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 written determination of no supervisory objection by the Assistant Deputy Comptroller.

(4) 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.

## Article XII

### 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 XIV of this Agreement shall include the date and manner in which each correction has been effected during that reporting period.

(2) Within thirty (30) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the ROE, and within one hundred twenty (120) days 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 thirty (30) 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.



### Article XIII

#### BOARD TO ENSURE PROCESSES, PERSONNEL AND CONTROL SYSTEMS

The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of, and adherence to, all plans, policies, procedures and programs developed pursuant to this Agreement.

### Article XIV

#### PROGRESS REPORTING - QUARTERLY

(1) The Board shall submit quarterly progress reports to the Assistant Deputy Comptroller, Omaha South Field Office, 13710 FNB Parkway, Suite 110, Omaha, Nebraska 68154-5298. These reports shall set forth in detail:

- (a) actions taken since the prior progress report 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 April 30, 2004 and will be due within ten (10) days of that date. Thereafter, progress reports will be due within ten (10) days after the end of each subsequent three-month period running from April 30, 2004.

## Article XV

### ADMINISTRATIVE APPEALS AND EXTENSIONS OF TIME

(1) If the Bank determines that an exception to any provision of this Agreement is in the best interests of the Bank, or requires an extension of any timeframe within this Agreement, the Board shall submit a written request to the Assistant Deputy Comptroller asking for relief.

(2) Any written requests submitted pursuant to this Article shall include a statement setting forth in detail the special circumstances that prevent the Bank from complying with any provision, that require the Assistant Deputy Comptroller to exempt the Bank from any provision, or that require an extension of any timeframe within this Agreement. All such requests shall be accompanied by relevant supporting documentation.

(3) The Assistant Deputy Comptroller's decision in granting the request is final and not subject to further review.

## Article XVI

### CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or prior determination of no supervisory objection, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) 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.

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement.

(4) 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.

(5) 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 prior arrangements 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.

Signed \_\_\_\_\_  
William S. Glover  
Assistant Deputy Comptroller  
Omaha South Field Office

2-9-04  
\_\_\_\_\_  
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 \_\_\_\_\_  
Gerhart, Georgianne

2-09-04  
\_\_\_\_\_  
Date

Signed \_\_\_\_\_  
Gerhart, H. L. (Bud)

2-9-04  
\_\_\_\_\_  
Date

Signed \_\_\_\_\_  
Gerhart, Jeffrey

2-3-04  
\_\_\_\_\_  
Date

\_\_\_\_\_  
Gerhart, Patrick

\_\_\_\_\_  
Date

Signed \_\_\_\_\_  
Gerhart, Rebecca

2-3-04  
\_\_\_\_\_  
Date