

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

OKLAHOMA STATE BANKING DEPARTMENT
OKLAHOMA CITY, OKLAHOMA

Written Agreement by and between

ALLNATIONS BANK
Calumet, Oklahoma

FEDERAL RESERVE BANK OF
KANSAS CITY
Kansas City, Missouri

and

OKLAHOMA STATE BANKING
DEPARTMENT
Oklahoma City, Oklahoma

Docket No. 18-030-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of AllNations Bank, Calumet, Oklahoma (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 Oklahoma State Banking Department (the “Department”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on October 18, 2018, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Eastman Switch to enter into this Agreement on behalf of the Bank, and consenting to compliance with each and every provision of this Agreement by the Bank.

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

Board Oversight

1. Within 60 days of this Agreement, the board of directors of the Bank shall submit a written plan to the Reserve Bank and the Department 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, lending and credit administration, asset quality, liquidity, capital, earnings, interest rate risk, and internal controls;

(b) the responsibility of the board of directors to monitor management's adherence to approved policies and procedures, and applicable laws and regulations and to monitor exceptions to approved policies and procedures;

(c) the responsibility of the board of directors to establish appropriate risk tolerance guidelines and risk limits including, but not limited to, the agricultural loan concentration strategy;

(d) the identification of present and future staffing needs;

(e) the proper segregation of duties among staff;

(f) management succession planning;

(g) measures to ensure the Bank complies with the requirements outlined in the Guidance on Managing Outsourcing Risk, dated December 5, 2013 (SR 13-19); and

(h) steps to improve 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 credit risk management, lending and credit administration, concentrations of credit, adversely classified assets, allowance for loan and lease losses ("ALLL"), capital, liquidity, earnings, and the Bank Secrecy Act (the "BSA") and Anti-Money Laundering ("AML") program.

Internal Controls

2. Within 30 days of this Agreement, the Bank shall submit written policies and procedures acceptable to the Reserve Bank and the Department to strengthen the Bank's internal controls that shall, at a minimum, address, consider, and include:

(a) segregation of duties and dual controls;

(b) measures to ensure the timely and accurate preparation of the Bank's

Consolidated Reports of Condition and Income, including supporting schedules ("Call Report");

(c) exception tracking reports for audit and examination findings;

(d) reporting of internal controls reviews to the board of directors; and

(e) measures to address the internal control deficiencies noted in the report of

examination conducted by the Reserve Bank and the Department that commenced on May 14, 2018 (the "Report of Examination").

Management Plan

3. Within 60 days of this Agreement, the Bank's board of directors shall submit a written management plan to the Reserve Bank and the Department that fully addresses the findings and recommendations of the management review that was recently conducted by an independent consultant and that describes the specific actions the board of directors proposes to take in order to strengthen the Bank's management, including, but not limited to plans to hire or appoint additional or replacement personnel to properly manage and operate the Bank.

Credit Risk Management

4. Within 60 days of this Agreement, the Bank shall submit a written plan to strengthen credit risk management practices acceptable to the Reserve Bank and the Department.

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) policies, procedures, and strategies to identify, limit, and manage concentrations of credit; and
- (c) improvements to the Bank's management information systems to ensure that the board of directors and senior management obtain timely and accurate credit-related information.

Lending and Credit Administration

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

- (a) underwriting standards that require documented analyses of: (i) the borrower's repayment sources, global cash flow, and overall debt service ability; and (ii) the value of any collateral;
- (b) procedures to ensure compliance with loan documentation and collateral requirements to minimize exceptions, including (i) establishment of an exception tracking system, and (ii) required periodic monitoring by the board of directors and senior management;
- (c) procedures to perform independent credit analyses on loan participations purchased; and

(d) the appropriate accounting treatment of loan origination fees and related costs.

6. 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 identified in 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.

Asset Improvement

7. 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)).

8. (a) Within 60 days of this Agreement, the Bank shall submit a written plan acceptable to the Reserve Bank and the Department 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 \$100,000, including other real estate owned ("OREO"), that are past due as to principal or interest more than 90 days as of the date of this Agreement, are on the Bank's problem loan list, or were adversely classified in the Report of Examination.

