

AGREEMENT BY AND BETWEEN
The Farmers National Bank of Prophetstown
Prophetstown, IL
and
The Comptroller of the Currency

The Farmers National Bank of Prophetstown, Prophetstown, 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 unsafe and unsound banking practices relating to credit risk rating and administration, allowance for loan and lease losses methodology, valuation practices related to real estate and securities at the Bank, and information security.

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
Chicago South Field Office
2001 Butterfield Rd, Ste. 400
Downers Grove, IL 60515-7915

ARTICLE II

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 agricultural loan portfolio;
- (b) procedures to strengthen management of credit approval practices and to maintain an adequate, qualified staff in all credit administration areas; and
- (c) procedures for strengthening collections.

(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.

ARTICLE III

CREDIT AND COLLATERAL EXCEPTIONS

(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 is maintained on all loans and correct each collateral 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 source of repayment in writing;
- (c) structuring the repayment terms to coincide with the expected source of repayment;
- (d) obtaining and analyzing current and satisfactory credit information, including cash flow analysis, where loans are to be repaid from operations;
 - (i) Failure to obtain the information in (3)(d) 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) would be detrimental to the best interests of the Bank.

- (ii) 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; and
- (e) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable.

ARTICLE IV

LOAN RISK RATING SYSTEM

(1) Within sixty (60) days, and on an ongoing basis thereafter, the Board must ensure that the Bank's internal risk ratings of commercial credit relationships in excess of \$400,000 (covered relationship), as assigned by responsible loan officers and by internal loan review, are timely, accurate, and consistent with the regulatory credit classification criteria set forth in the "Rating Credit Risk" booklet of the Comptroller's Handbook. At a minimum, the Board must ensure, on an ongoing basis, that with respect to the assessment of credit risk of any covered relationship:

- (a) the primary consideration is the strength of the borrower's primary source of repayment (i.e., the probability of default rather than the risk of loss);
- (b) if the primary source of repayment is cash flow from the borrower's operations, the strength of the borrower's cash flow is determined through analysis of the borrower's historical and projected financial statements, past performance, and future prospects in light of current conditions;

- (c) collateral, non-government guarantees, and other similar credit risk mitigants that affect potential loss in the event of default (rather than the probability of default) are taken into consideration only if the primary source of repayment has weakened and the probability of default has increased;
- (d) collateral values should reflect a current assessment of value based on actual market conditions and project status;
- (e) credit risk ratings are reviewed and updated whenever relevant new information is received, but no less frequently than annually; and
- (f) the credit risk rating analysis is documented and available for review by the Board and the OCC upon request.

(2) Within sixty (60) days, and on an ongoing basis thereafter, the Board must ensure that any covered relationship with a high probability of payment default or other well-defined weakness is rated no better than Substandard, unless the debt is secured by marketable securities or cash. Consistent with the guidance in the “Rating Credit Risk” booklet of the Comptroller’s Handbook, the presence of illiquid collateral or existence of a plan for improvement does not, and a non-government guarantee generally will not, mitigate the probability of default or a well-defined weakness.

(3) 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 V

REAL ESTATE VALUATIONS

(1) Within thirty (30) days, the Board will order a current appraisal or evaluation, as applicable, of the real estate securing each of the loans on the list provided to management, as also outlined in the ROE.

(2) The appraisals obtained pursuant to paragraph (1) above will conform to the minimum appraisal standards set forth at 12 C.F.R. § 34.44 and the evaluations will conform to the guidelines for evaluations set forth in the Interagency Appraisal and Evaluation Guidelines dated October 27, 1994. (Also, see Frequently Asked Questions on the Appraisal Regulations and the Interagency Statement on Independent Appraisal and Evaluation Functions dated March 22, 2005.)

(3) Within thirty (30) days of receipt of each appraisal or evaluation obtained pursuant to paragraph (1) above, the Board will reassess the risk rating and accrual status of the loan, as well as the amount of impairment, if any, in accordance with FASB Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan.

(4) Within 60 days, the Board will adopt, implement, and thereafter ensure adherence to a real estate valuation program designed to ensure that the Bank assesses and maintains current information on the adequacy of collateral securing its real estate loans. The program will, at a minimum:

- (a) require that appraisal reviews affirmatively state whether appraisals contain sufficient information to support the appraised value;

- (b) require that appraisal reviews include a narrative summary concluding on the appropriateness of the appraiser's assumptions and the overall quality of the appraisal;
- (c) contain criteria for content and appropriate use of real estate evaluations;
- (d) implement internal controls that promote compliance with the appraisal regulation, the Interagency Appraisal and Evaluation Guidelines, and industry appraisal standards; and
- (e) establish criteria for obtaining appraisals or evaluations for transactions that are not otherwise covered by regulatory requirements.

(5) Upon adoption, a copy of the program will be forwarded to the Assistant Deputy Comptroller for review and determination of no supervisory objection.

