

#2007-042

AGREEMENT BY AND BETWEEN
The Farmers National Bank of Osborne
Osborne, Kansas
and
The Comptroller of the Currency

The Farmers National Bank of Osborne, Osborne, 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 has found unsafe and unsound banking practices and violations of law at the Bank.

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

BOARD TO ENSURE COMPETENT MANAGEMENT

(1) The Board will, within ninety (90) days, develop and implement a written program with specific time frames to improve management of the Bank. For purposes of this Agreement, management includes the President, Senior Loan Officer, Chief Financial Officer, and Compliance Officer. At a minimum, the written program shall include:

- (a) an education program designed to ensure that the officer has skills and abilities necessary to supervise effectively;
- (b) a program to improve the effectiveness of the officer;
- (c) objectives by which the officer’s effectiveness will be measured; and
- (d) a performance appraisal program for evaluating performance according to the position’s description and responsibilities and for measuring performance against the Bank’s goals and objectives.

Upon completion, a copy of the written program shall be submitted to the Assistant Deputy Comptroller for review.

(2) Within sixty (60) days, the Board shall develop a comprehensive written program to address each violation of law, unsafe or unsound banking practice, and any other deficiency noted in the Report of Examination dated December 11, 2006 (“ROE”), and shall designate

which member of management shall be responsible for correcting such violation, practice, or deficiency.

(3) If a position mentioned in Paragraph (1) of this Article is vacant now or in the future, including if the Board realigns an existing officer's responsibilities and a position mentioned in Paragraph (1) of this Article becomes vacant, the Board shall within thirty (30) days of such vacancy appoint a capable person to the vacant position who shall be vested with sufficient executive authority to ensure the Bank's compliance with this Agreement and the safe and sound operation of functions within the scope of that position's responsibility.

(4) Prior to the appointment of any individual to an executive officer position, the Board shall submit to the Assistant Deputy Comptroller the following information:

- (a) the information sought in the "Changes in Directors and Senior Executive Officers" and "Background Investigations" booklets of the Comptroller's Licensing Manual, together with a legible fingerprint card for the proposed individual;
- (b) a written statement of the Board's reasons for selecting the proposed officer; and
- (c) a written description of the proposed officer's duties and responsibilities.

(5) The Assistant Deputy Comptroller shall have the power to disapprove the appointment of the proposed new officer. However, the lack of disapproval of such individual shall not constitute an approval or endorsement of the proposed officer.

(6) The requirement to submit information and the prior disapproval provisions of this Article are based on the authority of 12 U.S.C. § 1818(b)(6)(E) and do not require the

Comptroller to complete his review and act on any such information or authority within ninety (90) days.

Article III

CREDIT AND COLLATERAL EXCEPTIONS

- (1) Within ninety (90) days, the Board shall obtain current and satisfactory credit information on all loans lacking such information.
- (2) Within ninety (90) 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, or in any internal or external loan review.
- (3) 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 (3)(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; and

- (ii) a copy of the Board certification shall be maintained in the credit file of the affected borrower(s).
- (e) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable.

Article IV

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 within ninety (90) days. 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 of the Comptroller’s Handbook and shall include the Bank’s methodology for determining and measuring impairment under FAS 114 and FAS 5.

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

(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 V

COMPLIANCE PROGRAM

(1) Within one hundred twenty (120) days, the Board shall adopt, implement, and thereafter ensure adherence to a written compliance program designed to ensure that the Bank is operating in compliance with all applicable laws, rules and regulations, including the Bank Secrecy Act (“BSA”), the Flood Disaster Protection Act (“FDPA”), and all applicable consumer protection laws. This program shall include, but not be limited to:

