FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.
and
KANSAS OFFICE OF THE STATE BANK COMMISSIONER
TOPEKA, KANSAS

In the Matter of	)	
	)	**CONSENT ORDER**
THE CITIZENS STATE BANK AND TRUST COMPANY	)	
WOODBINE, KANSAS	)	**FDIC-13-136b**
	)	**OSBC-2013-88**
(Insured State Nonmember Bank)	)	

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for The Citizens State Bank and Trust Company, Woodbine, Kansas ("Bank"), under Section 3(q) of the Federal Deposit Insurance Act ("FDI Act"), 12 U.S.C. § 1813(q). The State of Kansas, Kansas State Banking Board ("KSBB"), is the appropriate State banking authority for the Bank under Kansas Statutes Annotated 9-1807.

Based on the findings of the FDIC examination of the Bank as contained in the January 28, 2013 Report of Examination ("Report of Examination"), the FDIC and the KSBB, determined that the requirements for an order under 12 U.S.C. § 1818(b) and section 9-1807 Kansas Statutes Annotated, have been satisfied.

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 May 14, 2013, that is accepted by the FDIC and the KSBB. 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 FDIC and the KSBB.

Based on the above, the FDIC and KSBB each hereby order that:

1. Assessment of Management.

(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 Bank's Board to implement the provisions of this ORDER. Management shall include a chief executive officer, senior lending officer, chief financial officer and cashier.

(b) Within 90 days after the effective date of this ORDER, the Bank shall hire or identify a senior lending officer who shall possess the requisite knowledge, skills, ability, and workout experience, including problem loan workout experience, giving consideration to the size and complexity of the Bank, to administer the loan portfolio of the Bank in a safe and sound manner and in compliance with applicable laws and regulations and restore the loan portfolio of the Bank to a satisfactory condition. If the Bank is unable to employ a senor lending officer within the timeframe set forth above, the Board shall document its efforts to locate such candidates.

(c) Within 30 days from the effective date of this ORDER, the Board shall engage an independent third party ("Consultant") acceptable to the FDIC Regional Director and the Kansas Office of the State Bank Commissioner (collectively, "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 the Consultant's proposed engagement letter and a description of the Consultant's expertise and qualifications shall be provided to the Supervisory Authorities. The engagement shall require that the Consultant's analysis and assessment be summarized in a written report to the Board (Consultant's Study") within 90 days.

(d) Within 30 days of receipt of the Consultant's Study, the Board shall prepare an acceptable written Management Plan that among other things: (i) addresses the findings of the Consultant's Report; (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.

(e) A copy of the Consultant's Study and the 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 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 plan.

2. Charge-off of Adversely Classified Assets.

(a) Within 30 days of the effective date of this ORDER and within 30 days after the receipt of any future reports of examination of the Bank from either of the Supervisory Authorities, 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, and such future reports of examination that have not been previously collected or charged off.

(b) Elimination of reduction of assets through the proceeds of other loans or extensions of credit made by the Bank is not considered collection for purposes of this ORDER.

3. Reduction of Adversely Classified Assets.

(a) Within 90 days from the effective date of this ORDER, and 60 days from receipt of future reports of examination from either of the Supervisory Authorities, and within 60 days following receipt of any review downgrading an asset to a "Substandard" or "Doubtful" classification, the Bank shall prepare a written asset plan to reduce the Bank's risk exposure in each such asset in excess of $50,000. For purposes of this provision, “reduce” means to collect, charge off, or improve the quality of the asset to warrant its removal from such adverse classification.

(b) In developing the plans required by this provision, the Bank shall, at a minimum, review, analyze, and document the financial position of the borrower, including sources of repayment and repayment ability, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank’s collateral position.

(c) The asset plans required by this provision shall be reviewed by the Board, with a notation of the review in the Board’s minutes.

(d) The Bank shall submit the Board-reviewed asset plans, and any modifications thereto, 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 asset plans, and any modifications thereto, which approval shall be recorded in the Board’s minutes. Thereafter, the Bank shall implement and fully comply with the asset plans. Summaries detailing progress relative to the asset plans shall be reviewed and approved by the Board at least quarterly, with such approval noted in the Board’s minutes.

4. Restrictions on Advances to Adversely Classified Borrowers.

(a) While this ORDER is in effect, the Bank shall not, without the Board's prior approval, renew or extend existing extensions of credit (directly or indirectly) or advance any additional credit to, or for the benefit of, any borrower who has an 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 in the most recent report of examination.

(b) Prior to the renewal, extension, or advancement of any additional credit pursuant to this provision, such credit shall be approved by a majority of the Board, who shall certify in writing as follows:

(i) why the failure of the Bank to renew, extend or advance such credit would be detrimental to the best interest of the Bank;

(ii) that the Bank's position would be improved thereby, including an explanatory statement of how the Bank's position would be improved; and

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

(c) The signed certification shall be made a part of the Board’s minutes, with a copy retained in the borrower’s credit file.