(b) Within 30 days of the date that any additional loan, relationship, 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 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 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/non-accrual report. The board of directors shall review the progress reports before submission to the Reserve Bank and the Department and shall document the review in the minutes of the board of directors' meetings.

Allowance for Loan and Lease Losses

9. (a) The Bank shall, within 30 days from the receipt of any report of examination, charge off all assets classified "loss" unless otherwise approved in writing by the Reserve Bank and the 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 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 a written program for the maintenance of an adequate ALLL acceptable to the Reserve Bank and the Department.

The program shall include policies and procedures to ensure adherence to the 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 Call Report, 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 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

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

(a) compliance with the applicable requirements of Regulation Q of the Board of Governors, Capital Adequacy of Board-Regulated Entities (12 C.F.R. Part 217);

(b) the adequacy of the Bank's capital, taking into account the volume of classified assets, concentrations of credit, the adequacy of the ALLL, current and projected asset growth, projected earnings, and anticipated and contingency funding needs; and

(c) the source and timing of additional funds to fulfill the Bank's future capital requirements.

11. (a) The Bank shall notify the Reserve Bank and the Department, in writing, no more than 30 days after the end of any calendar quarter in which any of the Bank's capital ratios (total risk-based, Tier 1 risk-based, common equity Tier 1 or leverage) fall below the approved capital plan's minimum ratios. Together with the notification, the Bank shall submit a written plan acceptable to the Reserve Bank and the Department that details the steps it will take to increase its capital ratios to or above the approved capital plan's minimums.

(b) During the term of this Agreement, the Bank shall not enter into any agreement to sell or purchase any loan or other asset that, in the aggregate, would exceed 5 percent of the Bank's total assets at the end of the prior quarter without the prior written approval of the Reserve Bank and the Department.

(c) All requests for prior written approval shall be received at least 30 days prior to the proposed sale or purchase. All requests shall contain, at a minimum, a description of the terms of the proposed sale or purchase, the identity of the proposed purchaser or seller; current and projected information on the Bank's capital, asset quality, earnings, and ALLL needs, and the identification of the sources of funds for any proposed purchase or sale.

Liquidity and Funds Management

12. Within 60 days of this Agreement, the Bank shall submit an enhanced written funding plan acceptable to the Reserve Bank and the Department that includes, at a minimum:

- (a) liquidity and dependency reporting against board-approved limits;
- (b) sources and uses analyses; and
- (c) measures to ensure timely reporting of the Bank's liquidity position to the board of directors.

13. Within 60 days of this Agreement, the Bank shall submit an enhanced written contingency funding plan acceptable to the Reserve Bank and the Department that, at a minimum, identifies available sources of liquidity, includes adverse scenario planning, and complies with the Interagency Policy Statement on Funding and Liquidity Risk Management, dated March 17, 2010 (SR 10-6).

Interest Rate Risk Management

14. Within 60 days of this Agreement, the Bank shall submit a written plan acceptable to the Reserve Bank and the Department to enhance interest rate risk management practices that are appropriate for the size and complexity of the Bank. The plan shall, at a minimum, address, consider, and include:

- (a) adequate guidelines and systems, including effective modeling, to measure, monitor, and control the Bank's interest rate risk;
- (b) appropriate parameters governing the economic risk to the Bank's capital due to changes in interest rates; and
- (c) the interagency guidance on Interest Rate Risk dated January 11, 2010 (SR 10-1).

Information Technology/Cybersecurity

15. Within 60 days of this Agreement, the Bank shall submit a written plan acceptable to the Reserve Bank and the Department, including timetables, to correct the information technology and cybersecurity deficiencies identified in the Report of Examination.

