

AGREEMENT BY AND BETWEEN  
First National Bank of Sedan  
Sedan, Kansas  
and  
The Comptroller of the Currency

The First National Bank of Sedan, Sedan, 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 determined that the Bank has engaged in unsafe and unsound banking practices relating to its Board and management oversight and credit administration and risk management.

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) This Agreement shall not be construed to require the Bank “to meet and maintain a specific capital level” within the meaning of 12 C.F.R. § 6.4.

## **Article II**

### **Compliance Committee**

(1) Within ten (10) days of this Agreement, the Board shall appoint a Compliance Committee of at least three (3) directors, of which no more than one (1) shall be an employee or controlling shareholder of the Bank or any of its affiliates (as the term “affiliate” is defined in 12 U.S.C. § 371c(b)(1)), or a family member of any such person. Upon appointment, the names of the members of the Compliance Committee and, in the event of a change of the membership, the name of any new member shall be submitted in writing to the Assistant Deputy Comptroller. The Compliance Committee shall be responsible for monitoring and coordinating the Bank’s adherence to the provisions of this Agreement.

(2) The Compliance Committee shall meet at least monthly.

(3) Within thirty (30) days of the date of this Agreement and every calendar quarter thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

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

(4) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller within ten (10) days of receiving such report.

(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, Kansas 67226

(6) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the policies, procedures and programs required by this Agreement.

### **Article III**

#### **Dividends**

- (1) Effective immediately, the Bank shall only declare dividends when:
- (a) the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
  - (b) the Bank has received a prior written determination of no supervisory objection from the Assistant Deputy Comptroller.

### **Article IV**

#### **Senior Loan Officer**

(1) Within sixty (60) days of this Agreement, the Board shall take the necessary steps to appoint a Senior Credit Officer with the knowledge, skills, and abilities necessary to correct the Bank's deficiencies in credit underwriting, administration, and monitoring, and reach and maintain compliance with the credit related articles of this Agreement.

(2) The individual appointed to the Senior Credit Officer position shall be vested with sufficient executive authority to develop and implement appropriate credit risk management policies, procedures, and systems necessary to correct the Bank's deficiencies in credit underwriting, administration, and monitoring, and reach and maintain compliance with the credit related articles of this Agreement.

(3) Prior to the appointment or employment of the Senior Credit Officer, or entering into any contract with any person for this position, the Board shall submit the names and qualifications of the individual and the proposed terms of employment to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection, and shall include the following information:

- (i) the information sought in the "Changes in Directors and Senior Executive Officers" booklet of the *Comptroller's Corporate Manual*, together with a legible fingerprint card for the proposed individual;
- (ii) a written statement of the Board's reasons for selecting the proposed individual; and
- (iii) a written description of the proposed duties and responsibilities.

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

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

(6) If the Senior Credit Officer position described in this Article becomes vacant in the future, the Board shall, within ninety (90) days of such vacancy, employ, appoint, or designate a capable person to the vacant position who shall be vested with the authority and responsibilities outlined in Paragraph (2) of this Article.

(7) If the Board is unable to appoint a qualified candidate within the timeframe set forth above, the Board shall provide documentation of its efforts to locate such a candidate to the Assistant Deputy Comptroller. Thereafter, the Board shall provide quarterly reports to the Assistant Deputy Comptroller summarizing its continuing efforts to locate such candidates.

(8) The Board shall ensure that the Bank has competent management in place on a full-time basis in its senior management positions to carry out the Board's policies, ensure compliance with applicable laws, rules and regulations, and this Agreement, and manage the day-to-day operations of the Bank in a safe and sound manner.

## **Article V**

### **Credit Underwriting and Administration**

(1) Within sixty (60) days of this Agreement, the Board shall take the necessary steps to ensure that the Bank develops safe and sound credit risk management and administration practices, to include at a minimum:

- (a) policies and procedures to ensure that the Bank does not grant, extend, renew, modify or restructure any loan or other extension of credit, or purchase any loan participation, equal to or exceeding one-hundred thousand dollars (\$100,000), without:
  - (i) documenting the specific reason or purpose for the extension of credit;

