

#2016-050

AGREEMENT BY AND BETWEEN
The First National Bank of Scott City, National Association
Scott City, Kansas
and
The Comptroller of the Currency

The First National Bank of Scott City, National Association, Scott City, Kansas (the “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 certain unsafe and unsound banking practices relating to the Bank’s lending program and credit administration.

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)(7)(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 cause the Bank not to be designated as an “eligible depository institution” for purposes of 12 C.F.R. § 5.3(h), unless otherwise informed in writing by the Comptroller.

(6) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller (“ADC”) pursuant to this Agreement shall be forwarded to the:

Office of the Comptroller of the Currency
W. Keith Osborne
Assistant Deputy Comptroller
Wichita Field Office
2959 N. Rock Road, Suite 510
Wichita, Kansas 67226

ARTICLE II
COMPLIANCE COMMITTEE

(1) Within fifteen (15) 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. 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’s 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 ADC.

(2) The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement and shall meet at least monthly.

(3) By no later than the end of every calendar quarter plus one month (i.e., April 30th, July 31st, October 31st, and January 31st) 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 ADC within fifteen (15) days of receiving such report (i.e., by May 15th, August 15th, November 15th, and February 15th).

(5) 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 DIVIDEND RESTRICTION

- (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 ADC.

ARTICLE IV
MANAGEMENT AND BOARD SUPERVISION

(1) Within ninety (90) days of this Agreement, the Board shall prepare and submit to the ADC for a prior written determination of no supervisory objection, a plan designed to eliminate the deficiencies in management leadership and Board oversight as described in the Report of Examination conducted as of September 30, 2015 (the “ROE”), to include, at a minimum:

- (a) the development of revised loan and credit administration policies and procedures designed to ensure:
 - (i) the Board provides proper oversight of the affairs of the Bank;
 - (ii) the Board receives and reviews sufficient Bank information from management (including scope, frequency and content) on the operation of the Bank to enable it to provide proper oversight and for each member to fulfill his/her fiduciary duties and other responsibilities under law; and
 - (iii) the Board eliminates any managerial or other deficiencies in the supervision or organizational structure of the Bank;
- (b) the development of a satisfactory management succession plan that allows for the identification, development, and retention of employees to fill key management positions at the Bank;
- (c) the development of a satisfactory training program designed to ensure that the Bank’s employees possess the necessary skills and abilities to effectively manage their areas of responsibilities;

- (d) periodic performance and compensation reviews of lending officers and managers partially based upon the actions taken and results achieved in attaining compliance with the various credit requirements of this Agreement as stipulated in Articles V-VIII, including but not limited to, risk rating accuracy, credit and collateral exception levels, loan policy compliance, and the development and execution of problem asset workout plans; and
- (e) the development of specific limits on any increase in the Bank's total loans (the amount that appears on Schedule RC-C part I, line 12, on the Bank's December 31, 2015, Consolidated Report of Condition) until the Bank corrects the deficiencies in Asset Quality described in the ROE and the Bank returns to a satisfactory condition.

(2) Upon receiving a written determination of no supervisory objection from the ADC, the Board shall immediately implement and thereafter ensure adherence to the program required by this Article.

(3) Within sixty (60) days of this Agreement, the Board shall identify a qualified and capable candidate for Chief Credit Officer vested with sufficient executive authority to develop and implement appropriate credit risk management policies, procedures, and systems to ensure the Bank's loan portfolio is managed in a safe and sound manner as well as to attain compliance with the credit-related articles of this Agreement, specifically Articles V-VIII. The person appointed to such position shall be vested with sufficient knowledge, skills, and abilities, including but not limited to, the technical expertise (including the workout and collection of problem loans) and the leadership skills necessary to manage the Bank accordingly. In the event

that the Chief Credit Officer position of the Bank becomes vacant, the Board shall take the necessary steps to identify a suitable candidate to fill the vacancy within sixty (60) days of receiving notice of such vacancy. Prior to the employment of any individual as Chief Credit Officer, the Board shall submit to the ADC the following information:

- (a) 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;
- (b) a written statement of the Board's reasons for selecting the candidate; and
- (c) a written description of the candidate’s duties and responsibilities.

