

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

MISSOURI DIVISION OF FINANCE
JEFFERSON CITY, MISSOURI

Written Agreement by and among

KCB BANK
Kearney, Missouri

FEDERAL RESERVE BANK
OF KANSAS CITY
Kansas City, Missouri

and

MISSOURI DIVISION OF FINANCE
Jefferson City, Missouri

Docket No. 08-013-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of KCB Bank, Kearney, Missouri (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, the Bank, the Federal Reserve Bank of Kansas City (the “Reserve Bank”), and the Missouri Division of Finance (the “Division”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on July 2, 2008, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Theresa Schekirke, to enter into this Agreement on behalf of the Bank, and consenting to compliance by the Bank and its institution-affiliated parties, as defined in section 3(u) of the Federal Deposit

Insurance Act, as amended (the “FDI Act”) (12 U.S.C. § 1813(u)(3)), with each and every provision of this Agreement.

NOW, THEREFORE, the Bank, the Reserve Bank, and the Division agree as follows:

Corporate Governance and Management

1. (a) Within 30 days of this Agreement, the board of directors of the Bank shall engage an independent consultant acceptable to the Reserve Bank and the Division to conduct a review of the effectiveness of the Bank’s corporate governance and management structure (the “Review”) and to prepare a written report of findings and recommendations (the “Consultant’s Report”). The terms of the contract with the consultant shall require that the Review be completed within 45 days of the retention of the consultant and that the Consultant’s Report be submitted to the board of directors of the Bank within 10 days of the completion of the Review. The Review shall, at a minimum, address, consider, and include:

- (i) the identification of the type and number of officer positions needed to manage and properly supervise the affairs of the Bank;
- (ii) an evaluation of each Bank officer to determine whether the individual possesses the ability, experience, and other qualifications required to competently perform present and anticipated duties, particularly in the areas of commercial real estate lending, workouts, and credit risk management; restore and

maintain the Bank to a safe and sound condition; and comply with the requirements of this Agreement; and

(iii) an assessment of the current structure and composition of the board of directors and its committees, and a determination of the structure and composition needed to adequately supervise the affairs of the Bank.

(b) The board of directors of the Bank shall forward a copy of the Consultant's Report to the Reserve Bank and the Division within five days of its receipt.

(c) Within 30 days of the Bank's receipt of the Consultant's Report, the Bank shall submit to the Reserve Bank and the Division a written plan that fully addresses the findings and recommendations in the Consultant's Report regarding management and board oversight and describes the specific actions, including timeframes, that the board of directors proposes to take in order to strengthen the Bank's management.

2. 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 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 of the Federal Reserve System (the "Board of Governors") (12 C.F.R. §§ 225.71 et seq.).

3. 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).

Credit Risk Management

4. Within 60 days of this Agreement, the Bank shall submit an acceptable written plan to the Reserve Bank and the Division that describes the specific actions that the board of directors proposes to take to strengthen credit risk management practices.

The plan shall, at a minimum, address, consider, and include:

(a) Measures to improve the board of directors' oversight of risk management processes, including but not limited to: approving policies to limit risks; periodically reviewing and revising risk exposure limits to address new products and changes in market conditions; establishing procedures and internal controls necessary to manage risks; and monitoring the major sources of risk to the Bank on an ongoing basis;

(b) adequate risk monitoring practices and management information systems that identify and measure risks arising from concentrations of credit by industries, types of loan, and geographic locations and that provide accurate and timely information to management and the board of directors; and

(c) procedures to identify, monitor, and control risks associated with concentrations of credit, consistent with Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, dated December 12, 2006 (SR 07-1, January 4, 2007).

Loan Policies, Procedures, and Administration

5. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division acceptable revised written loan underwriting and credit

administration policies and procedures that shall, at a minimum, address, consider, and include:

- (a) Underwriting standards that:
 - (i) require borrowers to document a clear source of repayment and ability to service their debt;
 - (ii) emphasize the importance of cash flow analysis rather than collateral-based lending and ensure that financial statements, tax returns, and other financial data indicating the borrower's capacity to repay the loan are sufficiently current;
 - (iii) accurately reflect the Bank's current loan products and market strategies;
- (b) establishing an independent loan review program;
- (c) procedures for monitoring the volume of current and potential other real estate owned ("OREO"); and
- (d) measures to correct the violations of law and address the deficiencies in loan policies and procedures and credit administration noted in the report of examination of the Bank conducted by the Reserve Bank that was commenced on March 3, 2008 (the "Report of Examination").

6. The Bank's board of directors and senior management shall take all steps necessary to ensure that all loan officers receive training on the Bank's revised loan and credit administration policies and procedures within 90 days after their adoption.

Asset Improvement

7. (a) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, who is obligated to the Bank in any manner on any extension of credit or portion thereof that has been charged-off by the Bank or classified, in whole or in part, “loss” in the Report of Examination, any subsequent report of examination, or any internal or external loan review, as long as such credit remains uncollected.

(b) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, whose extension of credit has been classified “doubtful” or “substandard” in the Report of Examination, any subsequent report of examination or any internal or external loan review, without the prior approval of the board of directors who shall document in writing the reasons for the extension of credit or renewal and specifically certify that:

- (i) the extension of credit is necessary to protect the Bank’s interest in the ultimate collection of the credit already granted; or
- (ii) the extension of credit is in full compliance with the Bank’s written loan policy, is adequately secured, and a thorough credit analysis has been performed.

8. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division 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 \$250,000, including OREO, that

(i) is past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) is on the Bank's watch list; or (iii) was adversely classified in the Report of Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$250,000, including OREO, becomes past due as to principal or interest for more than 90 days, is on the Bank's watch list, or is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan to improve the Bank's position on such loan or asset.

(c) 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, and the nature and value of supporting collateral;

(ii) proposed actions to improve, reduce, or eliminate the loan or other asset, time frames for such actions, and projected balance owing and value of any anticipated additional collateral; and

(iii) where appropriate, the borrower's acknowledgement of and response to the plan.

(d) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit to the Reserve Bank and the Division a written progress report to update each asset improvement plan, along with a copy of the Bank's current watch list, extension report, past due/non-accrual report, and OREO report.

Allowance for Loan and Lease Losses

9. 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. 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 the Division.

10. (a) The Bank shall maintain, in accordance with generally accepted accounting principles (“GAAP”) and supervisory guidance, an adequate valuation reserve for loan and lease losses (the “ALLL”). The adequacy of the ALLL shall be determined in accordance with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 and December 13, 2006. The elements of supervisory guidance to be considered shall include, but are not limited to, the reliability of the Bank’s loan grading system, the volume of criticized loans, the current level of past due and nonperforming loans, past loan loss experience, evaluation of 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, and examiners’ criticisms in the Report of Examination.

(b) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division a description of the methodology used to determine the Bank’s ALLL. Thereafter, the Bank shall conduct, at least on a quarterly calendar 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 Division 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.

Capital Plan

11. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan to maintain a sufficient capital position at the Bank. The plan shall, at a minimum, address, consider, and include:

(a) 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 volume of adversely classified assets;

(c) the adequacy of the loan loss reserve;

(d) any planned asset growth;

(e) the anticipated level of retained earnings;

(f) anticipated and contingent liquidity needs; and

(g) the source and timing of additional funds to fulfill the future

capital and loan loss reserve needs of the Bank.

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

Earnings Plan and Budget

13. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division a written business plan for improving the Bank's earnings. The plan, at a minimum, shall provide for or describe:

- (i) a realistic and comprehensive budget for calendar year 2008, including income statement and balance sheet projections;
- (ii) a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components; and
- (iii) a budget review process incorporating the use of pro forma income statements in the analysis of budgeted versus actual income and expenses.

(b) During the term of this Agreement, a business plan and budget for each calendar year subsequent to 2008 shall be submitted to the Reserve Bank and the Division at least 30 days prior to the beginning of that calendar year.

(c) During the term of this Agreement, the Bank shall submit to the Reserve Bank and the Division quarterly reports of the variance of actual income and expenses from budgetary projections, including a narrative explanation of any significant variances.

Dividends

14. (a) 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 the Division.

(b) Any request to declare or pay dividends must be 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 pages 4-323). All requests for prior approval shall be received by the Reserve Bank and the Division at least 30 days prior to the proposed dividend declaration date and shall contain, but not be limited to, current and projected information on earnings, cash flow, capital, asset quality, and loan loss reserve needs of the Bank.

Compliance with the Agreement

15. (a) Within 15 days of this Agreement, the board of directors shall appoint a compliance committee (the "Compliance Committee") to monitor and coordinate the Bank's compliance with the provisions of this Agreement. The Compliance Committee shall be comprised of at least three outside directors who are not executive officers or principal shareholders of the Bank, as defined in sections 215.2(e)(1) and 215.2(m)(1) of Regulation O of the Board of Governors (12 C.F.R. §§ 215.2(e)(1) and 215.2(m)(1)). 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 board of directors. Copies of the Compliance Committee's minutes shall be provided to the Reserve Bank and the Division monthly.

(b) Within 30 days after the end of each calendar quarter following the date of this Agreement, the Bank shall submit to the Reserve Bank and the Division written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof. The Reserve Bank and the

Division may, in writing, discontinue the requirement for progress reports or modify the reporting schedule.

Approval and Implementation of Plans, Policies, and Procedures

16. (a) The Bank shall submit written policies, procedures, and plans that are acceptable to the Reserve Bank and the Division within the applicable time periods set forth in paragraphs 4, 5, 8 and 11 of this Agreement. An independent consultant acceptable to the Reserve Bank and the Division shall be retained by the Bank within the period set forth in paragraph 1 of this Agreement.

(b) Within 30 days of approval by the Reserve Bank and the Division, the Bank shall adopt the approved policies, procedures, plans, and programs. Upon adoption, the Bank shall implement the approved policies, procedures, plans, and programs and thereafter fully comply with them.

(c) During the term of this Agreement, the approved policies, procedures, plans, and programs shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Division.

Communications

17. 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. D. Eric McClure
Bank Commissioner
Missouri Division of Finance
301 West High Street, Room 630
Jefferson City, Missouri 65102
- (c) Ms. Theresa Schekirke
Chairman of the Board
KCB Bank
950 West 92 Highway
Kearney, Missouri 64060

Miscellaneous

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

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

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

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

22. Pursuant to section 50 of the FDI Act (12 U.S.C. § 1831aa), this written 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 2nd day of July, 2008.

KCB BANK

By: /s/ Theresa Schekirke
Theresa Schekirke
Chairman of the Board

FEDERAL RESERVE BANK
OF KANSAS CITY

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

MISSOURI DIVISION OF
FINANCE

By: /s/ D. Eric McClure
D. Eric McClure
Commissioner