FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

In the Matter of **BANK OF WASHINGTON** **WASHINGTON, MISSOURI** **(Insured State Nonmember Bank)**	)))))))	**CONSENT ORDER** **FDIC-12-558b**

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for the Bank of Washington, Washington, Missouri("Bank"), under Section 3(q) of the Federal Deposit Insurance Act (FDI Act), 12 U.S.C. § 1813(q).

The FDIC has determined from the findings contained in the August 6, 2012 FDIC Report of Examination ("Report of Examination"), that the requirements for issuance of 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"), has executed a "Stipulation to the Issuance of a Consent Order" ("Stipulation"), dated December 19, 2012, that is accepted by the FDIC. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or any violations of law and/or regulation, to the issuance of this Consent Order ("ORDER") by the FDIC, and that the Bank's compliance with the

Order will be monitored by both the FDIC and the Commissioner of Finance, Missouri Division of Finance (collectively, “Supervisory Authorities”).

Based on the above, the FDIC hereby orders that:

1. Assessment of Management.

The Bank shall have and retain qualified management.

(a) 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 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 (“Consultant”) acceptable to the FDIC Regional Director 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.

(c) Within 30 days of receipt of the Consultant's Study, the Board shall prepare an acceptable written Management Plan that: (i) addresses the findings of the Consultant's 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 Consultant's 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 FDIC Regional Director, and after consideration of such comment, 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 the Management Plan.

2. <u>Charge-off of Adversely Classified Assets</u>.

(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 or 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. <u>Reduction of Adversely Classified Assets</u>.

(a) Within 60 days from the effective date of this ORDER, and within 60 days from the 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 $1 million. 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 asset 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 FDIC Regional Director, 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 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 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 or a designated committee thereof, 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) that an appropriate workout plan has been developed and will be implemented in conjunction with, or furthered by, the additional credit to be extended.

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

5. Loan Policy and Credit Administration.

(a) Within 30 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 Credit Underwriting, Credit Administration, and Loan Policy.

(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 FDIC Regional Director, and after consideration of any 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 or an appropriate committee thereof. The reason for nonconformance and the Board's or committee's review and approval shall be documented in the minutes of the Board or committee and in the loan file for that loan.

6. Concentrations of Credit.

(a) Within 60 days from the effective date of this ORDER, the Bank shall review and revise its 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, at a minimum, 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, type of loan product, geographic location, and other common risk characteristics, including loan participations purchased, and for commercial real estate, policies and procedures that are consistent with the Interagency Guidance on

Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, dated December 12, 2006;

(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 FDIC Regional Director, 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 conclusions and approval made pursuant to this subparagraph (d) shall be made a part of the Board's minutes, with a copy retained in the borrower's credit file.

7. Independent Loan Review Program.

(a) Within 60 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. At a minimum, the written program shall be consistent with the December 13, 2006, Interagency Policy

Statement of the Allowance for Loan and Lease Losses, and shall require written reports to the Board after each such review.

(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 FDIC Regional Director, 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.

8. 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 report of 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.

9. 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 8 percent; and

(ii) “Total Risk-Based Capital Ratio” at least equal to 11 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 paragraph (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, in the event the primary sources of capital are not available. Within 30 days of receipt of any such comments from the FDIC Regional Director, 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 capital necessary to meet the requirements of paragraph (a) of this provision may not be accomplished through a deduction from the ALLL without prior written approval from the Supervisory Authorities.

10. 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, or bonuses to "executive officers" as that term is defined in

12 C.F.R. § 215.2(e), 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.

11. Liquidity.

(a) Within 30 days from the effective date of this ORDER, the Board shall review and revise the Bank's written liquidity and contingency funding policies and plans ("Liquidity Policies and Plans") to address the comments and criticisms of the Bank's liquidity in the Report of Examination. The Liquidity Policies and Plans shall incorporate the guidance contained in Financial Institution Letter 13-2010, dated April 5, 2010, entitled *Funding and Liquidity Risk Management*. Thereafter, the Bank shall implement and fully comply with the Liquidity Policies and Plans.

(b) The Bank shall submit the Liquidity Policies and Plans 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 FDIC Regional Director, and after consideration of such comments, the Board shall approve the Liquidity Policies and Plans, which approval shall be recorded in the Board’s minutes. Thereafter, the Bank shall implement and fully comply with the Liquidity Policies and Plans.

12. Brokered Deposits.

(a) While this ORDER is in effect, the Bank shall not accept, renew, or rollover any brokered deposits, as defined in 12 C.F.R. § 337.6(a)(2), without the prior written approval of the Regional Director.

(b) Within 30 days of the effective date of this ORDER, the Bank shall develop a written plan for reducing its reliance on brokered deposits (“Brokered Deposit Plan”). The Brokered Deposit Plan shall detail the current composition of the Bank’s brokered deposits by maturity and explain the means by which such reduction in brokered deposits will be accomplished.

(c) The Bank shall submit the Brokered Deposit 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 all comments from the FDIC Regional Director, and after consideration of all such comments, the Board shall approve the Brokered Deposit Plan, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the Brokered Deposit Plan.

13. <u>Business/Strategic Plan and Profit and Budget Plan</u>.

(a) Within 60 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.

14. Correction of Special Mention Weaknesses.

(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 develop plans to eliminate or address the weaknesses noted in assets listed on the "Items Listed for Special Mention" pages of the Report of Examination and such future reports of examination ("Special Mention Plans").

(b) The Special Mention Plans 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 Special Mention Plans. Progress toward meeting the Special

Mention Plans will be reported to the Board monthly and recorded in the Board's minutes.

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

15. <u>Elimination and/or Correction of Violations of Laws, 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 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 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.

16. 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.

17. 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/FDIC Regional Director has**]**, 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 Missouri Division of 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 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 FDIC.

This ORDER is issued and thus effective this _27th_ day of _December_, 2012.

FEDERAL DEPOSIT INSURANCE CORPORATION
Issued Pursuant to Delegated Authority

By: /s/
Mark S. Moylan
Deputy Regional Director
Federal Deposit Insurance Corporation
Kansas City Regional Office