- (ii) identifying the expected source of repayment in writing;
- (iii) structuring the repayment terms to coincide with the expected source of repayment and the useful life of the collateral;
- (iv) obtaining current and satisfactory credit information, including performing and documenting analysis of credit information and a detailed cash flow analysis of all expected repayment sources, including global cash flow analysis, evaluation of contingent liabilities and verification of liquid assets, where appropriate;
- (v) determining and documenting whether the loan complies with the Bank's Loan Policy and if it does not comply, providing identification of the exception and ample justification to support waiving the policy exception;
- (vi) making and documenting the determinations made regarding the customer's ability to repay the credit on the proposed repayment terms;
- (vii) providing an accurate risk assessment grade and proper accrual status for each credit;
- (viii) obtaining an appraisal or evaluation as appropriate;
- (ix) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable;
- (x) determining and documenting that any participations purchased comply with safe and sound banking practices, guidelines set forth

in Banking Circular 181 (Revised), dated August 2, 1984, and the requirements of 12 C.F.R. Part 34;

- (xi) performing loan stress testing and/or sensitivity analysis for agricultural loan relationships totaling three-hundred thousand dollars (\$300,000) or more, to quantify the impact of common stresses such as varying input costs, commodity prices, and interest rates; and
  - (xii) obtaining the written approval of the Bank's Loan Committee or Board;
- (b) policies and procedures designed to aggregate, track and eliminate exceptions to the Loan Policy, underwriting guidelines, and supervisory loan-to-value limits, for all loans to include, at a minimum:
- (i) monthly Board monitoring of policy exception reports that track aggregate number and dollar amount of loans with material underwriting exceptions by type of loan and loan officer; and
  - (ii) accountability by the lending staff for such exceptions that, at a minimum, considers such exceptions in the periodic performance reviews and compensation of such lending staff;
- (c) policies and procedures to ensure that all commercial, commercial real estate, and agricultural loans and participations purchased, are properly monitored to include periodic receipt (no less than annually), analysis and documentation of sufficient financial, operating and collateral information

to measure and monitor the borrower's financial condition and repayment ability, and assess the Bank's collateral position; and

- (d) policies and procedures to ensure that management identifies and reports all real estate loans in excess of supervisory loan-to-value limits to the Board on a quarterly basis in accordance with 12 C.F.R. § 34, Subpart D, Appendix A.

(2) The Board shall take the necessary steps to ensure that current and satisfactory credit and collateral information is maintained on all loans. Within thirty (30) days of notification, the Board shall ensure that the Bank obtains any missing credit and/or collateral information described in the Report of Examination conducted as of June 30, 2010 (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.

## **Article VI**

### **Appraisal and Evaluation Process**

(1) Within sixty (60) days of this Agreement, the Board shall revise, adopt, implement and thereafter ensure Bank adherence to a written policy designed to ensure the Bank obtains real estate appraisals and evaluations in compliance with USPAP, 12 C.F.R. Part 34, Advisory Letter 2003-9, and OCC Bulletin 2005-6, to include at a minimum:

- (a) the establishment of criteria for obtaining and reviewing updated appraisals, new appraisals, and evaluations;
- (b) the development of procedures to ensure that appraisals, updates and evaluations are ordered in a timely manner;

- (c) the development of procedures to ensure that appraisals, updates and evaluations are reviewed in a timely manner; and
- (d) the establishment of a tickler system for tracking when appraisals, updates and evaluations are received, reviewed and adjustments are made, as appropriate, to reflect FAS 114 impairment and changes in risk ratings.

## **Article VII**

### **External Loan Review**

(1) Within thirty (30) days of this Agreement, the Board shall employ a qualified consultant to perform semi-annual asset quality reviews of the Bank's loan portfolio. The scope of the external loan review shall include seventy percent (70%) by dollar volume of the commercial, agricultural, and commercial real estate portfolios on an annual basis, and provide for a written report to be filed with the Board after each review, with the first report due no later than February 15, 2011, and shall use a loan and lease grading system consistent with the guidelines set forth in Rating Credit Risk, A-RCR, of the *Comptroller's Handbook*. Such reports shall, at a minimum, include comments and conclusions regarding:

- (a) the loan review scope and coverage;
- (b) overall quality of the loan and lease portfolios;
- (c) the identification, type, rating, and amount of problem loans and leases;
- (d) the identification and amount of delinquent and nonaccrual loans;
- (e) the identification/status of credit related violations of law or regulation;
- (f) loans not in conformance with the Bank's lending policies;
- (g) credit underwriting and documentation exceptions;
- (h) credit analysis and documentation of such;

- (i) accuracy of internal risk ratings;
- (j) the identity of the loan officer who originated each loan reported in accordance with Subparagraphs (b) through (g) of the Article;
- (k) overall credit administration practices; and
- (l) completeness and effectiveness of problem loan workout plans.

