

#2009-236

AGREEMENT BY AND BETWEEN
First National Bank of Chillicothe
Chillicothe, IL
and
The Comptroller of the Currency

First National Bank of Chillicothe, Chillicothe, IL (“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 has found several unsafe and unsound banking practices relating to failure to properly diversify the investment portfolio, failure to recognize and manage concentrations of credit, failure to ensure adequate audit processes, and failure to properly manage interest rate risk at the Bank.

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) This Agreement shall cause the Bank to be designated as in “troubled condition,” as set forth in 12 C.F.R. § 5.51(c)(6), unless otherwise informed in writing by the Comptroller. In addition, this Agreement shall cause the Bank not to be designated as an “eligible bank” for purposes of 12 C.F.R. § 5.3(g), unless otherwise informed in writing by the Comptroller.

(6) 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
Central IL and Eastern IA Field Office
111 West Washington Street, Suite 300
East Peoria, IL 61611

ARTICLE II

COMPLIANCE COMMITTEE

(1) Within ten (10) days of the date of this Formal Agreement, the Board shall appoint a Compliance Committee of at least three (3) directors, of which no more than one (1) shall be an employee of the Bank. Upon appointment, the names of the members of the Compliance Committee and, in the event of a change of the membership, the name of any new member 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 Formal Agreement.

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

(3) Within thirty (30) days of the date of this Formal Agreement and every thirty (30) days thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

(a) a description of the action needed to achieve full compliance with each Article of this Formal Agreement;

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

(c) the results and status of those actions.

(4) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller within ten (10) days of receiving such report.

ARTICLE III

CAPITAL PLAN AND HIGHER MINIMUMS

(1) The Bank shall achieve by December 31, 2009, and thereafter maintain the following capital levels (as defined in 12 C.F.R. Part 3):

(a) Tier 1 capital at least equal to nine percent (9.00%) of adjusted total assets.¹

¹ Adjusted total assets is defined in 12 C.F.R. § 3.2(a) as the average total asset figure used for Call Report purposes minus end-of-quarter intangible assets.

(2) The requirement in this Agreement to meet and maintain a specific capital level means that the Bank may not be deemed to be “well capitalized” for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 6 pursuant to 12 C.F.R. § 6.4(b)(1)(iv).

(3) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a three year capital program. The program shall include:

- (a) specific plans for the maintenance of adequate capital that may in no event be less than the requirements of paragraph (1);
- (b) projections for growth and capital requirements based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
- (c) projections of the sources and timing of additional capital to meet the Bank's current and future needs;
- (d) the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs;
- (e) contingency plans that identify alternative methods should the primary source(s) under (d) above not be available; and
- (f) a dividend policy that permits the declaration of a dividend only:
 - (i) when the Bank is in compliance with its approved capital program;
 - (ii) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
 - (iii) with the prior written determination of no supervisory objection by the Assistant Deputy Comptroller. Upon receiving a determination of no supervisory objection by the Assistant Deputy Comptroller, the Bank shall implement and adhere to the dividend policy.

(4) Upon completion, the Bank's capital program shall be submitted to the Assistant Deputy Comptroller for prior determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Bank shall implement and adhere to the capital program. The Board shall review and update the Bank's capital program on an annual basis, or more frequently if necessary. Copies of the reviews and updates shall be submitted to the Assistant Deputy Comptroller.

ARTICLE IV

CREDIT RISK

(1) Within ninety (90) 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) At least a quarterly review of all investment securities that are in non-conformance with the regulation at 12 CFR §1.8. The review shall include a description of the Bank's exercise of reasonable efforts to bring these investments into conformity;
- (b) At least a quarterly review of all other investment securities or loans that represent higher credit risk such that they meet the regulatory definitions of Special Mention, Substandard, Doubtful or Loss. The review shall include a description of the Bank's plan to collect or strengthen these assets such that they no longer meet the regulatory definitions of Special Mention, Substandard, Doubtful or Loss.

- (c) Within ten (10) days of adoption, the Board shall submit a copy of the program to the Assistant Deputy Comptroller.
- (d) 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.

ARTICLE V

LIQUIDITY PLAN

(1) The Board shall ensure the level of liquidity at the Bank is sufficient to sustain the Bank's current operations and to withstand any anticipated or extraordinary demand against its funding base. Actions the Board may take include, but are not necessarily limited to:

- (a) selling assets;
- (b) obtaining reliable lines of credit from the Federal Reserve Bank and/or Federal Home Loan Bank;
- (c) obtaining reliable lines of credit from correspondent banks;
- (d) recovering charged-off assets; and
- (e) injecting additional equity capital.

