

STATE OF NEBRASKA
DEPARTMENT OF BANKING AND FINANCE
- and -
FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

In the Matter of:)	
)	
ASHTON STATE BANK)	
295 CENTER AVENUE)	CONSENT ORDER
ASHTON, NEBRASKA)	FDIC-16-0233b

Ashton State Bank, 295 Center Avenue, Ashton, Nebraska (“Bank”), is a Nebraska state-chartered bank subject to the jurisdiction of the Nebraska Department of Banking and Finance (“Department”), pursuant to the Nebraska Banking Act, Neb. Rev. Stat. §§ 8-101 to 8-101, 140.

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for the Bank, under section 3(q) of the Federal Deposit Insurance Act (“Act”), 12 U.S.C. § 1813(q), collectively the Department and the FDIC are the “Supervisory Authorities,”

The Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a “Stipulation to the Issuance of a Consent Order” (“Stipulation”), dated December 29, 2016, that is accepted by the Department and the FDIC. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law and/or regulation, to the issuance of this Consent Order (“ORDER”) by the Department and the FDIC.

Having determined that the requirements for issuance of an Order under Neb. Rev. Stat. § 8-1,134 and section 8(b) of the Act, 12 U.S.C. § 1818(b), have been satisfied, the Department and the FDIC hereby order that:

ORDER

ASSESSMENT OF BOARD OF DIRECTORS AND MANAGEMENT

1. (a) The Bank shall have and retain qualified management. Each member of management shall have the qualifications and experience commensurate with assigned duties and responsibilities at the Bank and shall be provided appropriate written authority from the Board to implement the provisions of this ORDER. Management shall include the chief executive officer, senior lending officer, and chief financial officer.

(b) Within 30 days from the effective date of this ORDER, the Board shall engage an independent third party acceptable to the Supervisory Authorities and that possesses appropriate expertise and qualifications to analyze and assess the Bank's management and staffing needs, performance, and compensation, including, but not limited to its ability to: (i) comply with the requirements of this ORDER; (ii) operate the Bank in a safe and sound manner; (iii) comply with applicable laws and regulations; and (iv) restore all aspects of the Bank to a safe and sound condition, including, but not limited to, asset quality, capital adequacy, earnings, management effectiveness, risk management, liquidity, and sensitivity to market risk. Prior to execution, a copy of such third party's proposed engagement letter and a description of the third party's expertise and qualifications shall be provided to the Supervisory Authorities. The engagement shall require that such third party's analysis and assessment be summarized in a written report to the Board ("Management Study") within 90 days from the date of engagement.

(c) Within 30 days from the receipt of the Management Study, the Board shall prepare an acceptable written Management Plan that among other things: (i) addresses the findings of the Management Study; (ii) presents a plan of action in response to each recommendation contained in the Consultant's Study, and a time frame for completing each

action; and (iii) establishes procedures to review and update the Management Plan at least annually from the effective date of this ORDER.

(d) A copy of the Management Study and Management Plan and any subsequent modifications thereto shall be submitted to the Supervisory Authorities for review and comment. Within 30 days from receipt of any comment from the Supervisory Authorities, and after consideration of such all such comments, the Board shall approve the Management Plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank and its directors, officers, and employees shall implement and follow the Management Plan. It shall remain the responsibility of the Board to fully implement the Management Plan within the specified time frames. In the event the Management Plan, or any portion thereof, is not implemented, the Board shall immediately advise the Supervisory Authorities, in writing, of specific reasons for deviating from said Management Plan.

CHARGE-OFF OF ADVERSELY CLASSIFIED ASSETS

2. (a) Within 30 days from the effective date of this ORDER, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" in the August 25, 2016 Department and FDIC Report of Examination ("Report of Examination") that have not been previously collected or charged off.

(b) Elimination or reduction of assets classified "Loss" through proceeds of other loans made by the Bank is not considered collection for purposes of this provision.

LOAN POLICY AND CREDIT ADMINISTRATION

3. (a) Within 60 days from the effective date of this ORDER, the Board shall review and revise its written loan policy and credit administration procedures ("Revised Loan Policies")

to address the deficiencies and recommendations presented on the Examination Conclusions and Comments pages of the Report of Examination.

(b) A copy of the Revised Loan Policies, and any modifications thereto, with all changes highlighted, shall be provided to the Supervisory Authorities for review and comment, with the next due progress report required below under the terms of this ORDER. Within 30 days of receipt of any comment from the Supervisory Authorities, and after consideration of any such comments, the Bank shall approve the Revised Loan Policies, or subsequent modification, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the Revised Loan Policies.

