#2018-033

AGREEMENT BY AND BETWEEN
THE 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 or unsound banking practices relating to its Board and management oversight, credit administration, credit risk management and loan growth.

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 Formal Agreement ("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 USC 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 USC 1818(e)(1) and 12 USC 1818(i)(2).

(3) This Agreement shall be construed to be a "formal written agreement" within the meaning of 12 CFR 5.51(c)(7)(ii). See 12 USC 1831i.

(4) This Agreement shall be construed to be a "written agreement" within the meaning of 12 USC 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 CFR 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 USC 371c(b)(1)), or a family member of any such person. The Board shall remain responsible for the Bank's adherence to the provisions of this Agreement, and the appointment of the Compliance Committee shall not relieve the Board of its compliance responsibilities. 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.

(2) The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of the Agreement and 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 provide a summary report of the progress reached in attaining compliance with each Article of the Agreement to the Assistant Deputy Comptroller within thirty (30) days of the end of each calendar quarter.

(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
Comptroller of the Currency - Joplin Field Office
1027 South Main Street, Suite 405
Joplin, Missouri 64801

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

ARTICLE III

STRATEGIC PLAN AND CAPITAL PLAN

(1) Within ninety (90) days of the date of this Agreement, the Board shall develop a written strategic and capital plan for the Bank covering at least the next three years (hereafter the "Plan") complete with specific time frames that incorporate the capital, strategic and other requirements of this Article.

(2) Effective as of the date of this Agreement, the Bank shall not increase its total loans above the amount reported in the Bank's Consolidated Report of Condition ("Call Report") as of December 31, 2017 (the amount on schedule RC-C Part I, line 12), until it corrects the deficiencies described in the Report of Examination (ROE), dated November 27, 2018 returns the Bank to a satisfactory condition, and receives a prior written determination of no supervisory objection from the Assistant Deputy Comptroller.

(3) The Bank's Plan shall establish objectives and projections for the Bank's overall risk profile, earnings performance, growth expectations, balance sheet mix, off-balance sheet activities, liability structure, capital and liquidity adequacy, product line development and market segments that the Bank intends to promote or develop, together with specific strategies to achieve those objectives, that are specific, measurable, verifiable, and at a minimum, address or include but are not limited to:

(a) a mission statement that forms the framework for the establishment of strategic goals and objectives;

(b) the development of strategic goals and objectives to be accomplished over the short and long term;

(c) an assessment of the Bank's present and future operating environment and financial condition, as well as any planned changes to products, services, or business lines;

(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 and the identification of appropriate risk management systems to identify, measure, monitor, and control risks within the product lines;

(e) an evaluation of all major strategic goals, initiatives and opportunities, to determine if they address the Bank's financial condition and performance trends, ensure compliance with the Agreement, and enable the Board and management to operate the Bank in a safe and sound manner;

(f) a management employment and succession program to promote the retention and continuity of capable management in accordance with Article IV;

(g) portfolio stress testing and sensitivity analysis to quantify the potential impact of adverse market conditions on asset quality, earnings, and capital;

(h) a detailed budgeting process;

(i) an effective internal capital planning process to assess the Bank's capital adequacy in relation to its overall risks and to ensure maintenance of appropriate capital levels. These capital levels shall in no event be less than the requirements of the Bank's Individual Minimum Capital Requirement ("IMCR") and consistent with the Bank's overall condition and risk profile, as well as safe and sound capital planning management practices. The capital planning process shall ensure the integrity, objectivity, and consistency of the process through adequate governance. Refer to OCC Bulletin 2012-16, "Capital Planning: Guidance for

Evaluating Capital Planning and Adequacy," dated June 7, 2012 for guidance. The process shall at a minimum include:

(i) projections for loan growth and capital requirements based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, provision expense, and off balance sheet activities;

(ii) stress testing results;

(iii) projections of the sources and timing of additional capital to meet the Bank's current and future needs; and

(iv) contingency plans that identify alternative methods should the primary capital sources be unavailable;

(j) systems to monitor the Bank's progress in meeting the Plan's goals and objectives;

(k) specific plans to establish the responsibilities and accountability for the strategic planning process, new products, growth goals, or proposed changes in the Bank's operating environment; and

(l) a financial forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the period covered by the Plan.

(4) The Bank's Plan shall contain a dividend policy that only permits the declaration of a dividend:

(a) when the provisions of 12 USC 56 and 60 are met;

(b) with the prior written determination of no supervisory objection from the Assistant Deputy Comptroller; and

(c) when the Bank is in compliance with its Plan as required by this Article.

(5) The Bank shall not significantly deviate from the products, services, asset composition and size, funding sources, structure, operations, policies, procedures, and markets of the Bank that existed before the Agreement without first obtaining the Assistant Deputy Comptroller's written determination of no supervisory objection to such a significant deviation.

