



Board of Directors of Bank of McKenney Corporate Governance Guidelines

The most important corporate objective of Bank of McKenney (the “Company”) is to conduct business activities so as to enhance the value of the institution for its shareholders. The Directors of the Company are elected by the shareholders with the responsibility to oversee and direct management to achieve this primary objective. The Board’s responsibilities require regularly monitoring the effectiveness of management policies and decisions, including execution of its strategies, and holding senior management accountable for the pursuit of the corporate objective.

I. Composition of Board of Directors

- A. Size of the Board. The Board’s minimum size is 5 members. Board members are nominated and serve for one-year terms.
- B. Mix of Employee and Independent Directors. As a matter of policy, the Board will consist of not less than 80% of “Independent Directors”. The determination that a Director is independent shall be made by the Board following a review of all relevant information and a recommendation by the Corporate Governance and Nominating Committee (the “Governance Committee”). The Company will discuss its determination of Director “independence” in its annual proxy statement.
- C. Term Limits and Retirement. The Board has not established term limits, but on a regular basis the Governance Committee, in consultation with the Chairman of the Board, will review each Director’s continuation on the Board. The Board believes that the current retirement age of 75, as set forth in the Company’s Bylaws, is appropriate.
- D. Approval of Certain Actions. The approval of a majority of the Independent Directors is required for certain matters, including the election of the Board Chair and Chief Executive Officer, the appointment of members of certain Board Committees and remuneration of Directors.

II. Board Membership Criteria

The Board seeks a diverse group of candidates who possess the background, skills and expertise to make a significant contribution to the Board, to the Company and its shareholders. Desired qualities to be considered include:

Experience (in one or more of the following):

- high-level leadership experience in business or administrative activities;
- breadth of knowledge about issues affecting the Company; and
- ability and willingness to contribute special competencies to Board activities.

Personal attributes:

- personal integrity;
- loyalty to the Company and concern for its success and welfare;
- willingness to apply sound and independent business judgment;
- awareness of a Director’s vital part in the Company’s good corporate citizenship and the corporate image;
- time available for meetings and consultation on Company matters;
- willingness to assume broad fiduciary responsibility; and
- independence as that term is defined by the rules of the Securities and Exchange Commission and The Nasdaq Stock Market, Inc. (which is at this time shall also mean the rules of the NASD).

Qualified candidates for membership on the Board will be considered without regard to race, color, religion, sex, ancestry, national origin or disability. The Governance Committee will review the qualifications and backgrounds of the Directors, as well as the overall composition of the Board, and recommend to the full Board the slate of Directors to be nominated for election at the annual meeting of shareholders. Nominations to the Board may also be submitted to the Governance Committee by the Company's shareholders in accordance with the Company's Bylaws. The Chairman of the Board, acting on behalf of the full Board, will extend the formal invitation to become a nominee of the Board of Directors.

III. Role of the Board of Directors

The Board of Directors of the Company performs, among others, the following principal functions (some of which may be delegated to one or more committees or may require the approval of the Independent Directors under the Company's Bylaws):

- approves a code of business conduct and ethics for Directors, officers and employees and any waivers of such code for Directors and executive officers;
- reviews and approves the corporate mission working in coordination with senior management;
- reviews and approves management's strategic and business plans and monitors corporate performance against them;
- oversees the auditing and accounting procedures in place to ensure the integrity of the Company's financial statements;
- selects, evaluates and compensates the Chairman and Chief Executive Officer;
- elects and compensates other Company officers;
- plans for senior management succession;
- monitors ethical behavior and compliance with laws and regulations, the Company's policies and procedures, and its own governing documents;
- retains consultants and advisers to assist in carrying out any of its principal functions or other responsibilities; and
- assesses its own effectiveness in fulfilling these and other Board responsibilities.

In general, the Board of Directors oversees all major actions proposed to be taken by senior management and reviews corporate policy regarding authorizations and approvals that commit the Company to a significant course of action.

IV. Director Compensation

The Governance Committee is responsible for recommending Board compensation. Management reviews with the Committee on a regular basis the status of Board total compensation relative to a peer industry survey group. The goal is to offer competitive compensation designed to attract and retain experienced, highly qualified Directors.

V. Share Ownership of Directors

The Board believes that Directors should be shareholders and have a financial stake in the Company. While the Board does not believe it appropriate to specify the level of share ownership beyond the level mandated by applicable laws, it is anticipated that each Director will develop a meaningful ownership position in the Company over time, depending upon individual circumstances.