(2) The Board shall review the Bank's liquidity on a monthly basis. Such reviews shall consider:

- (a) a maturity schedule of certificates of deposit, including a segregated total of all large uninsured or credit sensitive deposits and/or liabilities;
- (b) the volatility of demand deposits including escrow deposits;

- (c) the amount and type of loan commitments and standby letters of credit;
- (d) an analysis of the continuing availability and volatility of present funding sources; and,
- (e) an analysis of the impact of changing cash flows from the Mortgage Backed or Collateralized Mortgage Obligation portfolios.

(3) Within thirty (30) days, and monthly thereafter, the Board shall prepare a report of the actions taken pursuant to paragraph (1) and the reviews performed pursuant to paragraph (2). Copies of these reports shall be forwarded to the Assistant Deputy Comptroller.

ARTICLE VI

RECOGNITION OF OTHER-THAN-TEMPORARY IMPAIRMENT

(1) Within ninety (90) days, the Bank shall develop, implement, and thereafter ensure Bank adherence to policies and procedures to ensure the timely recognition of bank investments with other-than-temporary impairment.

(2) The Bank's policy shall require a quarterly written review of those securities with a fair value below amortized cost in order to evaluate whether a decline in the fair value is other-than-temporary. Such a review shall encompass, as applicable, the factors specified in Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (FAS 115), the guidance in FASB Staff Positions No. 115-1 (FSP 115-1) and No. 115-2 (FSP 115-2), and other applicable accounting guidance.

(3) For those securities with a fair value below amortized cost for which the Bank is not recognizing other-than-temporary impairment, the Bank must provide objective and verifiable evidence documenting why the securities are not other-than-temporarily impaired. The

objective evidence must indicate the reasons why the decline in fair value below the amortized cost basis is “temporary” and detail how the decline in fair value can reasonably be expected to be reversed. Objective evidence supporting “temporary” impairment may include the issuer’s financial performance (including such factors as earnings trends, dividend payments, asset quality and specific events), the financial condition and near term prospects of the issuer, and the economic conditions and prospects for the issuer’s region and industry.

(4) If the Bank determines that a particular investment is other-than-temporary impaired, the Bank shall:

- (a) recognize the amount of the total other-than-temporary impairment through earnings when
 - (i) the Bank intends to sell the security;
 - (ii) it is more likely than not that the Bank will be required to sell the security prior to the recovery of the cost basis;
 - (iii) an adverse change in the amount or timing of cash flows occurs (as covered by FASB Emerging Issues Task Force (EITF) Issue No. 99-20 and its subsequent amendments); or
 - (iv) recovery of the entire cost basis is not expected (considering the factors in SEC Staff Accounting Bulletin (SAB) 59).
- (b) recognize the amount of the total other-than-temporary impairment through a combination of earnings for the credit loss and other comprehensive income for the other market related loss when:
 - (i) the Bank has no intent to sell the securities, and
 - (ii) no sale is likely to occur prior to the cost recovery.

(5) To ensure an objective and independent other-than-temporary impairment analysis for all Private Label Mortgage Backed Securities that exhibit the highest risk levels (Nationally Recognized Statistical Rating Organization ratings below BBB-, over 10% market depreciation to book value, and less than a two (2) times credit coverage ratio), the Bank's policy will apply the most pessimistic assumptions (collateral default rate, loss given default rate, and prepayment speed) in evaluating each bond. If any potential other-than-temporary impairment is identified through this initial screening process, the Bank will engage an independent third-party to perform the final other-than-temporary impairment assessment.

(6) The Bank's policy will also require a written assessment of the data used to support all other-than-temporary impairment conclusions. At a minimum, the written assessment must include all key model assumptions with supporting analysis. The written assessment must be presented to the ALCO or Board for approval, with actions taken documented in the official minutes.

(7) Upon adoption, the Board shall submit a copy of the policies and procedures to the Assistant Deputy Comptroller for determination of no supervisory objection.

