

**FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.**

And

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

In the Matter of)	
ASHTON STATE BANK)	CONSENT ORDER
ASHTON, NEBRASKA)	FDIC-22-0060b
(Insured State Nonmember Bank))	
)	

The Federal Deposit Insurance Corporation (FDIC) is the appropriate Federal banking agency for the Ashton State Bank (Bank), under Section 3(q) of the Federal Deposit Insurance Act (FDI Act), 12 U.S.C. § 1813(q). The State of Nebraska Department of Banking and Finance is the appropriate State banking authority for the Bank under Neb. Rev. Stat. § 8-101.02.

The FDIC and the Nebraska Department of Banking and Finance (collectively Supervisory Authorities) have determined from the January 31, 2022, joint FDIC / Nebraska Department of Banking and Finance Report of Examination (Report of Examination) that the requirements for an order under 12 U.S.C. § 1818(b) have been satisfied.

The Bank, by and through its duly elected and acting Board of Directors (Board), executed a “Stipulation to the Issuance of a Consent Order” (Stipulation), dated June 7, 2022. With the Stipulation, the Bank consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law and/or regulations, to the issuance of this Consent Order (ORDER) by the FDIC and the Nebraska Department of Banking and Finance, and that the Bank’s compliance with the ORDER will be monitored by the Supervisory Authorities.

Based on the above, the Supervisory Authorities hereby order that:

1. Management.

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

(b) Within 30 days from the effective date of this ORDER, the Board shall hire a CEO with problem-bank work-out experience subject to the approval by the Supervisory Authorities. This individual should be given authority over all bank operations and be independent of the current management team.

(c) Within 60 days of the effective date of this ORDER, the Board shall strengthen its composition by adding at least two directors that are not employees of the Bank subject to the approval by the Supervisory Authorities.

2. Charge-off of Adversely Classified Items.

(a) As of the effective date of this ORDER, all items classified “Loss” in the January 31, 2022, Report of Examination must be charged off or collected and recognized in the Bank’s books.

(b) Within 10 days of the receipt of any future Reports of Examination or Visitations issued by either of the Supervisory Authorities, all items classified “Loss” must be charged off or collected and recognized in the Bank’s books.

(c) For the purposes of this ORDER, collection is not achieved by the elimination or reduction of items through Bank credit extension proceeds.

3. 3.Reduction of Adversely Classified Items.

(a) The Bank must prepare written plans to reduce exposure to items graded “Substandard” or “Doubtful” for such balances in excess of \$50,000 (collectively, Reduction Plans).

(i) Reduction Plans must be prepared within 60 days of:

1. This ORDER;
2. The receipt of future Reports of Examination or Visitations from either of the Supervisory Authorities; and
3. Any internal identification or independent review that identifies the credit downgrade.

(ii) “Reduction” may be accomplished by:

1. Charge-off;
2. Collection; or
3. Sufficient improvement in the quality of the item that warrants removal from adverse classification, as determined by either of the Supervisory Authorities.

(b) The Reduction Plans must, at a minimum, review, analyze, and document:

- (i) The financial condition of each borrowing relationship, including sources and ability to provide repayment;
- (ii) The value and accessibility of any pledged or assigned collateral; and

(iii) Any actions being considered to improve collateral protection.

(c) The Reduction Plans must be reviewed by the Board, with the review noted in the Board's minutes.

(d) By the next progress report due date, the Board-reviewed Reduction Plans and any modifications must be submitted to the Supervisory Authorities for review and comment.

(e) Within 30 days from receiving a response from the Supervisory Authorities, and after consideration of any comments received, the Board must approve the Reduction Plans and any modifications. Thereafter, the Bank must implement and fully comply with the Reduction Plans.

(f) The Board must review and approve the summaries detailing such compliance at least quarterly, with the review noted in the Board's minutes.

4. **Restrictions on Advances, Renewals, and Extensions to Adversely Classified Borrowing Relationships.**

(a) While this ORDER is in effect, the Bank must not, without prior Board 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, by independent external review, or by either of the Supervisory Authorities in the most recent Report of Examination or Visitation.