(2) Prior to the appointment or employment of any individual as loan review consultant or entering into any contract with any consultant, the Board shall submit the name and qualifications of the proposed consultant and the proposed scope and terms of employment to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection. After the OCC has advised the Bank that it does not take supervisory objection to the loan review consultant or the scope of the review, the Board shall immediately engage the loan review consultant pursuant to the proposed terms of the engagement.

(3) The Board or a designated committee shall review the independent loan review reports and ensure that, if appropriate, immediate, adequate, and continuing remedial action, is taken upon the findings noted in the reports.

(4) A copy of the reports submitted to the Board, as well as documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits, shall be maintained in the books and records of the Bank.

(5) The Bank shall not terminate the consultant's asset quality review services without a prior written determination of no supervisory objection from the Assistant Deputy Comptroller.

## **Article VIII**

### **Allowance For Loan And Lease Losses**

(1) Within thirty (30) days of this Agreement, the Board shall revise, adopt, implement, and thereafter ensure adherence to written policies and procedures for maintaining an appropriate Allowance for Loan and Lease Losses (“Allowance”) in accordance with GAAP. The Allowance policies and procedures shall be consistent with the guidance set forth in the Federal Financial Institutions Examination Council’s “Interagency Policy Statement on the Allowance for Loan and Lease Losses” dated December 13, 2006 (OCC Bulletin 2006-47), and July 20, 2001 (OCC Bulletin 2001-37), and shall at a minimum include:

- (a) procedures for determining whether a loan is impaired and measuring the amount of impairment, consistent with Accounting Standards Codification 310-10 (formerly known as FASB Statement of Financial Accounting Standards No. 114);
- (b) procedures for segmenting the loan portfolio and estimating loss on groups of loans, consistent with Accounting Standards Codification 310-10 and 450-20 (formerly known as FASB Statement of Financial Accounting Standards No. 5, Accounting for Contingencies);
- (c) procedures for validating the Allowance methodology; and
- (d) procedures to ensure that the estimation of credit losses considers the relevant qualitative and environmental factors, with particular focus on the following:
  - (i) trends in the Bank’s internal risk ratings, delinquent and nonaccrual loans;

- (ii) results of the Bank's external loan review;
- (iii) concentrations of credit in the Bank;
- (iv) present and prospective economic conditions; and
- (v) applicable experience of the Bank's lending staff.

(2) The program shall provide for a process for summarizing and documenting, for the Board's review and approval, the amount to be reported in the Call Reports for the Allowance. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Call Report, 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) Upon receiving a written determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall immediately implement and thereafter ensure adherence to the program, policies and procedures required by this Article.

## **Article IX**

### **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) 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 noncompliance with such actions in a timely and appropriate manner; and
- (d) require corrective action be taken in a timely manner of any noncompliance with such actions.

(6) 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/  
\_\_\_\_\_  
Thomas J. Jorn  
Assistant Deputy Comptroller  
Wichita Field Office

January 13, 2011  
\_\_\_\_\_  
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/  
\_\_\_\_\_  
Jim Bruner

January 13, 2011  
\_\_\_\_\_  
Date

/s/  
\_\_\_\_\_  
Rodney Dickens

January 13, 2011  
\_\_\_\_\_  
Date

/s/  
\_\_\_\_\_  
Timothy Hills

January 13, 2011  
\_\_\_\_\_  
Date

/s/  
\_\_\_\_\_  
Clyde Kygar

January 13, 2011  
\_\_\_\_\_  
Date

/s/  
\_\_\_\_\_  
Bradley Loyd

January 13, 2011  
\_\_\_\_\_  
Date

/s/  
\_\_\_\_\_  
Earl (Gene) Loyd

January 13, 2011  
\_\_\_\_\_  
Date

/s/  
\_\_\_\_\_  
Thomas McCann

January 13, 2011  
\_\_\_\_\_  
Date