

UNITED STATES OF AMERICA
BEFORE
THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

STATE OF MISSOURI
DEPARTMENT OF ECONOMIC DEVELOPMENT - DIVISION OF FINANCE

_____)	
In the Matter of)	
)	
PROGRESS BANCSHARES, INC.)	
Sullivan, Missouri)	Docket Nos. 06-018-B-HC
)	06-018-B-SM
and)	
)	Cease and Desist Order Issued on Consent
PROGRESS BANK OF MISSOURI)	Pursuant to the Federal Deposit Insurance
Sullivan, Missouri)	Act, as amended
)	
_____)	

WHEREAS, Progress Bancshares, Inc. (“Progress”), Sullivan, Missouri, a registered bank holding company, owns and controls Progress Bank of Missouri (the “Bank”), Sullivan, Missouri, a state chartered bank that is a member of the Federal Reserve System;

WHEREAS, the Federal Reserve Bank of St. Louis (the “Reserve Bank”), with the assistance of the State of Missouri Department of Economic Development – Division of Finance (the “State”), recently conducted an examination of the Bank and found unsafe and unsound banking practices, deficiencies in the Bank’s credit risk management practices, and alleged violations of state and federal banking laws and regulations, including Regulation O of the Board of Governors (12 C.F.R Part 215) and sections 23A and 23B of the Federal Reserve Act (12 U.S.C. 371c and 371c-1);

WHEREAS, Progress and the Bank have consented to the issuance of this Cease and Desist Order (the “Order”) by the Board of Governors of the Federal Reserve System (the

“Board of Governors”) and the State in order to restore and maintain the financial soundness of Progress and the Bank; and

WHEREAS, on June 23, 2006, the boards of directors of Progress and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing Jack Blanton, chairman of the board of each entity, to enter into this Order on behalf of Progress and the Bank, respectively, and consenting to compliance by Progress, the Bank, and their respective institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. 1813(u) and 1818(b)(3)), with each and every applicable provision of this Order and waiving any and all rights that Progress and the Bank may have pursuant to section 8 of the FDI Act (12 U.S.C. 1818) to: (i) a hearing for the purpose of taking evidence on any matters set forth in this Order; (ii) judicial review of this Order; (iii) contest the issuance of this Order by the Board of Governors pursuant to section 8 of the FDI Act; and (iv) challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Order or any provisions hereof.

NOW, THEREFORE, before the filing of any notices, or taking of any testimony or adjudication of or finding on any issues of fact herein, and without this Order constituting an admission or denial by Progress or the Bank of any allegation made or implied regarding this matter, and solely for the purpose of settling this matter without a formal proceeding being filed and without the necessity for protracted hearings or testimony;

IT IS HEREBY ORDERED that, pursuant to sections 8(b)(1) and (3) of the FDI Act and Chapter 361 of the Revised Statutes of Missouri, Progress, the Bank, and their respective institution-affiliated parties shall cease and desist and take affirmative action as follows:

Management

1. (a) Within 60 days of this Order, the Bank shall take such steps as are necessary to recruit and retain a qualified chief financial officer and a senior lending officer with responsibility for the Bank's credit function.

(b) In appointing any new officers or directors, Progress and the Bank shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. 225.71 *et seq.*).

(c) Progress and the Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

(d) Progress shall not, directly or indirectly, increase or pay any fees to, or make any other payments, including, but not limited to, the reimbursement of expenses or the payment of indebtedness, to or on behalf of Progress's officers, directors, or principal shareholders without the prior approval of the Reserve Bank. Notwithstanding the foregoing, Progress may pay fees to directors without the prior approval of the Reserve Bank, provided the fees have been duly authorized pursuant to Progress's bylaws, similar types and amounts of fees have been paid in the past, and payment of the fees is fully documented.

Board Oversight

2. Within 60 days of this Order, the boards of directors of Progress and the Bank shall submit to the Reserve Bank and the State an acceptable joint written plan to strengthen board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

