

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

NEBRASKA DEPARTMENT OF BANKING AND FINANCE
LINCOLN, NEBRASKA

Written Agreement by and among

BUTTE STATE COMPANY
Butte, Nebraska

BUTTE STATE BANK
Butte, Nebraska

FEDERAL RESERVE BANK OF KANSAS CITY
Kansas City, Missouri

and

NEBRASKA DEPARTMENT OF BANKING
AND FINANCE
Lincoln, Nebraska

Docket Nos. 10-180-WA/RB-HC
10-180-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Butte State Company, Butte, Nebraska (the “Company”), a registered bank holding company, and its subsidiary bank, Butte State Bank, Butte, Nebraska (the “Bank”), a state-chartered bank that is a member of the Federal Reserve System, the Company, the Bank, the Federal Reserve Bank of Kansas City (the “Reserve Bank”), and the Nebraska Department of Banking and Finance (the “Banking Department”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on September 7, 2010, the boards of directors of the Company and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing

Dennis G. Brewster to enter into this Agreement on behalf of the Company and the Bank, and consenting to compliance with each and every applicable provision of this Agreement by the Company and the Bank, and their 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)).

NOW, THEREFORE, the Company, the Bank, the Reserve Bank, and the Banking Department agree as follows:

Source of Strength

1. The board of directors of the Company shall take appropriate steps to fully utilize the Company’s financial and managerial resources, pursuant to section 225.4 (a) of Regulation Y of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. § 225.4(a)), to serve as a source of strength to the Bank, including, but not limited to, taking steps to ensure that the Bank complies with this Agreement, and any other supervisory action taken by the Bank’s federal or state regulator.

Board Oversight

2. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and the Banking Department a 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 actions that the board of directors will take to improve the Bank’s condition and maintain effective control over, and supervision of, the Bank’s major operations and activities, including, but not limited to, credit risk management, loan review, capital, earnings, and liquidity;

(b) the responsibility of the board of directors to monitor management's adherence to approved Bank policies and procedures, and to require management to document exceptions thereto;

(c) the establishment of measures to ensure Bank staff's adherence to approved policies and procedures; and

(d) a description of the information and reports that will be regularly reviewed by the board of directors in its oversight of the operations and management of the Bank, including information on the Bank's loan portfolio, adversely classified assets, concentrations, allowance for loan and lease losses ("ALLL"), capital, liquidity, and earnings.

Credit Risk Management

3. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Banking Department an acceptable written plan to strengthen credit risk management practices. The plan shall, at a minimum, address, consider, and include:

(a) The responsibility of the board of directors to establish appropriate risk tolerance guidelines and risk limits;

(b) periodic review and revision of risk exposure limits to address changes in market conditions;

(c) timely and accurate identification and quantification of credit risk within the loan portfolio; and

(d) strategies to minimize credit losses, including loan workout strategies, and reduce the level of problem assets.

Lending and Credit Administration

4. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Banking Department an acceptable written lending and credit administration program that shall, at a minimum, address, consider, and include:

- (a) Appropriate lending authority limits for loan officers and thresholds for internal loan committee review;
- (b) standards for renewing, extending, or modifying existing loans, including but not limited to, approval and documentation requirements;
- (c) compliance with the Revised Uniform Retail Credit Classification and Account Management Policy, dated June 12, 2000 (SR 00-08 (Sup));
- (d) measures to ensure that loan credit policy exceptions are reported to the board of directors;
- (e) measures to ensure timely and accurate identification of individual problem credits, nonaccruals, and loss recognition; and
- (f) adequate staffing of the credit administration function.

