

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

BATTLE CREEK STATE COMPANY, INC.
Battle Creek, Nebraska

BATTLE CREEK STATE BANK
Battle Creek, Nebraska

FEDERAL RESERVE BANK
OF KANSAS CITY
Kansas City, Missouri

and

NEBRASKA DEPARTMENT OF
BANKING AND FINANCE
Lincoln, Nebraska

Docket No. 10-151-WA/RB-HC
10-151-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Battle Creek State Company, Inc. (“BCSC”), a registered bank holding company, and its subsidiary bank, Battle Creek State Bank (the “Bank”), a state-chartered bank that is a member of the Federal Reserve System, BCSC, 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 August 9, 2010, the boards of directors of BCSC and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing

Roger Brestel to enter into this Agreement on behalf of BCSC and the Bank, and consenting to compliance with each and every applicable provision of this Agreement by BCSC, 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, BCSC, the Bank, the Reserve Bank, and the Banking Department agree as follows:

Source of Strength

1. The board of directors of BCSC shall take appropriate steps to fully utilize BCSC’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 regulators.

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 senior management and major operations and activities, including but not limited to, lending, credit risk

management, credit administration, problem loan resolution, allowance for loan and lease losses (“ALLL”), capital, earnings, and funds management;

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

(c) steps to enhance 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 problem assets, concentrations of credit, exceptions to loan policies, other real estate owned (“OREO”), ALLL, capital, earnings, and liquidity.

Management Review

3. (a) Within 20 days of this Agreement, the board of directors of the Bank shall retain an independent consultant acceptable to the Reserve Bank and the Banking Department to assess: (i) the Bank’s senior management and loan officer staffing needs; and (ii) the qualifications and performance of all senior executive officers, including their ability to: adhere to applicable laws and regulations and the Bank’s established policies and procedures; restore and maintain the Bank to a safe and sound condition; and comply with the requirements of this Agreement (the “Management Review”). The independent consultant shall prepare a written report of findings and recommendations (the “Report”).

(b) Within 10 days of the Reserve Bank’s and the Banking Department’s approval of the Bank’s independent consultant selection, the Bank shall submit an engagement letter to the Reserve Bank and the Banking Department for approval. The engagement letter shall require the independent consultant to submit the Report within 30 days of regulatory

approval of the engagement letter and to provide a copy of the Report to the Reserve Bank and the Banking Department at the same time it is provided to the Bank's board of directors.

4. Within 30 days of receipt of the Report, the Bank's board of directors shall submit a written management plan to the Reserve Bank and the Banking Department that fully addresses the findings and recommendations in the independent consultant's Report and describes the specific actions that the board of directors proposes to take in order to strengthen the Bank's management and hire, as necessary, additional or replacement officers or staff to properly manage and operate the Bank.

Credit Risk Management

5. 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 at the Bank. The plan shall, at a minimum, address, consider, and include:

(a) Procedures to periodically review and revise risk exposure limits to address changes in market conditions and strategies;

(b) procedures to monitor and manage concentrations of aircraft and agricultural credit that are consistent with the Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, December 12, 2006 (SR 07-1);

(c) strategies to reduce concentrations of credit and minimize credit losses;
and

(d) establishment of a formal loan committee of the board of directors which meets at least weekly and, at a minimum, approves loans above loan officer limits; and reviews new loans, loan modifications, loans approved with loan policy exceptions, and problem credits.

Portfolio Growth

6. (a) As of the date of this Agreement, the Bank shall not, without the prior written approval of the Reserve Bank and the Banking Department, take any action that would result in an increase in the aggregate dollar value of the Bank's aircraft loan and lease portfolio above the aggregate dollar value balance as of the close of business on August 9, 2010, plus legally binding commitments as of August 9, 2010.

(b) The restrictions of paragraphs 6(a) of this Agreement shall continue in force and effect until BCSC and the Bank, as applicable:

(i) submit to the Reserve Bank and the Banking Department the written plans, policies, procedures, and programs relating to credit risk management, lending and credit administration, and loan grading and review described in paragraphs 5, 7, 9, and 10 of this Agreement;

(ii) are notified in writing by the Reserve Bank and the Banking Department that the required plans, policies, procedures, and programs are acceptable;

(iii) adopt and take acceptable steps to implement the policies, procedures, programs, and plans; and

(iv) are notified in writing by the Reserve Bank and the Banking Department that the above described conditions have been met.