- (a) The credit risk management program, including sufficient loan underwriting standards and limits, and an effective loan review program;
- (b) operational risk, including an independent and effective audit function;
- (c) internal control systems and recordkeeping procedures commensurate with the size and activities of the Bank;
- (d) training programs for members of the boards of directors;
- (e) maintenance of adequate and complete minutes of all board of directors meetings, including a record of the appropriate board's review and approval of minutes;
- (f) programs to ensure compliance with approved Bank policies and procedures and applicable state and federal laws and regulations;
- (g) preparation of accurate regulatory reports;
- (h) the organization's management information systems for the Bank's lending operations to ensure that the boards of directors have sufficient and accurate information (including, but not limited to, information regarding loan policy exceptions, adversely classified assets, and loan loss reserve adequacy) to monitor and evaluate risk and to assess the quality and performance of the Bank's loan portfolio;
- (i) an acceptable conflict of interest policy for Progress and the Bank which, at a minimum, addresses the fiduciary duties of officers, directors, and employees; requires written disclosure to the board of directors of any officer, director, or employee who has an actual or potential conflict of interest; and includes guidelines for extending and documenting credit to Progress's and the Bank's institution-affiliated parties and regulated persons, and their related interests and immediate family members, and to affiliates of the Bank, to ensure

compliance with Regulation O of the Board of Governors (12 C.F.R Part 215) and sections 23A and 23B of the Federal Reserve Act (12 U.S.C. 371c and 371c-1); and

(j) the deficiencies related to the boards of directors' oversight of management noted in the report of the examination of the Bank conducted by the Reserve Bank with the assistance of the State, concluded on February 15, 2006 (the "Report of Examination").

Loan Policies and Procedures

3. Within 30 days of this Order, the Bank shall submit to the Reserve Bank and the State acceptable written loan policies and procedures that, at a minimum, address, consider, and include:

- (a) Lending practice deficiencies noted in the Report of Examination;
- (b) policies that prohibit: less than fully secured extensions of credit to borrowers in order to clear deposit account overdrafts; granting of nominee loans; disbursement of loan proceeds to parties other than the borrower without evidence of proper authorization; and disbursement of loan proceeds for use other than that stated on the loan purpose statement;
- (c) aggregate loan limits for officers;
- (d) underwriting standards that:
 - (i) Require the Bank to document a clear source of repayment and the borrower's ability to service the debt;
 - (ii) emphasize the importance of cash flow analysis and ensure that financial statements, tax returns, and other financial data indicating the borrower's capacity to repay the loan are sufficiently current; and
 - (iii) accurately reflect the Bank's current loan products and market strategies;

(e) procedures for renewing, extending, or modifying existing loans, including procedures for documenting the bases for each renewal, extension or modification, and a policy restricting the capitalization of interest; and

(f) real estate lending policies that are consistent with the requirements of Subpart E of Regulation H of the Board of Governors (12 C.F.R. Part 208, Subpart E), including a description of the Bank's market area and limitations on out-of-territory lending, and the requirements for real estate appraisals set forth in Subpart G of Regulation Y of the Board of Governors (12 C.F.R. Part 225, Subpart G, made applicable to state member banks by section 208.50 of Regulation H of the Board of Governors (12 C.F.R. 208.50)).

Credit Risk Management

4. Within 30 days of this Order, the Bank shall submit to the Reserve Bank and the State acceptable written procedures to identify, monitor, and manage concentrations of credit.

5. (a) Within 60 days of this Order, the Bank shall take all steps necessary to correct all documentation and credit information deficiencies noted in the Report of Examination, including obtaining accurate and current financial statements and appraisals. In all cases where the Bank is unable to obtain needed documentation or credit information, it shall document in written memoranda the actions taken to secure the information and the reason the information could not be obtained, and shall maintain such documentation in the credit file for subsequent supervisory review.

(b) The Bank shall adopt written procedures designed to reduce loan documentation exceptions in the future. The Bank shall provide to the Reserve Bank and the State a copy of the procedures and a list of resolved technical exceptions within 60 days of this Order.

6. Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the State an acceptable written loan review program to ensure that the Bank's watch list is accurate and to address the loan review deficiencies described in the Report of Examination. The program shall, at a minimum, address, consider and include the following:

- (a) The scope and frequency of loan review and grading;
- (b) designation of qualified individuals responsible for determining loan grades; and
- (c) monthly reporting to the Bank's board of directors of the status of the loan reviews and the actions taken by management to improve the Bank's position in each loan adversely graded or on the watch list.

Capital Plan

7. (a) Within 90 days of this Order, Progress and the Bank shall submit to the Reserve Bank and the State an acceptable joint written plan to continue to maintain a sufficient capital position at the Bank. The plan shall, at a minimum, address, consider, and include:

- (i) The current and future capital requirements of the Bank, including compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure and Tier I Leverage Measure, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);
- (ii) the asset quality, condition, and risk profile of the Bank;
- (iii) the anticipated level of retained earnings and dividends of the Bank;
- (iv) the source and timing of additional funds to fulfill the Bank's future capital requirements and to maintain the adequacy of the Bank's ALLL;
- (v) the Bank's projected or anticipated asset growth; and

(vi) the requirements of section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. 225.4(a)) that Progress shall serve as a source of strength to the Bank.