BSA/AML Compliance Program

16. Within 60 days of this Agreement, the Bank shall submit a written plan acceptable to the Reserve Bank and the Department to improve the Bank's BSA/AML compliance program

in accordance with the requirements of the BSA (31 U.S.C. § 5311 *et seq.*); the rules and regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. Chapter X); and the AML requirements of Regulation H of the Board of Governors (12 C.F.R. § 208.62) (collectively, the “BSA/AML Requirements”). At a minimum, the plan shall include the following enhancements to the BSA/AML compliance program:

(a) improvements to the Bank’s system of internal controls to ensure compliance with the BSA/AML Requirements, including, but not limited to, customer due diligence and suspicious activity monitoring and reporting; and

(b) allocation of adequate resources for the BSA/AML compliance officer, including sufficient staffing levels, and a periodic re-evaluation of resources and staffing needs.

Strategic Plan

17. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department a revised written Strategic Plan that, at a minimum, establishes short and long term goals designed to improve the condition of the Bank and a description of how the Bank’s board of directors and senior management intend to achieve the stated objectives.

Earnings Plan and Budget

18. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department a written business plan and a budget for the remainder of 2018 to improve the Bank’s earnings and overall condition. The plan shall, at a minimum, include, provide for, or describe:

(i) goals and strategies for improving the Bank’s earnings;

(ii) an assessment of the Bank's current financial condition, product lines, and market area, and a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components;

(iii) a realistic and comprehensive budget for 2018, including income statement and balance sheet projections; and

(iv) a budget review process that analyzes and reports budgeted versus actual income and expense performance.

(b) A business plan and budget for each calendar year subsequent to 2018 shall be submitted to the Reserve Bank and the Department at least 30 days prior to the beginning of that calendar year.

Dividends

19. (a) The Bank shall not declare or pay any dividends or any other form of payment representing a reduction in capital without the prior written approval of the Reserve Bank, the Director of the Division of Supervision and Regulation of the Board of Governors, and the Department.

(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 page 4-323). All requests for prior approval shall be received by the Reserve Bank and the Department at least 30 days prior to the proposed dividend declaration date and shall contain, at a minimum, current and projected information on earnings, capital, asset quality, and loan loss reserve needs of the Bank, as well as, the source of funding for the proposed dividend.

Compliance with Laws and Regulations

20. (a) The Bank shall take all necessary steps to correct all violations of law or regulation cited in the Report of Examination. In addition, the Bank shall take necessary steps to ensure future compliance with all applicable laws and regulations.

(b) 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 Federal Deposit Insurance Act, as amended (12 U.S.C. § 1831i) (the “FDI Act”) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. §§ 225.71 *et seq.*).

(c) 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. § 359).

Progress Reports

21. Within 30 days after the end of each calendar quarter following the date of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and the 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 Plans, Policies, Procedures, and Programs

22. (a) The Bank shall submit written plans, policies, procedures, and programs that are acceptable to the Reserve Bank and the Department within the applicable time periods set forth in paragraphs 2, 3, 4, 5, 8(a) and (b), 9(c), 10, 11(a), 12, 13, 14, 15, and 16 of this Agreement. Each plan, policy, procedure, and program shall contain a timeline for full implementation of the plan, policy, procedure, or program with specific deadlines for the

completion of each component of the plan, policy, procedure, or program.

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

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

Communications

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

- (a) Mr. Todd A. Offenbacher
Vice President
Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64198
- (b) Mr. Mick Thompson
Commissioner
Oklahoma State Banking Department
2900 N. Lincoln Boulevard
Oklahoma City, Oklahoma 73105
- (c) Mr. Eastman Switch
Vice Chairman
AllNations Bank
114 East Main Street
P.O. Box 118
Calumet, Oklahoma 73014

Miscellaneous

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

25. The provisions of this Agreement shall be binding upon the Bank and their institution-affiliated parties, as defined in section 3(u) of the FDI Act (12 U.S.C. § 1813(u)), in their capacities as such, and their successors and assigns.

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

27. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the Department, 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.

28. 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 22nd of October, 2018.

ALLNATIONS BANK

FEDERAL RESERVE BANK
OF KANSAS CITY

By: /s/ Eastman Switch
Eastman Switch
Vice Chairman

By: /s/ Todd A. Offenbacher
Todd A. Offenbacher
Vice President

OKLAHOMA STATE BANKING
DEPARTMENT

By: /s/ Mick Thompson
Mick Thompson
Commissioner