

#2003-163

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

The First National Bank of Cambridge, Cambridge, 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 August 11, 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).

(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
Omaha South Field Office
13710 FNB Parkway, Suite 110
Omaha, Nebraska 68154-5298

ARTICLE II

STRATEGIC PLAN

(1) Within one hundred eighty (180) days, and annually thereafter, 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, product line development 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, 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; and
- (g) establishment of a management employment and succession program to promote the development, retention and continuity of capable management.

(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

STAFFING PLAN

(1) Within thirty (30) days, the Board shall identify all immediate Bank staffing needs and develop a written outline of the methodology the Board will use to address those needs. The outline shall detail all present staffing imbalances identified by the Board, and the Board's short-term plan to address those imbalances. Upon adoption, a copy of the written outline shall be provided to the Assistant Deputy Comptroller.

(2) Within one hundred eighty (180) days, the Board shall develop a comprehensive staffing plan that is consistent with the goals and objectives established in the Bank's strategic plan and that accomplishes the overall risk profile established for the Bank. At a minimum, the plan will consist of the following:

- (a) identification of the skills and expertise needed to develop, market, and administer the products identified in the strategic plan;
- (b) identification of the skills and expertise of the Bank's current staff;
- (c) comparison of the current staff's skills and expertise identified in (2)(b) of this Article to the skills and expertise identified in (2)(a) of this Article as necessary to develop, market, and administer the products that will be utilized in accomplishing the Bank's goals and objectives; and
- (d) evaluation of potential benefits from use of external consultants to assist the Bank in ongoing risk management or development of risk measurement and reporting tools.

(3) Upon completion of the actions required by (2), the Board will provide a copy of its staffing plan to the Assistant Deputy Comptroller for a determination of no supervisory

objection. After the Assistant Deputy Comptroller has advised the Board in writing that there is no supervisory objection to the staffing plan, the Board will implement the plan, and direct any changes necessary to provide the Bank with a staff that possesses the skills and expertise identified in (2)(a) of this Article. Thereafter the Board will ensure that the Bank adheres to the staffing plan.

ARTICLE IV

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 March 31, 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 and amount of loans and leases to executive officers, directors, principal shareholders (and their related interests) of the Bank; and
- (g) 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 V

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.

ARTICLE VI

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 one hundred thousand dollars (\$100,000) 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 VII

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 for all assets equal to or exceeding fifty thousand dollars (\$50,000) that are 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 VI 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 (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 VIII

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.

(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 Bank's quarterly Allowance reviews shall be provided to the Assistant Deputy Comptroller.

ARTICLE IX

LOAN REVIEW CONSULTANT

(1) Within sixty (60) days, the Board shall employ a qualified independent consultant to perform at least an 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 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 of 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 review and act on such information or authority within ninety (90) days.

ARTICLE X

ASSET/LIABILITY MANAGEMENT POLICY

(1) Within one hundred twenty (120) days, the Board shall review and revise, and thereafter ensure adherence to, the Bank's written liquidity, asset and liability management policy. In revising this policy, the Board shall refer to the Liquidity booklet, L-L, of the Comptroller's Handbook. The policy shall provide for a coordinated asset/liability management strategy and, at a minimum, address:

- (a) adequate management reports that enable the Board and management to monitor the Bank's liquidity position and maintain liquidity at an adequate level;
- (b) development of a liquidity contingency funding plan;
- (c) limits on concentrations of funding sources;
- (d) parameters defining the Board's tolerance for liquidity risk; and
- (e) periodic review of the Bank's adherence to the policy.

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

ARTICLE XI

INTEREST RATE RISK POLICY

(1) Within one hundred twenty (120) days, the Board shall review and revise, and thereafter ensure adherence to the Bank's written interest rate risk policy. In revising this policy, the Board shall refer to the Interest Rate Risk booklet, L-IRR, of the Comptroller's Handbook.

The policy shall provide for a coordinated interest rate risk strategy and, at a minimum, address:

- (a) the establishment of adequate management reports on which to base sound interest rate risk management decisions;
- (b) establishment of the Bank's strategic direction and tolerance for interest rate risk;
- (c) implementation of effective tools to measure and monitor the Bank's performance and overall interest rate risk profile;
- (d) periodic Board review of the assumptions used in interest rate risk reports;
- (e) evaluation of long-term unmatched positions and strategies to control risk posed by such positions; and
- (f) periodic review of the Bank's adherence to the policy.

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

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

(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 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 January 31, 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 January 31, 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 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 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.

/s/ William S. Glover

William S. Glover
Assistant Deputy Comptroller
Omaha South Field Office

12-18-03

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

Deselms, Diane

12-18-03

Date

Deselms, Mel

Date

Signed

Eisenhart, Eric

12/18/03

Date

Signed

Shoemaker, Vickie

12/18/03

Date

Signed

Shoemaker, W. E.

12/18/03

Date

Signed

Voss, L. D.

12/18/03

Date