VI. Affiliations and Conflicts of Directors

It is the responsibility of each Director to advise the Chairman of the Board and the Governance Committee through its Chair of any affiliation with public or privately held businesses or enterprises that may create a potential conflict of interest, potential embarrassment to the Company or possible inconsistency with Company policies or values. The Company annually solicits information from Directors in order to monitor potential conflicts of interest and Directors are expected to be mindful of their fiduciary obligations to the Company.

Any Director who experiences a significant change in such Director's principal business, occupation, or position is expected to consult with the Chair of the Governance Committee on the potential impact, if any, the change may have on continued Board service and offer to resign from the Board. The Governance Committee will make a recommendation as to the continued Board service of the Director under such circumstances.

VII. Chairman of the Board

The Board should be free to select the Chairman of the Board and the Chief Executive Officer as it determines best for the Company at a given point in time. On the matter of whether the Chairman and Chief Executive Officer positions should be separate from each other, it is the Board's policy that this is a matter to be considered each time a new Chief Executive Officer is selected or at any other time in the Board's discretion, based upon the circumstances existing at that time.

VIII. New Director Orientation and Continuing Education

All new Directors must participate in the Company's orientation program, which will be conducted in a timely manner after the election of a new Director. This orientation will include extensive background materials, meetings with senior management to familiarize new Directors with the Company's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its internal policies and procedures, its principal officers and its internal and independent auditors. In addition, the orientation program will include visits to Company headquarters and certain of the Company's significant facilities. Management will develop continuing education programs for the Directors which will provide individual opportunities for regular exposure to various aspects of the Company.

IX. Board Meetings

- A. Number of Meetings. The Board meets at regularly scheduled monthly meetings twelve times a year. Special meetings may be called to deal with significant matters which require immediate attention.
- B. Location of Meetings. Meetings will generally take place at the Company's headquarters; however to provide Directors with first-hand knowledge to make strategic decisions and for their continuing education about the environment in which the Company operates and competes, meetings may occasionally be held at locations other than the corporate headquarters.
- C. Board Agenda and Materials. While the Board believes that a carefully planned agenda is important for effective Board meetings, the agenda is flexible enough to accommodate unexpected developments.

The items on the agenda are typically determined by the Chief Executive Officer in consultation with the Board. Any Director may request that an item be included on the agenda, which request will in normal circumstances be granted. The present schedule of the Board includes monthly financial reviews and analyses, lending reviews and approval requests, investing activities, and regulatory matters. Periodically, meetings to review and assess strategic plans, budgets, and management succession plans are incorporated.

At Board meetings, ample time is scheduled to allow full discussion of important matters. Management presentations are scheduled to permit an appropriate portion of Board meeting time to be available for discussion and comments.

It is important for Directors to receive information sufficiently in advance of Board meetings so they will have an opportunity to prepare for discussion of the items at the meeting. At each meeting any written materials not available in advance will be provided to each Director. On those occasions where it may not be appropriate or practical to put the subject matter in writing, it will be presented and sufficiently discussed at the meeting. Significant items requiring Board approval may be reviewed in one or more meetings and voted upon in subsequent meetings, with the intervening time being used for clarification and discussion of relevant issues.

The foregoing items within this guideline are equally applicable to Committee meetings.

- D. Executive Sessions. Executive Sessions are those sessions including only non-management Directors and should be called by the Chair of the Committee most directly involved in the subject matter of the session. These meetings will normally occur at the conclusion of a regularly scheduled meeting.
 - E. Regular Attendance. Directors are expected to attend all Board meetings. The Chairman designates the management and guest attendees at any Board meeting who are present for the purpose of making presentations, responding to questions by the Directors, or providing counsel on specific matters within their areas of expertise. Such persons do not attend Executive Sessions unless their presence is requested.
- X. **Corporate Support and Access to Management**

The Corporate Secretary serves as secretary to the Board and its Committees and, at the request of the Chairman, arranges meetings, suggests meeting agendas and facilitates the preparation and distribution of materials presented to the Board and its Committees. Directors have free access to other members of management and Company employees, but such access should be non-disruptive to operations and the Chief Executive Officer should normally be copied on relevant correspondence. The Board of Directors and its Committees may independently retain legal, accounting or other consultants, at the Company's expense, to advise or assist the Board or a committee thereof.