ARTICLE VII

INVESTMENT POLICY

(1) Within ninety (90) days, the Board shall review, revise, implement and thereafter ensure Bank adherence to the Bank's written investment policy. The policy shall contain the basic elements of a sound investment policy consistent with regulatory guidance contained in the "Investment Securities" and "Bank Dealer Activities" booklets of the Comptroller's Handbook and OCC Bulletin 98-20 (April 27, 1998); OCC Bulletin 2002-19, "Unsafe and Unsound

Investment Portfolio Practices” (May 22, 2002); OCC Bulletin 2004-25, “Uniform Agreement on the Classification of Securities” (June 15, 2004); and OCC Bulletin 2009-15, “Risk Management and Lessons Learned” (May 22, 2009); as well as the legal requirements in 12 C.F.R. Part 1. The revised policy shall, at a minimum, include:

- (a) Investment portfolio diversification guidelines to place limits (both as a percentage of bank capital and total portfolio holdings) on holdings of specific securities by type and/or common characteristics that they could be susceptible to rapid depreciation and illiquidity due to market disfavor; and,
- (b) The requirement for sufficient monthly Board reports indicating the actual portfolio holdings as compared to the policy limitations outlined in (a) such that the Board of Directors can determine the Bank’s adherence or non-compliance with such policy.

(2) A copy of the revised investment policy shall be forwarded to the Assistant Deputy Comptroller for determination of no supervisory objection.

ARTICLE VIII

CONCENTRATIONS OF CREDIT

(1) Within forty-five (45) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written asset diversification program consistent with “Loan Portfolio Management” booklet of the Comptroller's Handbook. The program shall include, but not necessarily be limited to, the following:

- (a) a review of the balance sheet including loans, investment securities, and other assets to identify any concentrations of credit;
- (b) a written analysis of any concentration of credit identified above in order to identify and assess the inherent credit, liquidity, and interest rate risk;
- (c) policies and procedures including specific concentration ranges or limits (as a percentage of Bank capital) by industry, type of collateral, type of investment, by employer, and/or by any other common characteristic as deemed appropriate by the Board, to control and monitor concentrations of credit;
- (d) a requirement for sufficient monthly Board reports indicating the actual Bank concentrations as compared to the range or limits imposed by policy limitations outlined in (c) such that the Board of Directors can determine the Bank's adherence or non-compliance with such limits; and,
- (e) an action plan approved by the Board to reduce the risk of any concentration deemed imprudent upon completion of the above analysis.

(2) For purposes of this Article, a concentration of credit is as defined in the "Loan Portfolio Management" booklet of the Comptroller's Handbook.

(3) The Board shall ensure that future concentrations of credit are subjected to the analysis required by subparagraph (1)(b) and, if that analysis demonstrates that the concentration subjects the Bank to undue risk, it takes appropriate steps to mitigate such risk.

(4) The Board shall forward a copy of any analysis performed on existing or potential concentrations of credit to the Assistant Deputy Comptroller immediately following the review.

ARTICLE IX

INTEREST RATE RISK MANAGEMENT

(1) Within ninety (90) days, the Board shall develop or revise, implement, and thereafter ensure Bank adherence to a written interest rate risk management program. The program shall be consistent with guidelines established in the “Bank Supervision Process” booklet of the Comptroller’s Handbook. In addition to guidelines outlined in the above issuance, the program must include:

- (a) policies, procedures or standards which limit the degree of interest rate risk the Board is willing to incur, consistent with the strategic plan and the Bank’s financial condition. This includes analyzing and limiting the risks associated with any new lines of business which the Board undertakes. The procedures shall ensure that strategic direction and risk tolerances are effectively communicated and followed throughout the Bank and shall describe the actions to be taken where noncompliance with risk policies is identified;
- (b) action plans and time frames to reduce risks should investment activities, market volatility, and/or deposit/borrowing activities cause the Bank's actual risk levels to exceed established parameters imposed by Board policies outlined in (a); and,
- (c) at a minimum, strategies and action plans outlined in (b) above shall include the Board’s prohibition on Bank purchases of any investment securities that exhibit high price sensitivity (over 10% in a plus 300 basis

point rate shock environment) when actual interest rate risk exposure significantly exceeds levels outlined in (a) above.