Asset Improvement

5. The Bank shall not, directly or indirectly, extend, renew, or restructure any credit to or for the benefit of any borrower, including any related interest of the borrower, whose loans or other extensions of credit are criticized in the report of examination jointly conducted by the Reserve Bank and the Banking Department that commenced on March 15, 2010 (the "Report of Examination"), or in any subsequent report of examination, without the prior approval of a majority of the full board of directors. The board of directors shall document in writing the reasons for the extension of credit, renewal, or restructuring, specifically certifying that: (i) the

Bank's risk management policies and practices for loan workout activity are acceptable; (ii) the extension of credit is necessary to improve and protect the Bank's interest in the ultimate collection of the credit already granted and maximize its potential for collection; (iii) the extension of credit reflects prudent underwriting based on reasonable repayment terms and is adequately secured; and all necessary loan documentation has been properly and accurately prepared and filed; (iv) the Bank has performed a comprehensive credit analysis indicating that the borrower has the willingness and ability to repay the debt as supported by an adequate workout plan, as necessary; and (v) the board of directors reasonably believes that the extension of credit will not impair the Bank's interest in obtaining repayment of the already outstanding credit and that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the meetings of the board of directors, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower's credit file for subsequent supervisory review. For purposes of this Agreement, the term "related interest" is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(n)).

6. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Banking Department an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on each loan, relationship, or other asset in excess of \$50,000, including other real estate owned ("OREO"), that is past due as to principal or interest more than 90 days as of the date of this Agreement, is on the Bank's problem loan list, or was adversely classified in the Report of Examination. In developing the plan for each loan, the Bank shall, at a minimum, review,

analyze, and document the financial position of the borrower, including source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank's collateral position.

(b) Within 30 days of the date that any additional loan, relationship, or other asset in excess of \$50,000, including OREO, becomes past due as to principal or interest for more than 90 days, is on the Bank's problem loan list, or is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank and the Banking Department an acceptable written plan to improve the Bank's position on such loan, relationship, or asset.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank and the Banking Department to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank's current problem loan list, a list of all loan renewals and extensions without full collection of interest in the last quarter, and past due/nonaccrual report. The board of directors shall review the progress reports before submission to the Reserve Bank and the Banking Department, and shall document the review in the minutes of the board of directors' meetings.

Allowance for Loan and Lease Losses

7. (a) Within 10 days of this Agreement, 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. 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 the Banking Department.

(b) Within 60 days of this Agreement, the Bank shall review and revise its ALLL methodology consistent with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 (SR 01-17 (Sup)) and December 13, 2006 (SR 06-17), and the findings and recommendations regarding the ALLL set forth in the Report of Examination, and submit a description of the revised methodology to the Reserve Bank and the Banking Department. The revised ALLL methodology shall be designed to maintain an adequate ALLL and shall address, consider, and include, at a minimum, the reliability of the Bank’s loan grading system, the volume of criticized loans, concentrations of credit, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses in the Bank’s loan portfolio, including adversely classified loans, and the impact of market conditions on loan and collateral valuations and collectability.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Banking Department an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure adherence to the Bank’s revised ALLL methodology and provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. The board of directors shall maintain written documentation of its review, including the factors considered and conclusions reached by the

Bank in determining the adequacy of the ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank and the Banking Department, within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of the ALLL for that quarter.

Capital Plan

8. Within 60 days of this Agreement, the Company and the Bank shall jointly submit to the Reserve Bank and the Banking Department an acceptable written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The Bank's current and future capital needs, including compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(b) the adequacy of the Bank's capital, taking into account the volume of classified credits, concentrations of credit, ALLL, current and projected asset growth, and projected retained earnings;

(c) the source and timing of additional funds to fulfill the Bank's future capital requirements and loan loss reserve needs; and

(d) the requirements of section 225.4(a) of the Board of Governors that the Company act as a source of strength to the Bank.

9. The Bank shall notify the Reserve Bank and the Banking Department in writing no more than 30 days after the end of any quarter in which any of the Bank's capital ratios (total risk-based, Tier 1, or leverage) fall below the approved capital plan's minimum ratios. Together

with the notification, the Bank shall submit an acceptable written plan that details the steps the Bank will take to increase the Bank's capital ratios to or above the approved capital plan's minimums.

Liquidity

10. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Banking Department an acceptable revised written contingency funding plan that, at a minimum, includes adverse scenario planning and identifies and quantifies available sources of liquidity for each scenario.