5. Loan Policy and Credit Administration.

(a) Within 90 days of 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, including but not limited to the comments regarding overdrafts.

(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.

6. <u>Other Real Estate Policy</u>.

(a) Within 90 days from the effective date of this Order, the Board shall develop a written policy for managing the Other Real Estate ("ORE") of the Bank ("ORE Policy"). At a minimum, the ORE Policy shall provide for:

(i) review of the ORE portfolio, at least quarterly, by a committee appointed by the Board;

(ii) independent appraisal of each parcel at the time of foreclosure and an appraisal or evaluation periodically thereafter (but no more than 12 months from the date of the prior appraisal);

(iii) determination that each parcel of ORE is listed with a real estate broker or otherwise made widely available for sale within an appropriate timeframe;

(iv) periodic progress reports from each real estate broker marketing Bank ORE, including projected sales timeframes; and

(v) detailed reports to the Board at least quarterly, with a copy of the reports and documentation of the action taken to facilitate the timely sale of ORE to be included in the Board's minutes.

(b) The Bank shall submit the ORE 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 of receipt of any comments from the Supervisory Authorities, and after consideration of such comments, the Board shall approve the ORE Policy, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the ORE Policy.

7. <u>Concentrations of Credit</u>.

(a) Within 90 days from the effective date of this ORDER, the Bank shall prepare an acceptable written plan to reduce the concentrations of credit listed in the Report of Examination and to strengthen the Bank's management of concentrations of credit ("Concentration Plan"). The Concentration Plan shall include:

(i) policies and procedures to identify, limit, and manage all concentrations of credit, including, but not limited to, the development of concentration risk limits by individual borrower;

(ii) a schedule for reducing and the means by which the Bank will reduce the dollar volume of concentrations, and timeframes for achieving the reduced levels; and

(iii) procedures for monitoring the Bank's compliance with the Concentration Plan.

(b) The Bank shall submit the Concentration 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 Concentration Plan, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the Concentration Plan.

(c) The Bank shall not make any new extensions or commitments of credit to or for the benefit of any borrower or such borrower's related interests or affiliates if such extension or commitment would result in the bank exceeding any limit in the Concentration Plan.

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

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

(ii) that 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) that the plan of action to reduce the concentration of credit required by subparagraph (a) of this provision is revised to address any new credit extension or renewal made with respect to this subparagraph (d). The written certification shall be made a part of the Board's minutes, with a copy retained in the borrower's credit file.

8. Independent Loan Review Program.

(a) Within 45 days from the effective date of this ORDER, the Board shall develop a written loan review program that provides for a periodic and independent external review of the Bank's loan portfolio and the identification and categorization of problem credits in excess of $50,000. At a minimum, the written program shall: review and assess the Bank's internal loan review system, loan underwriting practices, and loan officer authority; review compliance with the loan policy; assess qualification and training needs of the loan committee; schedule and complete the external loan reviews and assessments of the Bank’s internal loan review system; require written reports to the Board after each review; be consistent with the December 13, 2006, Interagency Policy Statement on the Allowance for Loan and Lease Losses.

(b) 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 loan review program, which approval shall be recorded in the Board’s minutes. Thereafter, the Bank shall implement and fully comply with the written loan review program.

(c) Upon implementation, a copy of each report 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, as well as any resulting determinations, shall be recorded and retained in the Board’s minutes.

9. Maintenance of Allowance for Loan and Lease Losses ("ALLL").

(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" or "Doubtful," 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 revise its written comprehensive policy and methodology for determining the ALLL ("ALLL Policy"). The ALLL Policy shall address the ALLL comments in the Report of Examination and shall provide for 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 December 13, 2006 Interagency Statement of Policy on the Allowance for Loan and Lease Losses, 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 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.

10. Minimum Capital Requirements.

(a) While this ORDER is in effect, the Bank shall have and maintain the following minimum capital ratios (as defined in Part 325 of the FDIC's Rules and Regulations), after establishing an appropriate ALLL:

(i) Tier 1 "Leverage Capital Ratio" at least equal to 9 percent; and

(ii) "Total Risk-Based Capital Ratio" at least equal to 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), or (2) submit a written 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 of subparagraph (a) above, as well as a contingency plan, including the possible sale or merger of the Bank, in the event the primary sources of capital are not available. Within 30 days of receipt of any such comments from the Supervisory Authorities, and after consideration of all such comments, the Board shall approve the written plan, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the written plan.

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

11. Restriction on Certain Payments.

While this ORDER is in effect, the Bank shall not declare or pay dividends, nor shall it incur or pay management fees and bonuses, without the prior written approval of the Supervisory Authorities. All requests for prior approval shall be received by the Supervisory Authorities at least 30 days prior to the proposed action, and each request shall contain an analysis and description of the impact such dividend, management fee, or bonus would have on the Bank's capital, income, and liquidity positions. Requests to incur or pay management fees or pay bonuses shall also describe the Bank's rationale for incurring and making such payments.