- (a) a written description of the duties and responsibilities of the compliance officer;
- (b) adequate internal controls to ensure compliance with the BSA, FDPA, and consumer protection laws, rules, and regulations;
- (c) the preparation of a policies and procedures manual covering the BSA, FDPA, and consumer protection laws, rules and regulations for use by appropriate Bank personnel in the performance of their duties and responsibilities;
- (d) semiannual updates of these written policies and procedures manual to ensure they remain current;
- (e) a comprehensive external audit of compliance to determine the extent of existing weaknesses and to establish a baseline for the Bank’s independent audit scope and schedule;
- (f) an independent audit program to test for compliance with the BSA/AML, FDPA and consumer protection laws, rules and regulations. The scope of the BSA/AML audit shall include the independent testing of high risk

accounts (as well as other accounts to determine whether they should be designated as high risk);

- (g) procedures to ensure that any exceptions noted in the audit reports are corrected and responded to by the appropriate Bank personnel;
- (h) the education and training of all appropriate Bank personnel in the requirements of the BSA, FDPA, and all applicable federal and state consumer protection laws, rules and regulations; and
- (i) periodic reporting of the results of the BSA, FDPA and consumer compliance audits to the Board or a committee thereof.

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

(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 VI

INFORMATION TECHNOLOGY

(1) The Board shall immediately take all steps necessary to improve the management of the Bank's Information Technology ("IT") activities and to correct each deficiency cited in the ROE or any subsequent supervisory communication.

(2) Within ninety (90) days, the Board shall develop, implement, and thereafter adhere to a written, well-documented, risk-based, information technology audit program. At a minimum, the IT audit program shall be performed by an independent and qualified party, and

shall include fundamental elements of a sound audit program as described in the “Audit” booklet of the FFIEC Information Technology Examination Handbook.

(3) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure adherence to a comprehensive, written information security program to ensure the safety and soundness of its operations and to support the Bank’s efforts to comply with 12 C.F.R. Part 30, Appendix B, Safeguarding Customer Information. The information security program shall include administrative, technical, and physical safeguards to protect the security, confidentiality, and integrity of customer information. The information security program shall be consistent with the security process described in the “Information Security” booklet of the FFIEC Information Technology Examination Handbook. At a minimum, the information security program shall include:

- (a) an assessment of the risks to its customer information or customer information systems and a written report evidencing such assessment. The assessment shall include:
 - (i) the identification of reasonably foreseeable internal and external threats that could result in unauthorized disclosure, misuse, alteration, or destruction of customer information or customer information systems;
 - (ii) an assessment of the likelihood and potential damage of these threats, taking into consideration the sensitivity of customer information; and

- (iii) an assessment of the sufficiency of policies, procedures, customer information systems, and other arrangements in place to control risks.
- (b) a process to monitor and control the identified risks, commensurate with the sensitivity of the information as well as the complexity and scope of bank activities;
- (c) a test plan that provides for regular testing of key controls, systems and procedures of its information security program. The frequency and nature of such tests shall be determined by the risk assessment. Such tests shall be conducted or reviewed by independent third parties or staff independent of those who develop or maintain the information security program; and
- (d) an annual review of Customer Information Security Program audit results by the Board.

(4) Within ninety (90) days, the Board shall develop, implement, and thereafter adhere to, a written program to oversee and manage risks associated with outsourcing technology services to third-party servicers, including vendors. This third party management program shall be consistent with OCC Bulletin 2001-47, "Third Party Relationships," dated November 1, 2001, and OCC Advisory Letter 2000-12, "Risk Management of Outsourcing Technology Services" dated November 28, 2000.

(5) Within one hundred twenty (120) days, the Board shall develop and implement a formal business continuity process that complies with the requirements set forth in the "Business Continuity Planning" booklet of the FFIEC Information Technology Examination Handbook. At a minimum, the business continuity process shall include:

- (a) a business impact analysis that includes:
 - (i) the identification of the potential impact of uncontrolled, non-specific events on the institution's business processes and its customers; and
 - (ii) an estimation of the maximum allowable downtime and acceptable levels of data, operations, and financial losses.
 - (b) a risk management process that includes the development of a written business continuity plan (BCP); and
 - (c) a risk monitoring process that includes:
 - (i) testing of the BCP on at least an annual basis; and
 - (ii) updating the BCP based upon changes to personnel and the internal and external environments.
- (6) The Board shall provide a written progress report on each of the requirements of this Article to the Assistant Deputy Comptroller for review.

