

#2003-5

AGREEMENT BY AND BETWEEN
Farmers and Merchants National Bank of Nashville
Nashville, Illinois
and
The Office of the Comptroller of the Currency

Farmers and Merchants National Bank of Nashville, Nashville, Illinois (Bank) and the Comptroller of the Currency of the United States of America (Comptroller) wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller, through his National Bank Examiner, has examined the Bank, and his findings are contained in the Report of Examination for the examination that commenced on August 12, 2002 (ROE).

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors (Board), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

ARTICLE I

JURISDICTION

(1) This Agreement shall be construed to be a “written agreement entered into with the agency” within the meaning of 12 U.S.C. § 1818(b)(1).

(2) This Agreement shall be construed to be a “written agreement between such depository institution and such agency” within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).

(3) This Agreement shall be construed to be a “formal written agreement” within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). See 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a “written agreement” within the meaning of 12 U.S.C. § 1818(u)(1)(A).

(5) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to the:

Assistant Deputy Comptroller
St. Louis Field Office
2350 Market Street, Suite 100
St. Louis, Missouri 63103

ARTICLE II

COMPLIANCE COMMITTEE AND PROGRESS REPORTS

(1) Within thirty (30) days, the Board shall appoint a Compliance Committee of at least four (4) directors, of which no more than two (2) shall be employees of the Bank or any of its affiliates (as the term “affiliate” is defined in 12 U.S.C. § 371c(b)(1)), or a family member of any such person. Upon appointment, the names of the members of the Compliance Committee shall be submitted in writing to the Assistant Deputy Comptroller. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement.

(2) The Compliance Committee shall meet at least monthly.

(3) Within thirty (30) days of the appointment of the Committee and quarterly thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

(a) actions taken to comply with each Article of this Agreement; and

(b) the results of those actions.

(4) The progress reports should also include any actions initiated by the Board and the Bank pursuant to the criticisms and comments in the ROE or in any future Report of Examination.

(5) Upon its review of the progress report, the Board shall set forth in writing a description of the actions needed to achieve full compliance with each Article of the Agreement.

(6) The Board shall forward a copy of the Compliance Committee's report, together with the Board's written description of necessary actions, to the Assistant Deputy Comptroller. The first progress report shall be submitted by the Board to the Assistant Deputy Comptroller for the period ending March 31, 2003, and will be due within thirty (30) days of that date. Thereafter, progress reports will be due within thirty (30) days after the quarter-end.

ARTICLE III

ACTION PLAN

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written action plan detailing the Board's assessment of what needs to be done to improve the Bank, specifying how the Board will implement the plan, and setting forth a timetable for the implementation of the plan. At a minimum the plan should address the four Matters Requiring Attention issues contained in the ROE.

(2) Upon completion of the plan, the Bank shall submit the plan to the Assistant Deputy Comptroller for review. The Board shall establish appropriate procedures for the implementation and monitoring of the plan.

(3) In the event the Assistant Deputy Comptroller recommends changes to the action plan, the Board shall immediately incorporate those changes into the plan.

(4) The plan shall be implemented pursuant to the time frames set forth within the plan unless events dictate modifications to the plan. Where the Board considers modifications appropriate, those modifications shall be submitted to the Assistant Deputy Comptroller for prior determination of no supervisory objection.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the plan developed pursuant to this Article.

ARTICLE IV

LOAN REVIEW CONSULTANT

(1) Within thirty (30) days, the Board shall employ a qualified consultant to perform an asset quality review of the Bank. The consultant shall be utilized until such time as an ongoing internal asset quality review system is developed by the Board, implemented, and demonstrated to be effective. Before terminating the consultant's asset quality review services, the Board shall both certify the effectiveness of the internal asset quality review system, and receive prior determination of no supervisory objection from the Assistant Deputy Comptroller.

(2) Prior to hiring a consultant or entering into any contract with a consultant, the Bank shall submit the proposed terms of employment and the qualifications of the consultant to the Assistant Deputy Comptroller who shall have the power of veto. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed consultant.

(3) The requirement to submit information and the prior veto provisions of this Article are based on the authority of 12 U.S.C. § 1818(b) and do not require the Comptroller to complete his review and act on any such information or authority within ninety (90) days.

(4) The loan review consultant's initial loan review shall concentrate on commercial loans (including agricultural and commercial real estate) not sampled by the examiners during the August 12, 2002 examination. The consultant shall submit a report to the Board quarterly summarizing the results of the ongoing asset quality review of the Bank.