(b) The Bank's board of directors shall monitor and review the sufficiency of the Bank's capital position on a quarterly basis and shall reflect such reviews in the minutes of the meetings of the board of directors.

Deposit Relations Policies and Procedures

8. Within 30 days of this Order, the Bank shall submit to the Reserve Bank and the State acceptable written deposit relations policies and procedures that address the deficiencies noted in the Report of Examination. The policies and procedures shall, at a minimum, prohibit:

- (a) Excessive overdrafts in deposit accounts;
- (b) overdrafts of deposit accounts to enable customers to make loan payments;

and

(c) control by the Bank of a customer's deposit account without a written, signed authorization from the customer.

Budget and Strategic Plan

9. (a) Within 90 days of this Order, the Bank shall submit to the Reserve Bank and the State a budget for the Bank for the remainder of 2006.

(b) The Bank shall submit to the Reserve Bank and the State a strategic plan and budget for the Bank for 2007 and each subsequent calendar year, at least one month prior to the beginning of the calendar year. The strategic plan shall, at a minimum, provide for or describe:

- (i) The responsibilities of the board of directors regarding the definition, approval, implementation, and monitoring of the strategic plan and budget;

- (ii) management, lending, and operational objectives; and a description of how the Bank's board of directors and senior management intend to achieve the stated objectives;
- (iii) the operating assumptions that form the basis for, and adequately support, major projected income and expense components and provisions needed to establish and maintain an adequate loan loss reserve; and
- (iv) a budget review process incorporating the use of pro forma income statements in the analysis of budgeted versus actual income and expenses.

Asset Improvement

10. (a) Within 30 days of this Order, the Bank, following consideration by the board of directors, shall submit to the Reserve Bank and the State an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral or other means on each loan or other asset in excess of \$100,000 that was past due as to principal or interest more than 60 days as of the date of this Order, is on the Bank's watch list, or was adversely classified or listed as special mention in the Report of Examination.

(b) The plan for each loan or other asset shall be formally approved by the Bank's loan committee and shall, at a minimum, include:

- (i) The current status of the loan or other asset, including book and nonbook carrying value;
- (ii) proposed actions to improve, reduce, or eliminate the loan or other asset, including collection or sale of collateral, and time frames for such actions; and
- (iii) where appropriate, the borrower's acknowledgement of and response to the plan.

(c) The Bank shall submit a written progress report to the Reserve Bank and the State to update the asset improvement plan on a monthly basis. The report shall include, at a minimum, the carrying value of the loan or other asset, changes in the nature and value of

supporting collateral, and a copy of the Bank's current internal watch list, time renewal report, extension report, and past due/non-accrual report. The monthly updates to the asset improvement plan should include any additional loan or other asset in excess of \$100,000 that becomes past due as to principal and interest for more than 60 days, is adversely classified internally by the Bank, or is adversely classified or listed for special mention in any subsequent examination or visitation of the Bank.

Allowance for Loan and Lease Losses

11. Within 10 days of this Order, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "loss" in the Report of Examination that have not been previously collected in full or charged off. Thereafter, the Bank shall, within 30 days from the receipt of any federal or state report of examination, charge off all assets classified "loss," unless otherwise approved in writing by the Reserve Bank and State.

12. (a) The Bank shall maintain, through charges to current operating income, an adequate valuation reserve for loan and lease losses (the "ALLL"). The adequacy of the ALLL shall be determined in light of the volume of criticized loans, the current level of past due and nonperforming loans, past loan loss experience, evaluation of the probable losses in the Bank's loan portfolio, including the potential for the existence of unidentified losses in loans adversely classified, the imprecision of loss estimates, the requirements of the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated December 21, 1993, July 2, 2001, and March 1, 2004, and examiners' criticisms noted in the Report of Examination.

(b) Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the State a description of the methodology used to determine the Bank's ALLL.

(c) The Bank shall conduct, at least on a calendar quarterly basis, an assessment of its ALLL and, within 30 days of the end of each calendar quarter, shall submit to the Reserve Bank and the State the quarterly assessment, including the methodology used in determining the amount of ALLL for that quarter. The Bank shall maintain for subsequent supervisory review documentation to support the methodology used for each quarterly assessment.

