Investment Policy Guidelines

Formulate and adopt a written Investment Policy that provides: 1) the basic foundation on which plans and strategies are based, 2) the Board of Directors with the necessary controls for adequate supervision and measurement of portfolio performance, and 3) the portfolio manager with clearly defined goals. The responsibility for supervising the bank's investment account rests solely with the Board of Directors and should not be delegated to a correspondent bank, an advisory service, a brokerage house, or a rating service. The policy should establish standards for selection of investment opportunities that allow for thorough consideration of the following:

A. Statement of the purpose and goals of the investment account in relation to the bank's overall objectives of safety, liquidity, and profitability.

B. Administrative responsibilities:

1. Establish the responsibility of the Board of Directors for initial approval of said policy, annual review, and approval of any subsequent changes;
2. Establish the responsibility of the Board of Directors, at each Board meeting, to thoroughly review and approve all investment decisions and transactions made since the previous Board meeting;
3. Establish the responsibilities of the chief executive officer or Investment Committee regarding policy and strategy and review of portfolio performance;
4. Establish the duties of the investment officer for implementing strategy and recommending changes in policy and strategy; and
5. Specifically designate individual authority for the purchase and sale of securities and establish individual dollar limitations. Security type and quality may govern limits.

C. Portfolio composition, characteristics, and limitation:

1. Designate a listing of acceptable portfolio investments. If applicable, establish guidelines for the purchase and monitoring of structured notes and provide for annual stress tests on all collateralized mortgage obligations;
2. Ratings by Nationally Recognized Statistical Rating Organizations (NRSRO) designated by the Securities and Exchange Commission (SEC) are the only acceptable ratings recognized by the OSBC.
3. Establish limitations on the minimum and maximum amounts that can be invested in securities in relation to total assets. Additionally, ranges on the securities mix should be established. Factors that should be considered include:
    a. Industry standards;
    b. Quality of the investment securities to be acquired;
    c. Liquidity needs;
    d. Collateral requirements;
    e. Tax position;
    f. Regulatory requirements; and
    g. Income levels desired;

4. Provide for acceptable portfolio maturity ranges. The maturity structure within desired limitations should be based on asset/liability management considerations and economic/market conditions;
5. Establish acceptable lot sizes of investments purchased;
6. Establish acceptable municipal quality ratings;
   a. Acceptable quality rating levels for purchases by your bank in comparison to Moody's or Standard and Poors should be designated. (The OSBC views any municipal bond graded below the top four (4) ratings as a low quality asset subject to criticism.);

   b. Non-rated purchases, including industrial revenue bonds, should have specific volume limitations and be confined to those credits in the bank's general market area. Proper credit documentation on these issues should be maintained and the credits reviewed periodically to ensure that they continue to be of investment quality; and
7. Designate appropriate geographic distribution in the municipal portfolio.

D. Acceptable portfolio activities:

1. Establish specific guidelines on when and under what conditions the bank may interchange securities to improve yields, quality, and or marketability as well as to realign the composition of the portfolio. Compliance with FASB 115 should be maintained at all times and include, but not be limited to:
   a. Provide authorization for individuals to execute transactions on available-for-sale securities;
   b. Provide a description of the required accounting for available-for-sale securities; and
   c. Develop internal controls requiring available-for-sale securities to be priced at market and periodically evaluated;
2. In light of the bank's earnings, tax and capital positions, establish guidelines as to when the sale of securities for gains or losses should be undertaken; and
3. Adopt guidelines to ensure that all applicable laws and regulations are followed in these activities.

E. Unacceptable portfolio activities:

Specific guidelines should be formulated regarding trading account activities. Certain trading account investments that exhibit characteristics that are distinctly or predominately speculative are prohibited by Kansas Administrative Regulation 17-9-1 and should be prohibited by policy.

F. Acceptable portfolio pledging practices.

G. Acceptable safekeeping locations:

Provide a listing of acceptable safekeeping locations. For ease of administration, limiting the number of different institutions should be considered.

H. Acceptable securities dealers:

1. Designate a list of acceptable securities dealers. A list of references should be made available for directorate and examiner review; and
2. Establish a procedure to investigate and approve all brokers not affiliated in a correspondent bank relationship with whom the investment officer may do business.

I. Federal funds sold (if made a part of Investment Policy):

1. Provide a listing of banks that are authorized for sales and purchases and in what amounts; and
2. Establish guidelines for compliance with Regulation F.

J. FDIC's Revised Policy Statement on Selecting Securities Dealers, Establishing Prudent Investment Policies and Strategies: (Financial Institutions Letter dated April 28, 1998, i.e., FIL-45-98).

K. Compliance with all Federal and State Laws and Regulations.