(5) By January 31, 2003, and quarterly thereafter, the Board shall forward a copy of the consultant's report summarizing the asset quality review findings to the Assistant Deputy Comptroller.

ARTICLE V

INTERNAL LOAN REVIEW

(1) The Board shall within sixty (60) days employ or designate a sufficiently experienced and qualified person(s) or firm to ensure the timely and independent identification of problem loans and leases.

(2) Within sixty (60) days, the Board shall establish an effective, independent and ongoing loan review system to review, at least quarterly, the Bank's loan and lease portfolios to assure the timely identification and categorization of problem credits. The system shall provide for a written report to be filed with the Board after each review and shall use a loan and lease grading system consistent with the guidelines set forth in Rating Credit Risk, A-RCR, of the Comptroller's Handbook. Such reports shall, at a minimum, include conclusions regarding:

- (a) the overall quality of the loan and lease portfolios;
- (b) the risk profile (i.e., risk distribution) of the loan and lease portfolios, and any changes to that risk profile from prior periods;
- (c) the identification, type, rating, and amount of problem loans and leases;

- (d) the identification and amount of delinquent loans and leases;
- (e) credit and collateral documentation exceptions;
- (f) the identification and status of credit-related violations of law, rule or regulation;
- (g) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (c) through (f) of the Article;
- (h) concentrations of credit;
- (i) loans and leases to executive officers, directors, principal shareholders (and their related interests) of the Bank; and
- (j) loans and leases not in conformance with the Bank's lending and leasing policies, and exceptions to the Bank's lending and leasing policies.

(3) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program providing for independent review of problem loans and leases in the Bank's loan and lease portfolios for the purpose of monitoring portfolio trends, on at least a quarterly basis. The program shall require a quarterly report to the Board. At a minimum the program shall provide for an independent reviewer's assessment of the Bank's:

- (a) monitoring systems for early problem loan identification to assure the timely identification and rating of loans and leases based on lending officer submissions;
- (b) statistical records that serve as a basis for identifying sources of problem loans and leases by industry, size, collateral, indirect dealer, and individual lending officer;

- (c) system for monitoring previously charged-off assets and their recovery potential;
- (d) system for monitoring compliance with the Bank's lending policies and laws, rules, and regulations pertaining to the Bank's lending function; and
- (e) system for monitoring the adequacy of credit and collateral documentation.

(4) A written description of the program called for in this Article shall be forwarded to the Assistant Deputy Comptroller upon implementation.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

(6) The Board shall evaluate the internal loan and lease review report(s) and shall ensure that immediate, adequate, and continuing remedial action, if appropriate, is taken upon all findings noted in the report(s).

(7) A copy of the reports submitted to the Board, as well as documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits, shall be preserved in the Bank.

ARTICLE VI

CREDIT RISK

(1) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program to reduce the high level of credit risk in the Bank. The program shall include, but not be limited to:

- (a) procedures to strengthen credit underwriting, particularly in the commercial loan (includes agricultural and commercial real estate) portfolio;
- (b) procedures to strengthen management of the commercial credit function and to maintain an adequate, qualified staff in all commercial lending functional areas;
- (c) enhancements to the bank's existing credit risk rating definitions to assist users of this tool in stratifying credit risk and identifying problems loans. Enhancements shall include quantitative factors such as cash flow ratio (repayment capacity measure), current ratio (liquidity measure) and debt-to-worth ratios (leverage measure). Definitions can include such character factors as performance history and willingness to pay;
- (d) procedures and/or standards to improve the quality of credit analysis; and
- (e) actions taken to address corollary processes described in Article VII - Loan Portfolio Management, Article VIII – Management and Staff Skills Evaluation, and Article IX – Credit and Collateral Standards of this Agreement.

(2) The Board shall submit a copy of the program to the Assistant Deputy Comptroller.

(3) At least quarterly, the Board shall prepare a written assessment of the bank's credit risk, which shall evaluate the Bank's progress under the aforementioned program. The Board shall submit a copy of this assessment to the Assistant Deputy Comptroller.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE VII

LOAN PORTFOLIO MANAGEMENT

(1) The Board shall, within ninety (90) days, develop, implement, and thereafter ensure Bank adherence to a written program to improve the Bank's loan portfolio management.