(c) In the event the Bank considers making a loan that would not conform with the Revised Loan Policies, the loan shall receive prior review and approval by the Board. The reason for nonconformance and the Board's review and approval shall be documented in the minutes of the Board and in the loan file for that loan.

REDUCTION OF ADVERSELY CLASSIFIED ASSETS

4. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate written plans to reduce the Bank's risk exposure in each asset in excess of \$50,000.00 adversely classified as "Substandard" or "Doubtful" in the Report of Examination. For purposes of this provision, "reduce" means to collect, charge off, or improve the quality of an asset so as to warrant its removal from adverse classification by the Supervisory Authorities. In developing the plans mandated by this paragraph, the Bank shall, at a minimum, and with respect to each adversely classified loan or lease, review, analyze, and document:

- (i) the name under which the asset is carried on the books of Bank;
- (ii) type of asset;

- (iii) the financial position of the borrower;
- (iv) sources of repayment and repayment ability;
- (v) the value and accessibility of any pledged or assigned collateral;
- (vi) any possible actions to improve the Bank's collateral position and/or

reduce the classified asset;

- (vii) time frames for accomplishing the proposed actions; and
- (viii) monthly review of progress by the Board.

(b) In addition to the plans for each adversely classified asset required above, within 60 days from the effective date of this ORDER, the Board shall develop a written plan for the reduction of all adversely classified assets identified in the Report of Examination using quarterly targets expressed as a percentage of the Bank's Tier 1 Capital plus the Bank's Allowance for Loan and Lease Losses ("ALLL") and may be accomplished by:

- (i) Charge-off;
- (ii) Collection;
- (iii) Sufficient improvement in the quality of adversely classified assets so as to warrant removing any adverse classification, as determined by the Supervisory Authorities; or
- (iv) Increase in the Bank's Tier 1 Capital.

(c) Upon completion of the plans, the Bank shall immediately submit the plans to the Supervisory Authorities for review and comment. Within 30 days from receipt of any comment from the Supervisory Authorities and after consideration of all such comments, the Board shall approve the plans, which approval shall be recorded in the Board's minutes. The Bank shall cause a copy of each plan to be placed in the applicable credit file and shall implement and fully comply with the plans.

(d) Upon the written request of either of the Supervisory Authorities, similar plans shall be formulated for assets adversely classified or listed for Special Mention at future examinations.

RESTRICTIONS ON ADVANCES TO ADVERSELY CLASSIFIED BORROWERS

5. (a) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit or obligation with the Bank that has been, in whole or in part, charged off or adversely classified "Substandard" or "Doubtful," either internally or by either of the Supervisory Authorities, and is uncollected, or adversely classified "Substandard" or "Doubtful" in any future Reports of Examination from either of the Supervisory Authorities and is uncollected. The requirements of this subparagraph (a) shall not prohibit the Bank from renewing, after collecting in cash all interest and fees due from a borrower, any credit already extended to the borrower.

(b) Subparagraph (a) of this provision shall not apply if the Bank's failure to extend further credit to a particular borrower would be detrimental to the best interests of the Bank. Prior to extending additional credit pursuant to this subparagraph (b), whether in the form of a renewal, extension, or further advance of funds, such additional credit shall be approved by the Board, who shall conclude:

(i) the failure of the Bank to extend such credit would be detrimental to the best interests of the Bank, with an explanation of why the failure to extend such credit would be detrimental;

(ii) the extension of such credit would improve the Bank's position, with an explanatory statement of why the Bank's position would improve; and,

(iii) an appropriate workout plan has been developed and will be implemented in conjunction with the additional credit to be extended.

(c) The Board's conclusions and approval shall be made a part of the Board's minutes, with a written notation of the Board's approval made in the borrower's credit file.

IMPLEMENTATION OF LOAN REVIEW

6. (a) Within 60 days from the effective date of this ORDER, the Board shall develop a written program for independent loan review that will provide for a periodic review of the Bank's loan portfolio and the identification and categorization of problem credits.