Audit and Internal Controls Review

13. The Bank shall immediately take steps to correct all deficiencies noted in the Report of Examination regarding the audit function and internal controls.

14. Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the State an acceptable written plan to provide for an ongoing effective internal controls environment and internal audit function. The plan shall, at a minimum, provide for:

(a) Sufficient resources, expertise, and training necessary to ensure the complete and timely implementation of an effective internal audit program; and

(b) the timely identification, monitoring, and reporting to the Bank's board of directors of any failure by Bank personnel to adhere to approved policies and procedures.

15. (a) Within 30 days of this Order, the board of directors of Progress and the Bank shall retain an independent accounting firm (the "Accountant") acceptable to the Reserve Bank and the State to conduct a full scope audit of Progress and the Bank in accordance with generally accepted auditing standards (the "Audit") and an assessment of the Bank's internal controls over financial reporting (the "Assessment") and to prepare reports of its findings and recommendations.

(b) In conducting the Assessment, the Accountant shall, at a minimum, address, consider, and include:

- (i) the accuracy of books and records, including the general ledger;
- (ii) the adequacy of procedures for reconciliation of general and subsidiary ledger accounts, resolution of open items, account descriptions, segregation of duties; and access to general ledger and loan systems; and
- (iii) an assessment of goodwill for impairment.

(c) Within 10 days of the engagement of the Accountant, but prior to the commencement of the Audit and Assessment, Progress and the Bank shall submit to the Reserve Bank and the State for approval an engagement letter that delineates: (i) the scope of the Assessment; and (ii) the date of submission of the Accountant's reports of the Audit and the Assessment, which shall be no later than 60 days after the date of the Reserve Bank and the State's approval of the engagement letter.

(d) Progress and the Bank shall forward any management letter resulting from the Audit and a copy of the report of the Assessment to the Reserve Bank and the State within five days of receipt.

16. Within 30 days of Progress's and the Bank's receipt of the Accountant's reports, Progress and the Bank shall submit an acceptable joint written plan to the Reserve Bank and State that fully addresses the findings and recommendations in the reports and describes the specific actions Progress and the Bank will take to strengthen internal controls for financial accounting.

Bank Secrecy Act and OFAC Compliance

17. (a) Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the State acceptable written revisions to the Bank's program to ensure compliance with the

Bank Secrecy Act (31 U.S.C. 5311 *et seq.*), as amended by the USA PATRIOT Act of 2001 (the “BSA”); the rules and regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. Part 103); and sections 208.62 and 208.63 of Regulation H of the Board of Governors (12 C.F.R. 208.62 and 208.63). The revised provisions of the program shall, at a minimum, be designed to:

- (i) Improve the Bank’s written customer due diligence program to reasonably ensure the identification and timely, accurate, and complete reporting of all known or suspected violations of law or suspicious transactions at the Bank to law enforcement and supervisory authorities as required by applicable regulations; and
- (ii) enhance the independent testing of the Bank’s compliance with the BSA and the rules and regulations issued thereunder to include appropriate transaction testing.

(b) The Bank shall immediately take steps to enhance its compliance with the regulations issued by the Office of Foreign Assets Control (“OFAC”) (31 C.F.R. 500 *et seq.*) and shall, at a minimum, ensure that independent reviews of transactions include an assessment of the Bank’s compliance with OFAC regulations and that loan policies and procedures require OFAC checks of all borrowers before the funding of loans.

Dividends and Redemption of Debt and Stock

18. (a) Progress shall not take, directly or indirectly, dividends or any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank and the State.

(b) Progress and the Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Federal Reserve Board (the “Director”), and the State.

(c) During the term of this Order, Progress and its nonbank affiliate shall not make any distributions of interest or other sums on trust preferred securities without the prior written approval of the Reserve Bank and the Director.

(d) All requests for prior approval shall be received by the Reserve Bank and the State at least 30 days prior to the proposed dividend declaration date and the required notice of deferral on trust preferred securities. All requests shall contain, but not be limited to, current and projected information on consolidated earnings, and cash flow, capital, asset quality, and ALLL needs of the Bank.

19. (a) Progress shall not, directly or indirectly, incur or increase any debt without the prior written approval of the Reserve Bank. All requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) Progress shall not, directly or indirectly, purchase or redeem any stock without the prior written approval of the Reserve Bank.

(c) All requests for prior approval shall be received by the Reserve Bank at least 10 days prior to the proposed debt transaction or purchase or redemption of stock.