12. Sensitivity to Market Risk.

(a) Within 120 days from the effective date of this ORDER, the Board shall develop written interest rate risk policy and plan ("IRR Policy and Plan") to address the comments and criticisms on Sensitivity to Market Risk in the Report of Examination and to incorporate the guidance contained in the May 14, 1996 Joint Agency Policy Statement on Interest Rate Risk. Thereafter, the Bank shall implement and fully comply with the IRR Policy and Plan.

(b) The Bank shall submit the IRR Policy and Plan to the Supervisory Authorities for review and comment within 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.

13. Information Technology Program.

(a) Within 120 days from the effective date of this ORDER, the Board shall revise the Bank's written information technology policy and program ("IT Policy and Program") to address the comments and criticisms in the Report of Examination.

(b) The Bank shall submit the IT Policy and 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 of receipt of any comments from the Supervisory Authorities, and after consideration of such comments, the Board shall approve the It Policy and Program, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the IT Policy and Program.

14. Business/Strategic Plan and Profit and Budget Plan.

(a) Within 120 days of the effective date of this ORDER, and within 30 days from the first day in each calendar year thereafter, the Board shall develop a written three-year business/strategic plan and 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 business/strategic plan shall provide specific objectives for asset growth, balance sheet composition, loan portfolio mix, market focus, earnings projections, capital needs, and liquidity position. 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 business/strategic plan and 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 plans. A copy of the business/strategic plan and 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 plans 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.

15. <u>Correction of Technical Exceptions</u>.

(a) Within 90 days from the effective date of this ORDER, and within 90 days after receipt of any future reports of examination of the Bank from either of the Supervisory Authorities, the Bank shall correct the exceptions listed on the “Assets with Credit Data or Collateral Documentation Exceptions” pages of the Report of Examination and such future reports of examinations.

(b) Reports detailing each outstanding exception and the status of the Bank’s corrective action shall be submitted to the Board for review during each regularly scheduled Board meeting. The report shall be made part of, and the review noted in, the Board’s minutes.

(c) For any exception that cannot be corrected, the Bank shall document the reason for such inability in the borrower’s credit file, and the Board shall review and include a copy of the documentation in the Board’s minutes.

(d) While this ORDER is in effect, the Bank shall ensure that the necessary supporting documentation is obtained and evaluated before any credit or loan is extended.

16. <u>Elimination and/or Correction of Violations of Law, Rules, and Regulations</u>.

(a) Within 120 days after the effective date of this ORDER, and within 90 days after receipt of any future Report of Examination of the Bank 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 Examinations.

(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 term of this ORDER.

(c) Within 120 days after 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.

17. <u>Bank Secrecy Act</u>.

Within 90 days from the effective date of this ORDER, the Bank shall enhance and update its Bank Secrecy Act training program to provide for periodic training of the Bank's directors and appropriate Bank personnel and for appropriate recordkeeping to document such training. The Bank's training program shall ensure that all appropriate Bank personnel have information and knowledge of, and can comply with, the requirements of the Bank Secrecy Act and the Bank's policies and procedures relating to Bank Secrecy Act compliance.

18. Disclosure of Order to Sole Shareholder.

Following the effective date of this ORDER, the Bank shall provide a copy of this ORDER to its sole shareholder, (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.

19. Progress Reports Detailing Compliance with ORDER.

(a) Within 45 days of the end of the first calendar quarter following the effective date of this ORDER, and within 45 days of the end of each calendar quarter 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, including at a minimum:

(i) descriptions of the identified weaknesses and deficiencies;

(ii) provision(s) of the ORDER pertaining to each weakness or deficiency;

(iii) actions taken or in-process for addressing each deficiency;

(iv) results of the corrective actions taken;

(v) the Bank's status of compliance with each provision of the ORDER; and

(vi) appropriate supporting documentation.

(b) Progress reports may be discontinued when the Supervisory Authorities have, in writing, released the Bank from making additional reports.

MISCELLANEOUS

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 not bar, estop, or otherwise prevent the FDIC, the KSBB or OSBC, 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.

The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision have been modified, terminated, suspended, or set aside by the Supervisory Authorities.

This ORDER is issued and thus effective this 4th day of June, 2013.

FEDERAL DEPOSIT INSURANCE CORPORATION

By: /s/
Mark S. Moylan
Deputy Regional Director
Kansas City Regional Office

OFFICE OF THE STATE BANK COMMISSIONER

By: /s/
Edwin G. Splichal
Commissioner

KANSAS STATE BANKING BOARD

By: /s/
Kurt A. Knutson, Chairman

/s/
Edwin G. Splichal, Secretary