(b) At a minimum, the written program shall provide for:

(i) prompt identification of loans with credit weaknesses that warrant the special attention of management, including the name of the borrower, amount of the loan, reason why the loan warrants special attention; and assessment of the degree of risk that the loan will not be fully repaid according to its terms;

(ii) prompt identification of all outstanding balances and commitments attributable to each obligor identified under the requirements of subparagraph (i), including outstanding balances and commitments attributable to related interests of such obligors, including the obligor of record, relationship to the primary obligor identified under subparagraph (i), and an assessment of the risk exposure from the aggregate relationship;

(iii) identification of trends affecting the quality of the loan portfolio and potential problem areas;

(iv) assessment of the overall quality of the loan portfolio;

(v) identification of credit and collateral documentation exceptions;

(vi) identification and status of violations of laws, rules, or regulations with respect to the lending function;

(vii) identification of loans that are not in conformance with the Bank's lending policy;

(viii) identification of loans to directors, officers, principal shareholders, and their related interests; and

(ix) a mechanism for reporting, in writing, the information developed in (i) through (viii) above to the Board on at least a quarterly basis. The report should also describe the action(s) taken by management with respect to problem credits.

(c) Upon completion, the Bank shall submit the written program to the Supervisory Authorities for review and comment with the next due progress report required below under the terms of this ORDER. Within 30 days from receipt of any comment from the Supervisory Authorities and after consideration of all such comments, the Board shall approve the written program, which approval shall be recorded in the Board's minutes. The Bank shall implement and fully comply with the written program.

(d) Within 90 days from the effective date of this ORDER, the Bank shall retain an independent third party acceptable to the Supervisory Authorities to perform a comprehensive annual written loan review meeting the loan review requirements of this paragraph and which encompasses, at a minimum, all loan relationships in excess of \$50,000.00 and all loan participations purchased. In addition to reviewing the loans against the criteria above, such third party shall detail any recommendations to improve the Bank's loan underwriting and loan administration.

(e) Upon implementation, a copy of each report shall be submitted to the Board, as well as documentation of the actions taken by the Bank or recommendations to the Board that address identified deficiencies in specific loan relationships or the Bank's policies, procedures, strategies, or other elements of the Bank's lending activities. Such reports and recommendations, as well as any resulting determinations, shall be recorded and retained in the Board's minutes.

**MAINTENANCE OF ALLOWANCE FOR LOAN AND LEASE LOSSES
("ALLL")**

7. (a) Within 10 days from the effective date of this ORDER, and within 10 days of receipt of future reports of examination from either of the Supervisory Authorities, the Board shall make a provision which will replenish the ALLL for the loans charged-off as a result of the most recent internal loan review or in the most recent examination and reflect the potential for further losses in the remaining loans or leases classified "Substandard" as well as all other loans and leases in its portfolio.

(b) A deficiency in the Bank's ALLL shall be remedied in the calendar quarter in which it is discovered by a charge to current operating earnings prior to any capital determinations required by this ORDER and prior to the Bank's submission of its Call Report. The Board shall thereafter maintain an appropriate ALLL.

(c) Within 10 days from the effective date of this ORDER, the Board shall review and comply with its written comprehensive policy and methodology for determining the ALLL ("ALLL Policy"). The ALLL Policy shall continue to require a review of the ALLL at least once each calendar quarter in order that the findings of the Board may be properly reported in the Bank's Call Reports. Such reviews shall, at a minimum, be made in accordance with the Call Report Instructions, the *Interagency Statement of Policy on the Allowance for Loan and Lease*

Losses, FIL-105-2006, dated December 13, 2006, other applicable regulatory guidance that addresses the appropriateness of the Bank's ALLL, and any analysis of the Bank's ALLL provided by either of the Supervisory Authorities.

(d) The Bank shall submit any proposed changes in the ALLL Policy to the Supervisory Authorities for review and comment with the next due progress report required below under the terms of this ORDER. Within 30 days from receipt of any comment from the Supervisory Authorities, and after consideration of any recommended changes, the Board shall approve the ALLL Policy, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the ALLL Policy.

CAPITAL REQUIREMENTS

8. (a) While this ORDER is in effect, the Bank shall have and maintain the following minimum capital levels (as calculated in accordance with Part 324 of the FDIC's Rules and Regulations), after establishing an appropriate ALLL:

- (i) a Leverage Ratio equal to at least 9 percent; and
- (ii) a Total Capital Ratio equal to at least 12 percent.