ARTICLE V
LOAN PORTFOLIO MANAGEMENT

(1) Within ninety (90) days of this Agreement, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program to improve the Bank's loan portfolio management (“Loan Portfolio Management Program”). The Loan Portfolio Management Program shall include, but not be limited, to procedures to ensure that:

- (a) extensions of credit are granted, by renewal or otherwise, to any borrower only after obtaining and analyzing current and satisfactory credit information;
- (b) loans conform with loan approval requirements;
- (c) the types of credit information required from borrower and guarantors, includes but is not limited to, annual audited statements, interim financial statements, personal financial statements, and tax returns with supporting schedules;
- (d) borrowers provide periodic financial data;

- (e) any extensions of credit (new, maturity extension, renewal, or participation purchased) are made only after obtaining and analyzing current credit information about the borrower and any guarantor sufficient to fully assess and analyze the borrower's and guarantor's global cash flow, debt service requirements, contingent liabilities, global liquidity condition, and sources of repayment, and only after the credit officer prepares a documented credit analysis;
- (f) any extension of credit (new, maturity extension, or renewal) is made only after obtaining and documenting the current valuation of any supporting collateral;
- (g) the performance of interim financial analysis or annual reviews, including, alternative procedures for borrowers refusing to provide periodic financial information;
- (h) risk rating upgrades and restoration of loans to accrual status, including upgrading a loan designated as a troubled debt restructuring, are supported by a current and well documented credit evaluation of the borrower's financial condition and prospects for repayment, including consideration of the borrower's historical repayment performance and other relevant factors;
- (i) the Bank maintains standards of independence for the appraisal and evaluation function as part of an effective collateral valuation program that is independent of the loan approval process (if staff limitations prevent full segregation of these functions, then the Board and management must

make sure that the individual accepting and reviewing the appraisal abstains from and has no power to approve loans);

(j) management is held accountable for appropriate documentation of loan presentations; and

(k) participations are purchased as set forth in Banking Circular 181 (Revised), dated August 2, 1984, and the requirements of 12 C.F.R. Part 34, to include, at a minimum:

- (i) a prohibition against purchasing any participation for which the Bank does not have the knowledge, skills, or ability to properly underwrite on its own;
- (ii) standards, procedures, and limits for the purchase of loans and participations;
- (iii) preparation and documentation of complete, independent analysis of the credit quality of the obligations to be purchased, as well as an independent analysis of the value and lien status of the collateral pledged;
- (iv) maintenance of current, complete financial information and analysis on the borrower during the term of the loan;
- (v) the identification, waiver (if appropriate), and mitigation (if appropriate) of any exceptions to the Bank's Loan Policy; and
- (vi) the establishment of officer and managerial responsibility and accountability for compliance with the revised policy.

(2) Upon completion, a copy of the Loan Portfolio Management Program shall be forwarded to the ADC.

(3) Within sixty (60) days of this Agreement, the Board shall ensure that Bank personnel performing credit analyses are adequately trained in cash flow analysis, and that processes are in place to ensure that additional training is provided as needed.

(4) Within sixty (60) days of this Agreement, the Board shall develop and adopt written policies and procedures designed to ensure that the Bank complies with the lending limit requirements of 12 U.S.C. § 84 and 12 C.F.R. Part 32, including immediate and ongoing training on lending limits for all lending officers and management.

ARTICLE VI CREDIT RISK RATINGS

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

- (a) the Bank's loans and other assets are appropriately and timely risk rated and charged off by the lending officers using a loan grading system that is based upon current facts, existing repayment terms and that is consistent with the guidelines set forth in "Rating Credit Risk," A-RCR, of the *Comptroller's Handbook*;
- (b) the lending staff receives sufficient training with respect to the application of Subparagraph (a) of this Article;
- (c) procedures to ensure loan officers are held accountable for failing to appropriately and timely risk rate and/or place loans on nonaccrual,

including but not limited to, consideration of loan officer and staff failure to properly risk rate and/or place loans on nonaccrual in periodic performance reviews and compensation;

- (d) the Bank's loans and other assets are timely placed on nonaccrual in accordance with the guidelines set forth in the Bank's Call Report; and
- (e) appropriate analysis and documentation are maintained in the credit files to support the current and previous risk rating or accrual determination for all credit relationships totaling two-hundred fifty thousand dollars (\$250,000) or more.

(2) After the Board has developed the program required by this Article, the Board shall immediately implement, and shall thereafter ensure adherence to its terms.

(3) As soon as practicable, but by no later than July 1, 2016, the Bank shall perform a portfolio-wide credit review including all loans and relationships with aggregate credit exposure over \$250,000, to determine the current extent of risk. Factors that must be considered in this review are:

- (a) new appraised values or other updated valuations;
- (b) analysis of payment performance;
- (c) maturity dates;
- (d) appropriateness of current risk rating; and
- (e) current financial information regarding principals and guarantors.

(4) The Board shall continue to employ a qualified consultant to perform independent reviews of the Bank's loan portfolio at least semi-annually to assure the timely identification and categorization of problem credits. Prior to the Bank's appointment of any new consultant to

perform the review required by this Paragraph, the Board shall submit the name and qualifications of the consultant for a written determination of no supervisory objection from the ADC.

(5) The scope of the engagement with the loan review consultant shall provide for a written report to be filed with the Board after each review 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*. The Board shall forward the report required by this Paragraph to the ADC within thirty (30) days of receiving it from the consultant.