(6) Upon adoption by the Board, a copy of the Plan and any subsequent amendments or revisions, shall be forwarded to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall ensure that the Bank implements and thereafter adheres to the Plan, including all requirements and time frames.

(7) The Bank may not initiate any action which deviates significantly from the Board approved Plan without a written determination of no supervisory objection from the Assistant Deputy Comptroller. The Board must give the Assistant Deputy Comptroller at least thirty (30) calendar days advance, written notice of its intent to deviate significantly from the Plan, along with an assessment of the impact of such change on the Bank's condition, including a profitability analysis and an evaluation of the adequacy of the Bank's organizational structure, staffing, management information systems, internal controls, and written policies and procedures to identify, measure, monitor, and control the risks associated with the change in the Plan.

(8) For the purposes of this Article, changes that may constitute a significant deviation from the Plan include a change in the Bank's marketing strategies, marketing partners,

underwriting practices and standards, credit administration, account management, collection strategies or operations, fee structure or pricing, accounting processes and practices, or a funding strategy, any of which, alone or in aggregate, may have material impact on the Bank's operations or financial performance; or any other changes in personnel, operations, or external factors. For purposes of this paragraph, personnel shall include the president, chief executive officer, chief operating officer, chief financial officer, chief credit officer, chief compliance officer, risk manager, auditor, member of the Bank's board, or any other position subsequently identified in writing by the Assistant Deputy Comptroller. Refer to "Charters, Appendix F: Significant Deviations After Opening" (September 16, 2016) of the *Comptroller's Licensing Manual* for guidance.

(9) The Board shall review and update the Bank's Plan at least annually or more frequently, if necessary, or if requested by the Assistant Deputy Comptroller. Annual updates shall be forwarded to the Assistant Deputy Comptroller within fifteen (15) calendar days of completion, but no later than February 15th of each year for review and a written determination of no supervisory objection.

(10) At least quarterly, the Board shall review financial reports and earnings analyses prepared by the Bank that evaluate the Bank's performance against the goals and objectives established in the Plan, as well as the Bank's written explanation of significant differences between actual and projected balance sheets, income statements and expense accounts.

ARTICLE IV

BOARD OVERSIGHT, MANAGEMENT AND STAFFING

(1) The Board must ensure that the Bank has competent and capable management in place in all executive officer positions to carry out the Board's policies, ensure compliance with this Agreement, applicable laws, rules and regulations, and manage the day-to-day operations of the Bank in a safe and sound manner.

(2) Within ninety (90) days of this Agreement, the Board shall review the organizational structure and composition of the Bank's management in light of the Bank's present condition and make changes where appropriate to ensure compliance with Paragraph (1) of this Article, including additions or deletions from current managerial positions or personnel if necessary. At a minimum, as part of, or based upon its review, the Board shall:

(a) evaluate director's and officer's knowledge, skills, abilities and make a determination of whether each of these individuals possesses the experience and other qualifications required to perform present and anticipated duties of the officer's position;

(b) evaluate the performance of the Chief Credit Officer (CCO) to ensure that the CCO has the ability to carry out the Board's strategies, abide by Board approved policies and ensure compliance with applicable laws, rules and regulations and manage the day-to-day operations of the credit department in a safe and sound manner;

(c) identify present and future management and staffing requirements of each area of the Bank, with particular emphasis given to Board oversight and senior management and lending officers; and

(d) develop a succession plan for key management positions.

(3) The Board's review conducted pursuant to Paragraph (2), and any managerial changes made or planned as a result, shall be documented and promptly submitted to the Assistant Deputy Comptroller upon completion for review and a written determination of no supervisory objection..

(4) If the Board determines that an officer will continue in his/her position, but that the officer's depth of skills need improvement, the Board shall, within ninety (90) days following the review completed pursuant to Paragraph (2) of this Article, develop and implement a written program, with specific time frames, to improve the officer's supervision and management of the Bank. At a minimum, the written program shall include:

(a) an education program designed to improve the officer's skills and abilities to effectively manage his/her areas of responsibility;

(b) a training program to address identified weaknesses in the skills and abilities of the Bank's staff and management team;

(c) objectives by which management's and the Board's effectiveness will be measured; and

(d) a written performance appraisal program for evaluating the officer's performance according to his/her position's description and responsibilities and for measuring performance against the Bank's goals and objectives.

(5) Upon completion, a copy of the program developed pursuant to Paragraph (4) of this Article shall be submitted to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection.