Article VII

MANAGEMENT INFORMATION SYSTEMS

(1) The Board shall develop, implement, and thereafter ensure Bank adherence to a written program establishing an effective management information system (MIS) which facilitates risk identification, establishes controls, and delivers accurate information for timely review. In so doing, the Board shall identify the Bank's specific information requirements, and establish effective reporting mechanisms to guide decisions. The program shall include procedures for:

- (a) expediting the timely delivery of current information;
- (b) establishing controls to ensure the accuracy and confidentiality of information;
- (c) producing complete and relevant information in a summarized form, for Board and management reports, to permit effective decision making;
- (d) identifying, recording, and tracking missing, incomplete, or imperfect loan and collateral documentation, including lacking or outdated appraisals;
- (e) maintaining a system by which the Board can identify at the time of extension of credit, the aggregate customer liability relationship of that customer with the Bank; and
- (f) producing the information, which is listed in the ROE, that is necessary to effectively supervise the loan portfolio.

(2) The Board shall submit a copy of the program to the Assistant Deputy Comptroller for review.

Article VIII

CAPITAL

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

- (a) Total risk-based capital at least equal to ten percent (10%) of risk-weighted assets; and
- (b) Tier 1 capital at least equal to eight percent (8%) of adjusted total assets.

(2) The requirement in this Agreement to 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 sixty (60) days, the Board shall develop a dividend policy that permits the declaration of a dividend only:

- (a) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
- (b) with the prior written determination of no supervisory objection by the Assistant Deputy Comptroller.

(4) The Board shall ensure that the Bank has the processes, personnel, and control systems to ensure implementation of and adherence to the requirements of this Article.

Article IX

VIOLATIONS OF LAW

(1) The Bank shall not lend money or otherwise extend credit to any borrower in violation of the Bank's legal lending limit at 12 U.S.C. § 84.

(2) Within sixty (60) days, the Board shall establish, implement, and thereafter ensure Bank adherence to a written program to prevent future violations of 12 U.S.C. § 84 that, at a minimum, shall include:

- (a) policies and procedures to analyze loans for legal lending limit compliance prior to advancing funds;
- (b) procedures to monitor ongoing compliance with legal lending limit;
- (c) comprehensive training for loan officers on the lending limit regulations;

- (d) requirements for documenting legal lending limit analysis on all related lines that are potentially combinable; and
- (e) procedures to at least annually review large credits to identify any changes in borrower controls, financial interdependence, or other factors that may affect the legal lending limit.

(3) 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.

(4) Within sixty (60) 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.

(5) The program, steps and procedures required by this Article shall be forwarded to the Assistant Deputy Comptroller for review and approval.

Article X

PROGRESS REPORTING - QUARTERLY

(1) The Board shall submit quarterly progress reports to the Assistant Deputy Comptroller, Kansas City – North Field Office, 7101 College Boulevard, Suite 1600, Overland Park, Kansas 66210. 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 shall also include any actions initiated by the Board and the Bank pursuant to the criticisms and comments contained in the ROE or in any future Report of Examination.

(3) The first progress report shall be submitted for the period ending June 30, 2007, and will be due within fifteen (15) days of that date. Thereafter, progress reports will be due within fifteen (15) days after the quarter end.

Article XI

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or prior written 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 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. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(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 Comptroller or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his 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 Comptroller has any intention to enter into a contract. The Bank also expressly acknowledges that no officer or employee of the Office of the Comptroller of the Currency has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller’s exercise of his 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.

/s/ Michael G. Koll

Michael G. Koll
Assistant Deputy Comptroller
Kansas City – North Field Office

3/28/07

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.

/s/
Steve Bihlmaier

3/28/07
Date

/s/
Gene Bihlmaier

3-8-07
Date

/s/
Cheryl Bihlmaier

3/28/07
Date

/s/
Donald Koops

3/28/07
Date

/s/
Jerry McReynolds

4/5/07
Date