Additional Parent Company Requirements

20. Within 60 days of this Order, Progress shall submit to the Reserve Bank a budget and cash flow projections for the remainder of 2006.

21. Within 60 days of this Order, Progress shall amend its tax allocation agreement to reflect the proper timing of tax payments to the holding company by the Bank, as well as payment to the Bank of any tax refunds that it is due.

22. Within 90 days of this Order, Progress shall submit to the Reserve Bank acceptable written accounting policies and procedures to implement a general ledger system that accurately records Progress's financial transactions in compliance with generally accepted accounting principles.

Compliance with Order

23. (a) Within 10 days of this Order, the boards of directors of Progress and the Bank shall appoint a joint compliance committee (the "Compliance Committee") to monitor and coordinate Progress's and the Bank's compliance with the provisions of this Order. The Compliance Committee shall be comprised of at least three or more outside directors who are not executive officers or principal shareholders of Progress or the Bank, as defined in sections 215.2((e)(1) and (m) of Regulation O of the Board of Governors (12 C.F.R. 215.2(e)(1) and (m)). At a minimum, the Compliance Committee shall meet at least monthly, shall keep detailed minutes of each meeting, and shall report its findings to the boards of directors monthly. Copies of the Compliance Committee's minutes shall be provided to the Reserve Bank and the State monthly.

(b) Within 30 days after the end of each calendar quarter (June 30, September 30, December 31, and March 31) following the date of this Order, the boards of directors of Progress and the Bank shall submit to the Reserve Bank and the State written progress reports detailing the form and manner of all actions taken to secure compliance with this Order and the results thereof. Such reports may be discontinued when the corrections required by this Order have been accomplished and the Reserve Bank and the State have, in writing, released Progress and the Bank from making further reports.

Approval, Implementation, and Progress Reports

24. (a) Progress and the Bank, as appropriate, shall submit a written engagement letter and policies, procedures, plans, and programs that are acceptable to the Reserve Bank and the State within the applicable time periods set forth in paragraphs 2, 3, 4, 6, 7, 8, 10, 14, 15, 16, 17, and 22 of this Order. Progress and the Bank, as applicable, shall adopt the approved policies, procedures, plans, and programs within 10 days of approval by the Reserve Bank and the State. During the term of this Order, the approved engagement letter, policies, procedures, plans, and programs shall not be amended or rescinded without the prior written approval of the Reserve Bank and the State.

(b) Upon notice of the Reserve Bank's and the State's approval, Progress and the Bank, as applicable, shall immediately implement the approved policies, procedures, plans, and programs, and thereafter fully comply with them.

Communications

25. All communications regarding this Order shall be sent to:

- (a) Timothy A. Bosch
Vice President
Banking Supervision and Regulation Division
1421 Dr. Martin Luther King Drive
St. Louis, MO 63106-3716
- (b) D. Eric McClure, Commissioner of Finance
State of Missouri Department of Economic Development – Division of Finance
301 W. High Street
P.O. Box 1157
Jefferson City, Missouri 65102
- (c) Jack Blanton
Chairman of the Boards of Directors
Progress Bancshares, Inc. and Progress Bank of Missouri
3 East Springfield
Sullivan, Missouri 63080

26. Notwithstanding any provision of this Order to the contrary, the Reserve Bank and the State may, in their sole discretion, grant written extensions of time to Progress and the Bank to comply with any provision of this Order.

27. The provisions of this Order shall be binding upon Progress and the Bank, and all of their institution-affiliated parties, in their capacities as such, and their successors and assigns.

28. Each provision of this Order shall remain effective and enforceable until stayed, modified, terminated or suspended in writing by the Reserve Bank and the State.

29. The provisions of this Order shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the State, or any other federal or state agency from taking any other action affecting Progress or the Bank or any of their current or former institution-affiliated parties and their successors and assigns.

By order of the Board of Governors of the Federal Reserve System and the State of Missouri Department of Economic Development – Division of Finance, effective this 29th day of June, 2006.

PROGRESS BANCSHARES, INC.
PROGRESS BANK OF MISSOURI

By: (SIGNED)
Jack Blanton
Chairman of the Boards of Directors

BOARD OF GOVERNORS OF
THE FEDERAL RESERVE SYSTEM

By: (SIGNED)
Jennifer J. Johnson
Secretary of the Board

STATE OF MISSOURI
DEPARTMENT OF ECONOMIC
DEVELOPMENT – DIVISION OF
FINANCE

By: (SIGNED)
D. Eric McClure
Commissioner of Finance