The program shall include, but not be limited to:

- (a) procedures to ensure satisfactory and perfected collateral documentation;
- (b) procedures to ensure that collateral is periodically inspected and independently valued. The frequency of such inspections and valuations shall depend on the structure and purpose of the loan and the current level of credit risk;
- (c) procedures to ensure conformance with loan approval requirements;
- (d) a system to track and analyze exceptions;
- (e) procedures to ensure conformance with Call Report instructions;
- (f) procedures to ensure the accuracy of internal management information systems;
- (g) a performance appraisal process, including performance appraisals, and job descriptions for loan officers, which adequately consider their performance relative to policy compliance, documentation standards, accuracy in credit grading, and other loan administration matters; and

- (h) procedures to track and analyze concentrations of credit, significant economic factors, and general conditions and their impact on the credit quality of the Bank's loan and lease portfolios.

(2) Upon completion, a copy of the program shall be forwarded to the Assistant Deputy Comptroller.

(3) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to systems which provide for effective monitoring of:

- (a) early problem loan identification to assure the timely identification and rating of loans and leases based on lending officer submissions;
- (b) statistical records that will serve as a basis for identifying sources of problem loans and leases by industry, size, collateral, indirect dealer, and individual lending officer;
- (c) previously charged-off assets and their recovery potential;
- (d) compliance with the Bank's lending policies and laws, rules, and regulations pertaining to the Bank's lending function;
- (e) adequacy of credit and collateral documentation; and
- (f) concentrations of credit.

(4) Beginning May 31, 2003, on a quarterly basis, management will provide the Board with written reports including, at a minimum, the following information:

- (a) the risk profile (i.e., risk distribution) of the loan and lease portfolios and any changes to that risk profile from prior periods;
- (b) the identification, type, rating, and amount of problem loans and leases;
- (c) the identification and amount of delinquent loans and leases;

- (d) credit and collateral documentation exceptions;
- (e) the identification and status of credit-related violations of law, rule or regulation;
- (f) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (b) through (e) of this Article and Paragraph;
- (g) an analysis of concentrations of credit, significant economic factors, and general conditions and their impact on the credit quality of the Bank's loan and lease portfolios;
- (h) the identification and amount of loans and leases to executive officers, directors, principal shareholders (and their related interests) of the Bank; and
- (i) the identification of loans and leases not in conformance with the Bank's lending and leasing policies, and exceptions to the Bank's lending and leasing policies.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program and systems developed pursuant to this Article.

ARTICLE VIII

MANAGEMENT AND STAFF SKILLS EVALUATION

(1) Within ninety (90) days, the Board shall develop and implement a plan to evaluate the risk rating and commercial lending skills of all commercial (including agricultural and commercial real estate) lending staff, including supervisors and managers, and any persons

involved in the commercial loan analysis, approval, management or risk rating process. At a minimum, the plan will consist of the following:

- (a) identification of the skills and expertise needed by persons analyzing, approving, managing or reviewing commercial credit risk. This would include ability to identify/stratify commercial credit risk, manage commercial credit risk and identify problem loans or leases;
- (b) identification of the skills and expertise of persons in the bank who perform the functions listed in (1)(a) above; and
- (c) comparison of the current staff's skills and expertise identified in (1)(b) of this Article to the skills and expertise identified in (1)(a) of this Article.

(2) Within thirty (30) days of the skills evaluation required by paragraph (1)(c) of this Article, the Board will develop a skills improvement plan and direct any changes or actions necessary to fulfill the skills improvement plan and provide the Bank with management and staff that possess the skills and expertise identified in paragraph (1)(a) of this Article. Thereafter the Board will ensure that the Bank adheres to this skills improvement plan.

(3) Upon completion of the actions required by (1) and (2), the Board will provide a copy of its staffing plan to the Assistant Deputy Comptroller for review.

ARTICLE IX

CREDIT AND COLLATERAL STANDARDS

(1) Within sixty (60) days, the Board shall obtain current and satisfactory credit information on all loans lacking such information, including those listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of

loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(2) Within sixty (60) days, the Board shall ensure proper collateral documentation and supportable independent (of the borrower) collateral valuations are maintained on all loans, and correct each collateral documentation or collateral valuation exception listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(3) Effective immediately, the Bank may grant, extend, renew, alter or restructure any loan or other extension of credit only after:

- (a) documenting the specific reason or purpose for the extension of credit;
- (b) identifying the expected sources (i.e., primary, secondary, etc.) of repayment in writing;
- (c) structuring the repayment terms to coincide with the expected source(s) of repayment;
- (d) obtaining and critically analyzing current and satisfactory credit information, including cash flow analysis (historical and projected), where loans are to be repaid from operations; and
- (e) documenting, with adequate supporting material, the value of collateral (independent of the borrower) and properly perfecting the Bank's lien on it where applicable.