ARTICLE V
CREDIT UNDERWRITING AND ADMINISTRATION

(1) Effective as of the date of this Agreement, the Board shall ensure that all lending officers comply with all laws, rules and regulations, Bank policies and procedures, safe and sound banking practices, and fiduciary duties. The Board shall ensure that there is a program in place that addresses:

(a) requirements that lending officers appropriately analyze, document, and communicate appropriate credit and collateral information;

(b) requirement to establish a training policy for loan officers to ensure they understand policy requirements;

(c) establishment of a tracking system to ensure that the appropriate documentation is obtained for financial and collateral requirements for each loan;

(d) 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 exceptions by type of loan and loan officer;

(ii) procedure to hold employees and officers accountable for noncompliance with the Bank's loan policy and other underwriting requirements; and

(e) procedures to ensure that loans are properly monitored to include periodic receipt, analysis and documentation of sufficient financial and operating information to measure and monitor the borrower's and guarantor's financial condition and repayment ability, to include periodic (at least annually) cash flow analysis of income producing collateral.

(2) Effective as of the date of this Agreement, the Bank may 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:

(a) documenting the specific reason or purpose for the extension of credit;

(b) identifying the expected source of repayment in writing;

(c) analyzing of the adequacy of repayment including borrower's ability to service the debt with recurring cash flow;

(d) structuring the repayment terms to coincide with the expected source of repayment and the useful life of the collateral;

(e) obtaining current and satisfactory credit information, and performing and documenting a financial analysis of credit information, including a detailed cash flow analysis of all expected repayment sources. The analysis should document an assessment and conclusions on the borrower and guarantor's financial condition and trends in the borrowers financial information such as the adequacy of global cash flow, the level of leverage, and the level and verification of liquid assets, where appropriate;

(f) determining and documenting whether the loan complies with the Bank's loan policy and if it does not comply, providing identification of the exception(s) and ample justification to support waiving the policy exception(s);

(g) providing an accurate risk assessment grade and proper accrual status for each credit;

(h) obtaining appraisals or evaluations, as appropriate;

(i) performing loan stress testing and/or sensitivity analysis on individual loans as required by the Bank's loan policy and prudent banking standards;

(j) obtaining the written approval of the Bank's Loan Committee or Board; and

(k) ensuring that any participations purchased are consistent with sound banking practices. Refer to the guidelines set forth in Banking Circular 181 (revised), dated August 2, 1984.

(3) 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 or collateral information, as of the date of this Agreement, communicated 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
CREDIT RISK RATING

(1) Within sixty (60) days of this Agreement, the Board shall develop a program to ensure that the risk associated with the Bank's loans and other assets is properly reflected and accounted for on the Bank's books and records, to include, at a minimum, provisions to:

(a) develop a risk rating system that is consistent with safe and sound banking practices. Refer to the "Rating Credit Risk" booklet of the *Comptroller's Handbook* for guidance;

(b) ensure that the Bank's loans and other assets are appropriately and timely risk rated and charged off by management using a safe and sound loan grading system that is based upon current facts, and existing repayment terms. Refer to the "Rating Credit Risk" booklet of the *Comptroller's Handbook* for guidance;

(c) provide for credit risk ratings to be reviewed and updated whenever relevant new information is received, but no less than annually, and include procedures for timely risk rating downgrades when conditions warrant without compromise or delays based on unfounded reliance on guarantors, payment history, borrower character or potential future events;

(d) adopt annual training for loan officers on risk rating definitions and the importance of accurate and timely risk ratings;

(e) ensure accountability of loan officers and management for failing to appropriately and timely risk rate and/or place loans on nonaccrual;

(f) require that appropriate analysis and documentation is maintained in the credit files to support the current and previous risk rating and accrual determination for each credit relationship; and

(g) incorporate management information systems that periodically provide feedback to the Board about the effectiveness of the program from senior management and individual lending officers.

(2) Within sixty (60) days of this Agreement the Board shall take the necessary steps to ensure that all credit relationships equaling one hundred fifty thousand ($150,000) or above are reviewed and accurately risk rated. Refer to "Rating Credit Risk" booklet of the *Comptroller's Handbook* for guidance.

(3) Upon completion, a copy of the written program developed pursuant to this Article shall be promptly forwarded to the Assistant Deputy Comptroller for a written determination of no supervisory objection. Upon receiving a written determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall immediately adopt, implement, and thereafter, ensure adherence to the written program.

ARTICLE VII

<u>APPRAISAL AND EVALUTION PROCESS</u>

(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 12 CFR 34. Refer to "Uniform Standards of Professional Appraisal Practice", and OCC Bulletin 2010-42, "Interagency Appraisal and Evaluation Guidelines" for additional guidance. The policies and procedures shall, at a minimum, include the following:

(a) the establishment of criteria for obtaining updated appraisals, new appraisals, and evaluations;

(b) the development of procedures to ensure that appraisals, updates and evaluations are the appropriate type and ordered in a timely manner;

(c) the establishment of a tickler system for tracking when appraisals, updates and evaluations are received, reviewed and adjustments are made, as appropriate, to reflect ASC 310-10 impairment and changes in risk ratings; and

(d) the establishment and implementation of a policy requiring a meaningful review, independent of the lender, of all appraisals to include analysis commensurate with the type, size and complexity of the property being appraised.