(b) Prior to the renewal, extension, or advancement of any additional credit pursuant to this provision, a majority of the Board or a designated committee thereof must approve the additional credit and certify in writing the following:

- (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) An explanatory statement of how the Bank's position would be improved; and
- (iii) That an appropriate workout reduction plan has been developed and will be implemented in conjunction with, or furthered by, the additional credit to be extended.

(c) The signed certification must be noted in the Board's minutes or minutes of its designated committee, and a copy of the signed certification must be retained in the borrower's credit file.

5. Loan Policy and Credit Administration.

(a) By the next progress report due date, the Board must review and revise its written loan policy and credit administration procedures (Revised Loan Policies) to address the deficiencies and recommendations presented in the January 31, 2022, Report of Examination.

(b) A copy of the Revised Loan Policies, with all modifications and changes highlighted, must be provided to the Supervisory Authorities for review and comment. Within 30 days of receiving and after consideration of the Supervisory Authorities' comments, the Board must approve the Revised Loan Policies and

subsequent modifications and record the approval in its minutes. Thereafter, the Bank must implement and fully comply with the Revised Loan Policies.

(c) In the event that the Bank considers making a loan that would not conform with the Revised Loan Policies, the Board must review and approve the loan before it is made. The review, the approval, and the reason(s) why the approval is in the Bank's best interests must each be documented in both the Board's minutes and in the loan's file.

6. Maintenance of the Allowance for Loan and Lease Losses (ALLL) and Allowance for Credit Losses (ACL).

(a) Within 10 days of the effective date of this ORDER, the Board must replenish the ALLL to an appropriate level. The Board must also review Reports of Condition and Income filed prior to the effective date of the ORDER and amend such reports, if necessary, to accurately reflect the ALLL.

(b) After the effective date of this ORDER and prior to filing any future quarterly Reports of Condition and Income, the Board must review the Bank's ALLL, to be replaced by the ACL as of January 1, 2023, and ensure that it is accurately reported in the Bank's quarterly Call Reports.

7. Minimum Capital Requirements.

(a) While this ORDER is in effect, the Bank must have and maintain the following minimum capital ratios (as defined in Part 324 of the FDIC Rules and Regulations, 12 C.F.R. §324), after establishing an appropriate ALLL or ACL:

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

or

- (iii) As described under the Community Bank Leverage Ratio framework, when applicable, a “Leverage Ratio” greater than 9 percent.

(b) Should any capital ratio drop below the minimum required by paragraph (a) of this provision, the Bank must immediately notify the Supervisory Authorities and within 45 days:

- (i) increase capital in an amount sufficient to comply with paragraph (a)

or

- (ii) submit a written plan to the Supervisory Authorities, describing the primary means and timing by which the Bank will increase its capital ratios up to or in excess of the minimum requirements of paragraph (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 (Capital Plan). Within 30 days of receipt of any comments on the Capital Plan from the Supervisory Authorities, and after consideration of all such comments, the Board must approve the Capital Plan and record the approval in its minutes. Thereafter, the Bank must implement and fully comply with the Capital Plan.

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

8. Restriction on Certain Payments.

While this ORDER is in effect, the Bank is not permitted to declare or pay dividends, nor is it allowed to incur or pay management fees and bonuses, without the prior written approval of the Supervisory Authorities. The Supervisory Authorities must receive all requests for prior approval at least 30 days prior to the proposed action, and each request must 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 declare or pay bonuses, must also describe the Bank's rationale for incurring and making such payments.

9. Brokered Deposits.

While this ORDER is in effect, the Bank must ensure compliance with brokered deposit restrictions, including interest rate restrictions, as detailed in Part 337.6 of the FDIC Rules and Regulations, that apply to less than well capitalized insured depository institutions.

10. Profit Plan.

(a) Within 90 days of the effective date of this ORDER, and within the first 45 days of each calendar year thereafter, the Bank must develop a written profit plan (Profit Plan) covering the overall operations of the Bank and its goals and strategies for improving earnings, consistent with sound banking practices, and taking into account the Bank's other written plans, policies, or other actions as required by this ORDER. The Profit Plan must include a realistic and comprehensive budget for all categories of income and expense and include a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components. The

Profit Plan and budget, and any subsequent modifications thereto, must be approved by the Board and recorded in its minutes.