(4) Failure to obtain the information in (3)(d) and (e) shall require a majority of the full Board (or a delegated committee thereof) to certify in writing the specific reasons why

obtaining and analyzing the information in (3)(d) and (e) would be detrimental to the best interests of the Bank. Additionally, a copy of the Board certification shall be maintained in the credit file of the affected borrower(s). The certification will be reviewed by this Office in subsequent examinations of the Bank.

ARTICLE X

CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in the ROE, in any subsequent Report of Examination, by internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination.

(2) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written program designed to eliminate the basis of criticism of assets criticized in the ROE, in any subsequent Report of Examination, by any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination as "doubtful," "substandard," or "special mention." This program shall include, at a minimum:

- (a) an identification of the expected sources of repayment;
- (b) the independent appraised value of supporting collateral and the position of the Bank's lien on such collateral where applicable;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and
- (d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

(3) Upon adoption, a copy of the program for all criticized assets equal to or exceeding fifty thousand dollars (\$50,000) shall be forwarded to the Assistant Deputy Comptroller.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

(5) The Board, or a designated committee, shall conduct a review, on at least a quarterly basis, to determine:

- (a) the status of each criticized asset or criticized portion thereof that equals or exceeds fifty thousand dollars (\$50,000);
- (b) management's adherence to the program adopted pursuant to this Article;
- (c) the status and effectiveness of the written program; and
- (d) the need to revise the program or take alternative action.

(6) A copy of each review shall be forwarded to the Assistant Deputy Comptroller on a quarterly basis.

(7) The Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination and whose aggregate loans or other extensions exceed fifty thousand dollars (\$50,000) only if each of the following conditions is met:

- (a) the Board or designated committee finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior

to renewing, extending or capitalizing any additional credit, a majority of the full Board (or designated committee) approves the credit extension and records, in writing, why such extension is necessary to promote the best interests of the Bank; and

- (b) a comparison to the written program adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised.

(8) A copy of the approval of the Board or of the designated committee shall be maintained in the file of the affected borrower.

ARTICLE XI

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or approval, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

(5) In each instance in this Agreement in which the Board is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (a) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Agreement;
- (b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (c) follow up on any non-compliance with such actions in a timely and appropriate manner; and
- (d) require corrective action be taken in a timely manner of any non-compliance with such actions.

(6) This Agreement is intended to be, and shall be construed to be, a supervisory “written agreement entered into with the agency” as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the OCC or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the OCC may enforce any of the commitments or obligations herein undertaken by the Bank under its supervisory powers, including 12 U.S.C. § 1818(b)(1), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor

the OCC has any intention to enter into a contract. The Bank also expressly acknowledges that no OCC officer or employee has statutory or other authority to bind the United States, the U.S. Treasury Department, the OCC, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the OCC's exercise of its supervisory responsibilities. The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or arrangements, or negotiations between the parties, whether oral or written.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller, has hereunto set his hand on behalf of the Comptroller.

/s/ Lawrence E. Beard
Lawrence E. Beard
Assistant Deputy Comptroller
St. Louis Field Office

1/23/03
Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

<u>/s/ Eric C. Campagna</u> Eric C. Campagna	<u>1-23-2003</u> Date
<u>/s/ Howard W. Frederking</u> Howard W. Frederking	<u>1-23-03</u> Date
<u>/s/ Ben H. Gaebe</u> Ben H. Gaebe	<u>1-23-03</u> Date
<u>/s/ Danny L Heggemeier</u> Danny L. Heggemeier	<u>1-23-03</u> Date
<u>/s/ Mary Karneier</u> Mary Karneier	<u>1-23-03</u> Date
<u>/s/ Morris G. Kaufman</u> Morris G. Kaufman	<u>1/23/03</u> Date
<u>/s/ Marion E. Oelze</u> Marion Oelze	<u>1/23/03</u> Date
<u>Arnold E. Rueter—BHG LEB</u>	<u>1-23-03</u> Date
<u>Stanley J. Schmale—BHG LEB</u>	<u>1-23-03</u> Date
<u>/s/ Bradley W. Small</u> Bradley W. Small	<u>1-23-03</u> Date