ARTICLE X

STRATEGIC PLAN

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written strategic plan for the Bank covering at least a three-year period. The strategic plan shall establish objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital adequacy, product line development and market segments that the Bank intends to promote or develop, together with strategies to achieve those objectives and, at a minimum, include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) an assessment of the Bank's present and future operating environment;
- (c) the development of strategic goals and objectives to be accomplished over the short and long term;
- (d) an identification of the Bank's present and future product lines (assets and liabilities) that will be utilized to accomplish the strategic goals and objectives established in (1)(c) of this Article;
- (e) an evaluation of the Bank's internal operations, staffing requirements, board and management information systems and policies and procedures for their adequacy and contribution to the accomplishment of the goals and objectives developed under (1)(c) of this Article;

- (f) a management employment and succession program to promote the retention and continuity of capable management;
- (g) product line development and market segments that the Bank intends to promote or develop;
- (h) an action plan to improve bank earnings and accomplish identified strategic goals and objectives, including individual responsibilities, accountability and specific time frames;
- (i) a financial forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the period covered by the strategic plan;
- (j) control systems to mitigate risks associated with planned new products, growth, or any proposed changes in the Bank's operating environment;
- (k) specific plans to establish responsibilities and accountability for the strategic planning process, new products, growth goals, or proposed changes in the Bank's operating environment; and
- (l) systems to monitor the Bank's progress in meeting the plan's goals and objectives.

(2) Upon adoption, a copy of the plan shall be forwarded to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection.

(3) Within thirty (30) days, the Board, or a delegated committee thereof, shall determine whether the Bank requires consulting services to establish the strategic plan specified in paragraph (1) above. In making the determination, the following factors, at a minimum, shall be considered:

- (a) the benefits derived from any consulting services;
- (b) the cost effectiveness of employing one or more consultants; and
- (c) the delegation of any consultant's responsibilities to a permanent Bank employee.

(4) The Board or delegated committee shall set forth its final determination that either justifies engaging or not engaging consulting services in (3) above, and the supporting reasons, in a written report to be approved by the entire Board. After it is approved, the written report shall be forwarded to the Assistant Deputy Comptroller.

(5) If the Board determines that the Bank requires a consultant's services, the Bank shall, before hiring a new consultant, require at a minimum the following:

- (a) submission of a written proposal detailing the services to be performed by the consultant;
- (b) submission of biographical information setting forth the applicant's credentials and experience in the areas of banking and consulting;
- (c) full disclosure to the Board of all relationships between the consultant and any Bank executive officer, director or principal shareholder or their related interests (as those terms are defined in 12 C.F.R. Part 215);
- (d) that the Board vote to approve any consultant's employment but any director whose relationship with the consultant could be perceived as causing a conflict of interest shall abstain from voting; and
- (e) execution of a written contract between the Bank and consultant based upon arms-length negotiations.

ARTICLE XI

VIOLATIONS OF LAW

(1) The Board shall immediately take all necessary steps to ensure that Bank management corrects each violation of law, rule or regulation cited in the ROE and in any subsequent Report of Examination.

(2) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the ROE and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(3) Within ninety (90) days of receipt of any subsequent Report of Examination which cites violations of law, rule, or regulation, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the ROE and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(4) Upon adoption, a copy of these procedures shall be promptly forwarded to the Assistant Deputy Comptroller.

ARTICLE XII

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or prior written determination of no supervisory

objection, 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/her 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 Comptroller or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his 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 Comptroller has any intention to enter into a contract. The Bank also expressly acknowledges that no officer or employee of the Office of the Comptroller of the Currency has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller’s exercise of his supervisory responsibilities. The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or prior arrangements 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/

Gary Baranowski
Assistant Deputy Comptroller
North Central IL and Eastern IA Field Office

11-16-09

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/ </u> Norman Admire	<u> 11-16-09 </u> Date
<u> /S/ </u> William Batek	<u> 11-16-09 </u> Date
<u> /S/ </u> James Fennell	<u> 11-16-09 </u> Date
<u> /S/ </u> Robert Goben	<u> 11-16-09 </u> Date
<u> /S/ </u> Rick Hinck	<u> 11-16-09 </u> Date
<u> /S/ </u> Garwin Shane	<u> 11-16-09 </u> Date
<u> /S/ </u> Peter Truitt	<u> 11-16-09 </u> Date
<u> /S/ </u> Henry Truitt V	<u> 11-16-09 </u> Date
<u> /S/ </u> Robert Wieland	<u> 11-16-09 </u> Date
<u> /S/ </u> Gwendolyn E. Hemstreet	<u> 11-16-09 </u> Date