(2) Upon completion, a copy of the written program developed pursuant to this Article shall be promptly forwarded to the Assistant Deputy Comptroller for a written determination of no supervisory objection.

ARTICLE VIII

INTERNAL AUDIT

(1) Within sixty (60) days of this Agreement, the Board shall revise, adopt, implement and thereafter ensure Bank adherence to a written policy outlining an independent and comprehensive internal audit program that ensures timely management responses and corrective actions on identified weaknesses. Refer to OCC Bulletin 2003-12, "Interagency Policy Statement on the Internal Audit Function and Its Outsourcing" and the "Internal and External Audits" booklet of the *Comptroller's Handbook* for additional guidance. The Board shall implement and ensure Bank adherence to an independent and comprehensive audit that includes at a minimum:

(a) a documented link between risk assessment and the scope and frequency of audits;

(b) the development of an audit schedule that includes planned audit dates and is updated periodically to reflect changes in regulatory requirements, the Bank's systems and operating environment, and new products or services;

(c) a review of progress for all auditors at least quarterly to ensure scheduled audits are being completed and reported to the Audit Committee;

(d) a requirements that compliance audit engagement letters require audit reports to contain sufficient detail, summary findings, whether issues identified represent new or repeat findings, and the risk to the Bank;

(e) a formal written management response for all material negative audit findings and exceptions;

(f) appropriate monitoring and documentation of corrective actions;

(g) documentation of efforts to address audit weaknesses; and

(h) adequate sample sizes and independent testing.

(2) 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.

(3) The Board shall ensure that the audit function is supported by an adequately staffed department or outside firm, with respect to both the experience level and number of the individuals employed.

(4) The Board shall ensure that the audit program is independent. The persons responsible for implementing the internal audit program described above shall report directly to the Board, which shall have the sole power to direct their activities. All reports prepared by the audit staff shall be filed directly with the Board and/or Board Audit Committee (comprised of at least two external directors) and not through any intervening party.

(5) Upon adoption, a copy of the internal audit program shall be promptly submitted to the Assistant Deputy Comptroller for review and a written determination of no supervisory objection.

ARTICLE IX

VIOLATIONS OF LAW

(1) The Board shall immediately take the necessary steps to ensure that Bank management corrects each violation of law, rule, or regulation, unsafe or unsound practice, or breach of fiduciary duty, cited in the ROE and in any subsequent ROE or Office of the Comptroller of the Currency (OCC) correspondence. The quarterly progress reports required by Article II of this Agreement shall include the date and manner in which each correction has been effected during that reporting period.

(2) Within sixty (60) days of the date of this Agreement, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations, practices, and breaches 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, regulations and duties applicable to their areas of responsibility.

(3) Within sixty (60) days of receipt of any subsequent ROE or other OCC correspondence which cites violations of law, rule, or regulation, unsafe or unsound practice, or breach of fiduciary duty, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future citations 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, regulations, and duties applicable to their areas of responsibility.

ARTICLE X

CLOSING

(1) Although the Board has, by this Agreement, consented to submit certain proposed actions, 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) 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) ensure that the Bank has sufficient processes, management, personnel, and control systems to ensure implementation of and adherence to the programs developed pursuant to this Agreement, and that Bank management and personnel have sufficient training and authority to execute their duties and responsibilities, including under this Agreement;

(b) authorize, direct, 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;

(c) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;

(d) follow-up on any non-compliance with such actions in a timely and appropriate manner; and

(e) require corrective action be taken in a timely manner of any non-compliance with such actions.

(3) 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.

(4) Any time requirements specified in 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.

(5) Each citation or referenced guidance included in this Agreement includes any subsequent guidance that replaces, supersedes, amends, or revises the cited law, regulation, or guidance.

(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 until such time as they shall be amended by written mutual consent of the parties to this Agreement or excepted, waived, or terminated in writing by the Comptroller.

(7) This Agreement expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States. 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 OCC 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/ April 17, 2018

Kevin L. Johnson
Assistant Deputy Comptroller
Kansas City Field Office

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/	April 17, 2018
PJ Buck	Date
/s/	April 17, 2018
Michael P. Clark	Date
/s/	April 17, 2018
Rodney Dickens	Date
/s/	April 17, 2018
Kirk Hamilton	Date
/s/	April 17, 2018
Clyde Kygar	Date
Bradley Loyd	Date
/s/	April 17, 2018
Jack Newcomb	Date
/s/	April 17, 2018
Tom Payne	Date