Earnings Plan and Budget

11. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Banking Department a written business plan for 2011 to improve the Bank's earnings and overall condition. The plan, at a minimum, shall provide for or describe:

(i) a realistic and comprehensive budget for 2011, including income statement and balance sheet projections; and

(ii) a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components.

(b) During the term of this Agreement, a business plan and budget for each calendar year subsequent to 2011 shall be submitted to the Reserve Bank and the Banking Department at least 30 days prior to the beginning of that calendar year.

Dividends

12. (a) The Company 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 Board of Governors, and, as to the Bank, the Banking

Department.

(b) All requests for prior written approval shall be received at least 30 days prior to the proposed dividend declaration date. All requests shall contain, at a minimum, current and projected information, as appropriate, on the Company's capital, earnings, and cash flow; the Bank's capital, asset quality, earnings, and ALLL needs; and identification of the sources of funds for the proposed payment. The Company and the Bank, as appropriate, must also demonstrate that the requested declaration or payment of dividends is consistent with the Board of Governors' Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323).

Debt and Stock Redemption

13. (a) The Company shall not, directly or indirectly, incur, increase, or guarantee 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) The Company shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

New Director

14. (a) The Bank shall take all necessary steps to elect a qualified outside director with banking or financial experience as soon as practicable.

(b) For the purposes of this Agreement, the term: (i) "outside director" is defined as an individual, not an employee or executive officer of the Bank, who owns

less than 10 percent of the outstanding voting stock of the Bank and who is not related in any manner to any shareholder who owns 10 percent or more of the outstanding voting stock of the Bank or any related interest of such a shareholder; and (ii) “executive officer” is defined as set forth in section 215.2(e) of Regulation O of the Board of Governors (12 C.F.R. 215.2(e)).

Compliance with Laws and Regulations

15. (a) In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, the Company 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.).

(b) The Company 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).

Approval and Implementation of Plans and Programs

16. (a) The Company and the Bank, as appropriate, shall submit written plans and programs that are acceptable to the Reserve Bank and the Banking Department, as appropriate, within the applicable time periods set forth in paragraphs 3, 4, 6(a), 6(b), 7(c), 8, 9 and 10 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank and the Banking Department, the Company and the Bank, as appropriate, shall adopt the approved plans and programs. Upon adoption, the Company and the Bank, as appropriate, shall implement the

approved plans and programs and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans and programs shall not be amended or rescinded without the prior written approval of the Reserve Bank, and, as to the Bank, the Banking Department.

Progress Reports

17. Within 30 days after the end of each calendar quarter following the date of this Agreement, the boards of directors of the Company and the Bank shall submit to the Reserve Bank and the Banking Department written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

Communications

18. All communications regarding this Agreement shall be sent to:

- (a) Ms. Susan E. Zubradt
Vice President
Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64198
- (b) Mr. John Munn
Director
Nebraska Department of Banking and Finance
Commerce Court
1230 O Street, Suite 400
Lincoln, Nebraska 68509-5006
- (c) Mr. Craig Brewster
President
Butte State Company
Butte State Bank
P.O. Box 28
Butte, Nebraska 68722

Miscellaneous

19. Notwithstanding any provision of this Agreement, the Reserve Bank and the Banking Department may, in their sole discretion, grant written extensions of time to the Company and the Bank to comply with any provision of this Agreement.

20. The provisions of this Agreement shall be binding upon the Company and the Bank and their institution-affiliated parties, in their capacities as such, and their successors and assigns.

21. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank and the Banking Department.

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

23. Pursuant to section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under section 8 of the FDI Act (12 U.S.C. § 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 7th of September, 2010.

BUTTE STATE COMPANY

FEDERAL RESERVE BANK
OF KANSAS CITY

By: /s/ Dennis G. Brewster
Dennis G. Brewster
Chairman

By: /s/ Susan E. Zubradt
Susan E. Zubradt
Vice President

BUTTE STATE BANK

NEBRASKA DEPARTMENT OF
BANKING AND FINANCE

By: /s/ Dennis G. Brewster
Dennis G. Brewster
Chairman

By: /s/ John Munn
John Munn
Director