XI. **Board Committees**

- A. Number of Committees. The Board currently has five committees: Executive, Audit, Governance and Nominating, Loan, Compensation and Dividend. The Committees each have their own charters which, among other things, set forth any allocation of responsibilities among the Committees and also between any Committee and the full Board. All of the members of these Committees, except for the Executive and Loan Committees, are "Independent Directors". The Board may from time to time establish or maintain additional committees as necessary or appropriate.
 - 1. **Executive Committee**: The Executive Committee may exercise all the authority of the Board of Directors in the management of the business and affairs of the Company during the intervals between meetings of the Board of Directors and perform such other duties as set forth in its charter.
 - 2. **Audit Committee**: The Audit Committee has ongoing responsibilities to assist the Board of Directors in monitoring the integrity of the financial statements of the Company, the Company's compliance with financial reporting and related legal and statutory requirements and the independence and performance of the Company's internal and external auditors, as well as the other duties set forth in its charter.
 - 3. **Governance and Nominating Committee**: The Governance and Nominating Committee makes recommendations to the Board of Directors concerning the size and composition of the Board and Committees of the Board, recommends nominees for election or reelection as Directors, and considers other matters pertaining to Board membership such as retirement policy and compensation of non-employee Directors, as well as the other duties set forth in its charter. The Committee shall be responsible for evaluating Board performance and reporting its findings to the Board of Directors and for reviewing and recommending changes to the Company's corporate governance guidelines. All Directors who are "independent directors" will be designated to serve on this Committee.

The Committee shall be responsible for recommending to the Board nominees for election as Directors of the Company using guidelines prescribed in its charter.

4. **Loan Committee:** The Directors' Loan Committee shall have power to discount and purchase notes and other evidences of debt, to examine and approve loans and discounts; and to exercise authority regarding loans and discounts when such notes exceed the authority of the officer's loan committee. The Loan Committee shall keep minutes of its meetings and such minutes shall be available at the next regular meeting of the Board of Directors at which a quorum is present and shall be read if requested by the Board, and any action taken by the Board with respect thereto shall be entered in the minutes of the Board. The Directors' Loan Committee is made up of the entire Board, with four Directors being a quorum.
 5. **Compensation Committee:** The Compensation Committee reviews and makes recommendations to the Board of Directors with respect to management organization, succession and development programs, the election of corporate officers and their salaries and incentive compensation or bonus awards, as well as the other duties set forth in its charter.
- B. Committee Assignments. The Chairman of the Board and the Governance Committee, considering to the extent practicable the desires of Board members, recommend committee assignments to the full Board for approval. These assignments are made not less frequently than once a year generally following the annual meeting of shareholders. Rotation of committee members and chairs should occur only if rotation is likely to enhance committee performance or facilitate its work.
- C. Committee Agendas. The Chairman of each committee, in consultation with the Chairman of the Board and appropriate members of management, will develop such committee's agenda. The frequency and length of the committee meetings will be consistent with any requirements set forth in the committee's charter. Each committee provides a report to the Board at the next Board meeting following the committee meeting.

XII. Evaluations and Other Matters

- A. Formal Evaluation of the Chief Executive Officer. The Compensation Committee evaluates the Chief Executive Officer annually and reviews its evaluation with the Board of Directors. The Compensation Committee's evaluation of the Chief Executive Officer is based upon review of the Company's and Chief Executive Officer's objectives for the year and their attainment of the same.
- B. Succession Planning and Management Development. The Board, acting through and upon the recommendation of the Compensation Committee, reviews plans for succession. This review is done annually and includes succession to the positions of Chairman of the Board and Chief Executive Officer as well as certain other senior management positions. To assist in that planning, the Chief Executive Officer annually provides the Compensation Committee and the Board with an assessment of senior managers, and their succession potential and their potential successors. The Chief Executive Officer also reports regularly to the Compensation Committee and the Board on management development activities.
- C. Board Interaction with Investors, the Press, Customers, Etc: The Board looks to management to speak for the Company but recognizes that individual Directors may sometimes be asked to communicate with third parties on matters affecting the Company. Before doing so, to the extent feasible, Directors are encouraged to consult with management.

The Board of Directors believes that corporate governance is an evolving process and periodically reviews and updates these guidelines. These guidelines are reviewed annually by the Governance Committee with recommendations for any modifications to be included in the agenda of the Executive Session to follow the regular November meeting. For the most recent guidelines, please see the Company's website at www.bankofmckenney.com