(b) In the event any ratio is or becomes less than the minimum required by subparagraph (a) of this provision, the Bank shall immediately notify the Supervisory Authorities, and within 45 days shall: (1) increase capital in an amount sufficient to comply with subparagraph (a) above, or (2) submit a written plan ("Capital Plan") to the Supervisory Authorities, describing the primary means and timing by which the Bank shall increase its capital ratios up to or in excess of the minimum requirements set forth above, as well as a contingency plan in the event the primary sources of capital are not available. Within 10 days from the receipt of all such comments from the Supervisory Authorities, and after consideration of all

such comments, the Board shall approve the Capital Plan, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the Capital Plan.

(c) Any increase in Tier 1 capital necessary to meet the requirements of subparagraph (a) of this provision may not be accomplished through a deduction from the ALLL without the prior written approval from the Supervisory Authorities.

DIVIDEND RESTRICTION

9. While this ORDER is in effect, the Bank shall not declare or pay any cash dividends without the prior written approval of the Supervisory Authorities.

LIQUIDITY AND FUNDS MANAGEMENT

10. (a) Within 90 days from the effective date of this ORDER, the Bank shall prepare a written liquidity analysis and projection for the sources and uses of funds, including but not limited to the following:

Sources:

(i) listing of loans available for participation or sale and a list of committed purchasers;

(ii) listing of and projected pay offs or pay downs of loans;

(iii) specific listing of all funding sources and borrowings and level of commitments/availability;

(iv) projection and breakdown of deposit growth from non-brokered deposits and sources;

Uses:

(v) listing and timing of contractually binding loan commitments that are expected to be funded;

(vi) projections for known maturities of anticipated brokered deposit withdrawals;

(vii) projections, including best and worse case scenarios, of large public/private deposit withdrawals;

Projections and Contingency Plans:

(viii) projections for curtailing loan growth and shrinking the total asset size of the Bank; and

(ix) specific contingency plans in the event that anticipated events do not materialize, or in case of some other liquidity emergency.

(b) The written analysis and projection required by paragraph (a) above shall be reviewed for viability on a monthly basis, and updated as necessary. A copy of the written analyses and projections prepared under this provision shall be included with the progress reports required hereunder, unless required more frequently by the Supervisory Authorities.

SENSITIVITY TO MARKET RISK

11. (a) Within 30 days from the effective date of this ORDER, the Bank shall provide a written interest rate risk policy and plan (“IRR Policy and Plan”) to address the comments and criticisms regarding Sensitivity to Market Risk contained in the Report of Examination. The IRR Policy and Plan shall be consistent with the guidance contained in the *Joint Agency Policy Statement on Interest Rate Risk*, FIL-52-96, dated July 12, 1996; the Federal Financial Institution Examination Council (“FFIEC”) Advisory entitled *Financial Institution Management of Interest Rate Risk*, FIL-2-2010, dated January 20, 2010; and the *Supervisory Guidance - Interest Rate*

Risk Management: Frequently Asked Questions, FIL-2-2012, dated January 12, 2012.

(b) The Bank shall submit the IRR Policy and Plan to the Supervisory Authorities for review and comment with the next due progress report required below under the terms of this ORDER. Within 30 days of receipt of any comments from the Supervisory Authorities, and after consideration of such comments, the Board shall approve the IRR Policy and Plan, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the IRR Policy and Plan.

PROFIT AND BUDGET PLAN

12. (a) Within 90 days from the effective date of this ORDER, the Board shall develop a one-year profit and budget plan covering the overall operation of the Bank and its goals and strategies, consistent with sound banking practices, and taking into account the Bank's other written plans, policies, or other actions as required by this ORDER.

(b) The profit and budget plan shall include goals and strategies for improving the earnings of the Bank. The budget shall include a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components.

(c) The profit and budget plan, and any subsequent modification thereto, shall be approved by the Board, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the plan. A copy of the profit and budget plan, and any modifications thereto, shall be provided to the Supervisory Authorities with the next due progress report required below under the terms of this ORDER.

(d) At the Board's first meeting following the end of each calendar quarter, the Board shall evaluate the Bank's actual performance in relation to the plan required by this provision

and shall record the results of that evaluation, and any responsive actions taken or to be taken by the Bank, in the Board's minutes.

CORRECTION OF WEAKNESSES IN INTERNAL CONTROLS

13. (a) Within 90 days from the effective date of this ORDER, the Bank shall develop a written plan to eliminate or address the weaknesses and/or deficiencies in the Bank's internal controls and procedures set out in the Report of Examination as contraventions of Appendix A to Part 364 of the FDIC's Rules and Regulations ("Internal Controls Plan").