ARTICLE VII PROBLEM LOAN MANAGEMENT

(1) Effective immediately, the Board 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 sixty (60) days of this Agreement, the Board shall develop written procedures for the quarterly submission and review of reports of all criticized credit relationships totaling \$250,000 or above, that require, at a minimum, analysis and documentation of the following:

- (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 as well as other necessary documentation to support the collateral valuation;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations;

- (d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment;
- (e) trigger dates for positive borrower actions or for loan officers to reassess the strategy and enact collection plans; and
- (f) review, at least quarterly, by the Board and management to measure progress and reevaluate the suitability of the action plans.

(3) A copy of each report prepared pursuant to Paragraph (2) of this Article, along with any Board comments regarding the effectiveness of the effort to eliminate the weaknesses in each credit, shall be submitted to the ADC within fifteen (15) days of each quarter end.

ARTICLE VIII ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within ninety (90) days of this Agreement, the Board shall adopt, implement, and thereafter ensure adherence to written policies and procedures for maintaining an adequate Allowance for Loan and Lease Losses (“ALLL”) in accordance with the Federal Accounting Standards Advisory Board’s (“FASB”) generally accepted accounting principles (“GAAP”). The ALLL 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 shall at a minimum include procedures for the following:

- (a) determining whether a loan is impaired and measuring the amount of impairment, consistent with GAAP (including FASB’s Accounting Standards Codification (“ASC”) 310-10, Receivables - Overall - Subsequent Measurement – Impairment);

- (b) segmenting the loan portfolio and estimating loss on groups of loans that are consistent with GAAP (including FASB's ASC 450-20, Loss Contingencies). These procedures shall require the Bank to document its estimation of credit losses and its analysis of the nine qualitative factors set forth in OCC Bulletin 2006-47;
- (c) validating the ALLL methodology;
- (d) ensuring 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 as well as in 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;
- (e) providing training for all staff preparing the ALLL;
- (f) reviewing on at least a quarterly basis, to determine the adequacy of the ALLL. The Board shall maintain written documentation indicating the factors considered and conclusions reached in its determination of the adequacy of the ALLL; and
- (g) summarizing and documenting, for the Board's prior review and approval, the amount to be reported in the Bank's Call Report for the ALLL.

(2) The Board shall adopt, implement, and thereafter ensure adherence to written policies and procedures to ensure that all official and regulatory reports filed by the Bank accurately reflect an adequate ALLL balance as of the date that such reports are submitted. Any difference between the ALLL balance as determined by the analysis required by this Article and the Bank's actual ALLL balance shall be remedied through appropriate account adjustments in the quarter it is discovered, prior to the filing of the Bank's Call Reports. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the ALLL.

(3) Upon adoption, the Board shall submit a copy of the policies and procedures required by this Article, or any subsequent amendments or changes to those policies and procedures, to the ADC for determination of no supervisory objection.

(4) Upon receiving a determination of no supervisory objection from the ADC, the Board shall implement and thereafter ensure adherence to the policies and procedures.

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 Report of Examination or 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 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 training of employees regarding laws, rules, regulations, and duties applicable to their areas of responsibility.

(3) Within sixty (60) days of receipt of any subsequent Report of Examination 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 training of employees regarding laws, rules, regulations, and duties applicable to their areas of responsibility.

ARTICLE X CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the ADC 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 or her by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) 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.

(4) The provisions of this Agreement are effective upon issuance of this Agreement by the Comptroller, through his authorized representative whose hand appears below, and shall

remain effective and enforceable, except to the extent that, and until such time as, any provisions of this Agreement shall have been amended, suspended, waived, or terminated in writing by the Comptroller, through his authorized representative.

(5) Except as otherwise expressly provided herein, any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement.

(6) If the Bank requires a waiver or suspension of any provision or an extension of any time frame within this Agreement, the Board shall submit a written request to the ADC asking for relief. Any written requests submitted pursuant to this Article shall include a statement setting forth in detail, with relevant supporting documentation, the special facts and circumstances that support the waiver or suspension of any provision or an extension of a time frame within this Agreement.

(7) The ADC's decision concerning a request submitted pursuant to Paragraph (6) of this Article is final and not subject to further review.

(8) 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, the Board shall:

- (a) 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;
- (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 non-compliance with such actions in a timely and appropriate manner; and

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

(9) 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/

4/19/16

W. Keith Osborne
Assistant Deputy Comptroller
Wichita 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/	4/19/16
_____ Aaron Beaton	_____ Date
/s/	4/19/16
_____ Gene Hess	_____ Date
/s/	4/19/16
_____ Stacy Hoeme	_____ Date
/s/	4/19/16
_____ Mark McCandless	_____ Date
/s/	4/19/16
_____ Skip Numrich	_____ Date
/s/	4/19/16
_____ Sharon Powers	_____ Date
/s/	4/19/16
_____ Corbin Stevens	_____ Date