(b) At the Board's first meeting following the end of each calendar quarter, the Board must evaluate the Bank's actual performance in relation to the Profit Plan and budget required by this provision, record the results of that evaluation, and note any responsive actions taken or to be taken by the Bank in the Board's minutes.

11. Strategic Plan.

Within 90 days of the effective date of this ORDER, the Bank must develop a Board approved, realistic, comprehensive strategic plan (Strategic Plan). The Strategic Plan must contain an assessment of the Bank's current financial condition and provide specific objectives for asset growth, balance sheet composition, loan portfolio mix, market focus, earnings projections, capital needs, and liquidity position. The Strategic Plan must be revised thirty (30) days prior to the end of each calendar year for which this Order is in effect. The Bank must implement and operate in accordance with the Strategic Plan.

12. Correction of Accounting Reporting Functions and Internal Controls

Weaknesses.

(a) The Board shall improve the oversight of the regulatory reporting in the Reports of Condition and Income, financial recordkeeping policy and procedures, and audit and internal controls functions. Within 30 days from the effective date of this ORDER, the Bank must engage a consultant who is a licensed independent certified public accountant (CPA) to analyze and assess the Bank's financial reporting procedures,

and it must render an opinion regarding the Bank's ability to correctly file financial reports consistent with the Instructions for the Consolidated Reports of Condition and Income as well as its control structure over financial reporting (CPA's Study).

(b) The Board shall engage an independent qualified CPA firm with experience auditing bank financials, exclusive of the CPA selected to perform the CPA's Study, to perform a financial audit as of December 31, 2022. The Board shall provide documented due diligence analysis to the Supervisory Authorities to support that the selected CPA firm possesses the appropriate expertise and qualifications to audit the Bank's financial statements. In addition, the Board shall present an engagement letter no later than September 30, 2022, for the financial audit to be completed for the period ending December 31, 2022, to be completed no later than March 31, 2023. The financial audit will take the place of the 2022 Directors' Examination as mandated by the State of Nebraska. The joint Supervisory Authorities' examination scheduled for March 2023 will consider the results of the 2022 financial audit in its review of the Bank's internal controls and accounting procedures.

13. Elimination and/or Correction of Violations of Laws, Rules and Regulations.

(a) Within 120 days of this ORDER's effective date, and within 90 days of the receipt of any future Reports of Examination by either of the Supervisory Authorities, the Bank must eliminate and/or correct all violations of laws, 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 must 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 must be recorded in its minutes. A copy of the minutes must be provided to the Supervisory Authorities with the next due progress report required below under the terms of this ORDER.

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

14. Disclosure of ORDER to Shareholder.

Following the ORDER's effective date, the Bank must provide a copy or otherwise furnish a description of this ORDER to its shareholders within 30 days of the ORDER's effective date and in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. Any description must fully describe the ORDER in all material respects. Such description and any accompanying communication, statement, or notice must 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 for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC must be made prior to dissemination of the description, communication, notice, or statement.

15. Progress Reports Detailing Compliance with ORDER.

(a) Within 30 days of the end of the first calendar quarter following the effective date of this ORDER, and within 30 days of the end of each calendar quarter

thereafter, the Bank must 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 must 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.

16. Binding Effect.

This ORDER will be effective on the date of issuance. The provisions of this ORDER will be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER will not bar, estop or otherwise prevent the FDIC, the Nebraska Department of Banking and Finance, 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 will 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 Supervisory Authorities.

This ORDER is issued and thus effective this 17th day of June, 2022.

FEDERAL DEPOSIT INSURANCE CORPORATION
Issued Pursuant to Delegated Authority

By: /s/
John R. Jilovec
Deputy Regional Director
Federal Deposit Insurance Corporation
Kansas City Regional Office

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

By: /s/
Kelly Lammers
Director
Nebraska Department of Banking and Finance