(b) The Internal Controls Plan shall be approved by the Board, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the Internal Control Plan. Progress toward meeting the Internal Controls Plan will be reported to the Board monthly and recorded in the Board's minutes.

(c) Upon approval, a copy of the Internal Controls Plan shall be provided to the Supervisory Authorities with the next due progress report required below under the terms of this ORDER.

CORRECTION OF CREDIT DATA AND COLLATERAL DOCUMENTATION EXCEPTIONS

14. (a) Within 90 days from the effective date of this ORDER, the Bank shall correct the credit data and collateral documentation exceptions identified in the Report of Examination.

(b) All attempts to correct exceptions shall be documented in each borrower's credit file.

(c) Progress reports detailing each outstanding exception and Bank's plan for corrective action shall be submitted to the Board for review during each regularly scheduled meeting. The review shall be noted in the minutes of the Board.

(d) The Bank shall document each technical exception that cannot be eliminated or corrected, and the reason(s) why the exception cannot be eliminated or corrected. Each of these exceptions shall be reviewed by the Board at its next monthly meeting. The Board's review, discussion, and any action upon the uncorrected technical exceptions shall be recorded in the minutes of the Board. Thereafter, the Board shall ensure that management is obtaining comprehensive financial information prior to originating loans.

CORRECTION OF INFORMATION TECHNOLOGY WEAKNESSES

15. (a) Within 90 days from the effective date of this ORDER, the Bank shall develop a written plan to eliminate or address the weaknesses described in the Information Technology Examination set out in the Report of Examination ("IT Plan").

(b) The IT Plan shall be approved by the Board, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the IT Plan. Progress toward meeting the IT Plan will be reported to the Board monthly and recorded in the Board's minutes.

(c) Upon approval, a copy of the IT Plan shall be provided to the Supervisory Authorities with the next due progress report required below under the terms of this ORDER.

ELIMINATION AND/OR CORRECTION OF VIOLATIONS OF LAWS, RULES AND REGULATIONS

16. (a) Within 120 days from the effective date of this ORDER, and within 90 days after receipt of any future report of examination by either of the Supervisory Authorities, the Bank shall eliminate and/or correct all violations of laws and rules and regulations cited in the Report of Examination or such future reports of examination.

(b) For any violation that cannot be corrected, the Bank shall document the reason for such inability for review by the Board at its next monthly meeting. The Board's review,

discussion, and any action upon the uncorrected violation shall be recorded in its minutes. A copy of the minutes shall be provided to the Supervisory Authorities with the next due progress report required below under the terms of this ORDER.

(c) Within 120 days from the effective date of this ORDER, the Bank shall adopt and implement appropriate procedures to ensure future compliance with all applicable laws and rules and regulations.

DISCLOSURE OF ORDER TO SHAREHOLDERS

17. Following the effective date of this ORDER, the Bank shall provide a copy or otherwise furnish a description of this ORDER to its shareholders, (i) in conjunction with the Bank's next shareholder communication, and (ii) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. Any description shall fully describe the ORDER in all material respects. Such description and any accompanying communication, statement, or notice shall be sent to the FDIC, Division of Risk Management Supervision, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Room F-6066, Washington, D.C. 20429, and the Nebraska Department of Banking and Finance, Box 95006, Lincoln, Nebraska 68509 for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the Department and the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

PROGRESS REPORTS DETAILING COMPLIANCE WITH ORDER

18. Within 30 days from the end of each calendar quarter subsequent to the effective date of this ORDER, and every 90 days thereafter, the Bank shall furnish written progress reports to the Supervisory Authorities detailing the form, manner, and results of any actions taken to secure compliance with this ORDER. Such written progress reports shall provide cumulative detail of the Bank's progress toward achieving compliance with each provision of the ORDER.

BINDING EFFECT

The provisions of this Order shall not bar, estop, or otherwise prevent the Department and the FDIC or any other federal or state agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties.

This Order shall be effective on the date of issuance.

The provisions of this Order shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this Order shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside by the Department and the FDIC.

Issued Pursuant to Delegated Authority

Dated the 3rd day of January, 2017.

NEBRASKA DEPARTMENT
OF BANKING AND FINANCE

FEDERAL DEPOSIT INSURANCE
CORPORATION

By: /s/
Mark Quandahl
Director

By: /s/
John R. Jilovec
Deputy Regional Director
Kansas City Regional Office