(6) The Board will 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 VI

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, implement, and thereafter ensure Bank adherence to an effective, independent, and ongoing loan review system to review, at least semi-annually, the Bank's loan and lease portfolios. 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 the “Rating Credit Risk” booklet of the Comptroller’s Handbook. Such reports shall identify the names, types, ratings, and dollar amounts of the credits reviewed along with the identity of the responsible loan officers for those credits. At a minimum, such reports shall include conclusions regarding:

- (a) the accuracy and timeliness of internal risk ratings;
- (b) credit and collateral documentation exceptions;
- (c) credit related violations of law, rule, or regulation; and
- (d) 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 thirty (30) days, the Board shall develop and implement a written policy governing the timely identification of and accounting treatment for nonaccrual loans. The policy shall be consistent with the accounting requirements contained in the Call Report Instructions.

(4) Written descriptions of the program and policy called for in this Article shall be forwarded to the Assistant Deputy Comptroller upon implementation.

(5) 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).

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

(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 VII

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) The Board shall review the adequacy of the Bank's Allowance for Loan and Lease Losses ("Allowance") and shall establish a program for the maintenance of an adequate Allowance. This review and program shall be designed in light of the comments on maintaining a proper Allowance found in the "Allowance for Loan and Lease Losses" booklet of the Comptroller's Handbook, and shall focus particular attention on the following factors:

- (a) results of the Bank's external loan review;
- (b) loan loss experience;
- (c) trends of delinquent and nonaccrual loans;
- (d) concentrations of credit in the Bank; and
- (e) present and prospective economic conditions.

(2) The program shall provide for a review of the Allowance by the Board at least once each calendar quarter. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

(3) A copy of the Board's program shall be submitted to the Assistant Deputy Comptroller for review and prior written 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 program.

ARTICLE VIII

INFORMATION SECURITY PROGRAM

(1) Within sixty (60) days, the Board must ensure compliance with 12 C.F.R. Part 30, Appendix B, Safeguarding Customer Information. The information security program must include administrative, technical, and physical safeguards to protect the security, confidentiality, and integrity of customer information, consistent with processes described in the “Information Security” booklet of the FFIEC Information Technology Examination Handbook. At a minimum, the Bank’s information security program must be revised to include:

- (a) the assignment of responsibility for the management of information security compliance to a qualified individual;
- (b) monitoring procedures to track, document, and report information security training completion to ensure that all employees participate in the Bank’s periodic information security training;
- (c) accountability in access control procedures to distinguish individual users by means of unique identification codes;
- (d) system access reporting and monitoring procedures;
- (e) physical access restrictions regarding the Bank’s systems and servers;
- (f) a corporate-wide assessment of the risks to customer information or customer information systems and a written report evidencing such assessment. The assessment shall include:
 - (i) the identification of reasonably foreseeable internal and external threats that could result in unauthorized disclosure, misuse,

- alteration, or destruction of customer information or customer information systems;
- (ii) an assessment of the likelihood and potential damage of these threats, taking into consideration the sensitivity of customer information; and
 - (iii) an assessment of the sufficiency of policies, procedures, customer information systems, and other arrangements in place to control risks;
- (g) a process to monitor and control the identified risks, commensurate with the sensitivity of the information as well as the complexity and scope of bank activities; and
- (h) a test plan that provides for regular testing of key controls, systems and procedures of its information security program, including for disaster recovery purposes. The frequency and nature of such tests shall be determined by the risk assessment. Such tests shall be conducted or reviewed by independent third parties or staff independent of those who develop or maintain the information security program.

(2) The Board shall provide a quarterly written progress report on each of the requirements of this Article to the Assistant Deputy Comptroller.

(3) Annually, the Bank must prepare, and the Board must review, a report detailing the Bank's compliance with the guidelines and status of the Bank's information security program, in accordance with 12 C.F.R. Part 30, App. B., section III.F.

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

ARTICLE IX

RECOGNITION OF OTHER-THAN-TEMPORARY IMPAIRMENT

(1) Within sixty (60) days, the Bank shall develop, implement, and thereafter ensure Bank adherence to policies and procedures to ensure the timely recognition of bank investments (debt and equity) 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 115-2) 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 amount of the total other-than-temporary impairment related to the credit loss shall be recognized in earnings and the amount of the total other-than-temporary impairment related to other factors shall be recognized in other comprehensive income, net of applicable taxes.

(5) Upon adoption, the Board shall submit a copy of the policies and procedures to the Assistant Deputy Comptroller.

ARTICLE X

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 her hand on behalf of the Comptroller.

/s/

Mary Beth Farrell
Assistant Deputy Comptroller
Chicago South Field Office

12/16/09

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.

/s/

Steven R. Emmerson

12/16/09

Date

/s/

Robert E. Johnston

12/16/09

Date

/s/

David L. Matthews

12/16/09

Date

/s/

Daniel B. Nafziger

12/16/09

Date

/s/

Donald B. Vogel

12/16/09

Date

/s/

Jeffrey B. Woodworth

12/16/09

Date

/s/

William J. Wyffels, Jr.

12/16/09

Date