Lending and Credit Administration

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

- (a) Underwriting and credit administration standards for loans and leases to highly specialized industries;
- (b) procedures to ensure timely and consistent analyses of borrowers' and guarantors' current financial condition, global cash flow, and repayment sources;
- (c) standards for renewing, extending, or modifying existing loans and leases;
- (d) standards for the timely movement of loans to non-accrual status; and
- (e) procedures to identify, report, and correct loan and lease documentation exceptions.

8. Within 60 days of this Agreement, the Bank shall take all steps necessary to correct the documentation and credit information deficiencies in the Bank's loan files listed in the report of examination conducted by the Reserve Bank that commenced on January 4, 2010 (the "Report of Examination"). In all cases where the Bank is unable to obtain needed documentation or credit information, the Bank shall document the actions taken to secure the information and the reasons the information could not be obtained. The Bank shall maintain this documentation in the related credit file for supervisory review.

Loan Grading and Loan Review

9. Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank and the Banking Department an acceptable written program for the effective grading of the Bank's loan portfolio. The program shall provide for policies, procedures, and processes for the timely and ongoing grading of loans. The program shall, at a minimum, address, consider, and include:

- (a) Standards and criteria for assessing the credit quality of loans, including a discussion of the factors used to assign appropriate risk grades to loans;
- (b) procedures for the early identification of problem loans;

- (c) procedures to re-evaluate the grading of loans in the event of material changes in the borrower's performance or the value of the collateral;
- (d) procedures to evaluate the grading of all loans assigned less than a pass grade at least quarterly;
- (e) designation of the person(s) responsible for the grading of loans;
- (f) controls to ensure staff's consistent application and adherence to the loan grading system; and
- (g) a mechanism for reporting to senior management and the board of directors, at least monthly, that at a minimum: summarizes the Bank's loan grades; describes trends in asset quality; identifies the loans that are nonperforming, adversely graded, or identified as needing special attention, describes the status of those loans, and describes the actions taken, or to be taken, by management for strengthening of the quality of any such loans.

10. Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank and the Banking Department an acceptable written program for the effective, ongoing review of the Bank's loan portfolio by a qualified independent party or by qualified staff that is independent of the Bank's lending function. The program shall provide for policies and procedures for the timely identification and categorization of problem loans, and processes to detect weaknesses in the Bank's loan approval, monitoring, and grading process. The program shall, at a minimum, address, consider, and include:

- (a) The scope, depth, and frequency of the independent loan review;
- (b) clearly defined responsibilities for the loan review function; and
- (c) an objective and timely assessment of the overall quality of the loan portfolio and the accuracy of assigned loan grades.

11. The board of directors, or a committee thereof, shall evaluate the loan review report(s) and take appropriate steps to ensure that management takes prompt action to address findings noted in the report(s).

Asset Improvement

12. 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 or in any subsequent report of examination, without the prior approval of a majority of the full board of directors or a designated committee thereof. The board of directors or its committee 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 or its designated committee 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 or its committee, as appropriate, 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)).

13. (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 or other asset in excess of \$100,000, 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 problem loan 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 \$100,000, 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 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, extension report, and past due/non-accrual report.

Allowance for Loan and Lease Losses

14. (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. Thereafter, the

Bank shall, within 30 days from the receipt of any relevant 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 collectibility.

(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 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 ALLL for that quarter.

Capital Plan

15. Within 60 days of this Agreement, BCSC and the Bank shall jointly submit to the Reserve Bank and the Banking Department acceptable written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include the Bank's current and future capital requirements, including:

(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 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 Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)) that BCSC serve as a source of strength to the Bank.

16. BCSC and 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 risk-based, or leverage) fall below the approved capital plan's minimum ratios. Together with the notification, BCSC and the Bank shall submit an acceptable written plan that details the steps BCSC and the Bank will take to increase the Bank's capital ratios to or above the approved capital plan's minimums.

Funds Management and Interest Rate Risk

17. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Banking Department the following:

- (a) An acceptable revised written contingency funding plan that, at a minimum, identifies available sources of liquidity and includes adverse scenario planning; and
- (b) an acceptable plan to enhance the Bank's interest rate risk management policy and practices to address deficiencies noted in the Report of Examination.

Strategic Plan and Budget

18. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Banking Department a written strategic plan and budget concerning the Bank's proposed business activities for the remainder of 2010 and for 2011. The plan and budget shall, at a minimum, provide for or describe:

- (i) the responsibilities of the Bank's board of directors regarding the definition, approval, implementation and monitoring of the strategic plan and budget;
- (ii) management, lending, and operational objectives;
- (iii) an earnings improvement plan;

- (iv) the operating assumptions that form the bases for major projected income and expense components, and the sources and uses of new funds;
- (v) financial performance objectives, including plans for asset growth, earnings, liquidity, and capital supported by detailed quarterly and annual pro forma financial statements, including projected budgets, balance sheets and income statements; and
- (vi) the establishment of a monthly review process to monitor the actual income and expenses of the Bank in comparison to budgetary projections.

(b) The Bank shall submit to the Reserve Bank and the Banking Department the strategic plan and budget for any calendar year subsequent to 2011 at least one month prior to the beginning of that calendar year.

Dividends, Distributions, and Payments

19. (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 (the “Director”) of the Board of Governors of the Federal Reserve System (the “Board of Governors”), and the Banking Department.

(b) BCSC shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director.

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

20. BCSC shall not pay any principal, interest, or other sums on subordinated debt, or debt that is held by Insiders, without the prior written approval of the Reserve Bank. For the purpose of this paragraph, the following terms shall be defined as: (i) “Insider” shall include any of BCSC’s or the Bank’s current or former executive officers, directors, principal shareholders, their immediate families, their related interests, or persons acting on their behalf; (ii) “immediate family” shall be defined as set forth in section 225.41(b)(3) of Regulation Y of the Board of Governors (12 C.F.R. § 225.41(b)(3)); and (iii) “related interests” shall be defined as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(n)).

21. All requests for prior approval shall be received by the Reserve Bank and the Banking Department at least 30 days prior to the proposed dividend declaration date, payment, or proposed distribution on subordinated debentures. All requests shall contain, at a minimum, current and projected information on BCSC’s capital, earnings, and cash flow; the Bank’s capital, asset quality, earnings, and allowance for loan and lease losses; and identification of the sources of funds for the proposed payment or distribution. For requests to declare or pay dividends, BCSC 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

22. (a) BCSC 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) BCSC shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

Compliance with Laws and Regulations

23. 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, BCSC 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.*).

24. BCSC 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).

Progress Reports

25. Within 30 days after the end of each calendar quarter following the date of this Agreement, boards of directors of BCSC 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.

Approval and Implementation of Policies, Procedures, Plans, Programs, and Engagement Letter

26. (a) The written policies, procedures, plans, programs, and an engagement letter required by paragraphs 3(b), 5, 7, 9, 10, 13(a), 13(b), 14(c), 15, 16, and 17 of this Agreement shall be submitted to the Reserve Bank and the Banking Department for review and approval. Acceptable policies, procedures, plans, programs, and engagement letter shall be submitted within the time periods set forth in the Agreement. An independent consultant acceptable to the Reserve Bank and the Banking Department shall be retained in the time period set forth in paragraph 3(a).

(b) Within 10 days of approval by the Reserve Bank and the Banking Department, the Bank shall adopt the approved policies, procedures, plans and programs, and engagement letter. Upon adoption, the Bank shall promptly implement the approved policies, procedures, plans, and programs and thereafter fully comply with them.

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

Communications

27. 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 68508-1402

- (c) Mr. Roger L. Brestel
Battle Creek State Company, Inc., Secretary
Battle Creek State Bank, President
202 West Main Street
Battle Creek, Nebraska 68715

Miscellaneous

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

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

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

31. 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 BCSC, the Bank, or any of their current or former institution-affiliated parties and their successors and assigns.

32. 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 9th day of August, 2010.

BATTLE CREEK STATE COMPANY, INC.

FEDERAL RESERVE BANK
OF KANSAS CITY

By: /s/ Roger L. Brestel
Roger L. Brestel
Secretary

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

BATTLE CREEK STATE BANK

NEBRASKA DEPARTMENT
OF BANKING AND FINANCE

By: /s/ Roger L. Brestel
Roger L. Brestel
President

By: /s/ John Munn
John Munn
Director