

AGREEMENT BY AND BETWEEN  
Ladysmith Federal S&LA  
Ladysmith, Wisconsin  
and  
The Comptroller of the Currency

Ladysmith Federal S&LA, Ladysmith, Wisconsin (“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 members 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 or unsound banking practices relating to credit administration.

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. § 163.555. 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. § 163.555, unless otherwise informed in writing by the Comptroller.

(6) Unless otherwise informed in writing by the Comptroller, all programs, reviews, or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to:

Sheila Van Ornum  
Assistant Deputy Comptroller  
Minneapolis Field Office  
222 South 9th Street, Suite 800  
Minneapolis, Minnesota 55402

## ARTICLE II

### INTERNAL RISK RATINGS

(1) Within thirty (30) days, and on an ongoing basis thereafter, the Board must ensure that the Bank’s internal risk ratings of all credit relationships in excess of \$100,000 (“covered relationship”), as assigned by responsible loan officers and by any independent loan reviewer, are timely, accurate, and consistent with the regulatory credit classification criteria set forth in 12 C.F.R. § 160.160, the “Rating Credit Risk” booklet, A-RCR, of the Comptroller’s Handbook and the Uniform Retail Credit Classification and Account Management Policy as outlined in OCC Bulletin 2000-20. 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) 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;
- (c) credit risk ratings are reviewed and updated whenever relevant new information is received, but no less frequently than annually; and
- (d) the credit risk rating analysis is documented and available for review by the Board and the OCC upon request.

(2) Within ninety (90) days, the Board must establish a management information system that provides, at a minimum, the following information in writing to the Board on a monthly basis:

- (a) the identification, type, amount, and assigned rating of each loan or other asset rated Special Mention or worse, and a discussion of the specific reasons for the assigned risk rating;
- (b) a listing of all credit and collateral documentation exceptions;
- (c) a list of loans and leases not in conformance with the Bank's lending and leasing policies, with a notation as to whether the exceptions were properly granted in accordance with the Bank's lending and leasing policy; and
- (d) the identity of the loan officer who originated each loan or other extension of credit reported in accordance with subparagraphs (2)(a) through (2)(c) of this Article.

(3) Within ninety (90) days, the Board shall ensure adherence to an independent and on-going loan review system to review the Bank's loan and lease portfolios to ensure the timely identification and categorization of problem credits. At a minimum, the loan review shall include past due, non-accrual, and insider credits, and all borrowing relationships where the aggregate commercial or commercial real estate debt is in excess of \$100,000. The review shall also include any assets criticized<sup>1</sup> in the Report of Examination dated "as of" September 30, 2012 ("ROE"), in any subsequent Report of Examination, by internal or external loan review, or in any list provided to management by the OCC during any examination.

(4) The system adopted pursuant to Paragraph (3) of this Article shall provide for a written report to be filed with the Board within forty five (45) days following the completion of each review and shall use a loan and lease grading system consistent with the criteria set forth in applicable regulations and regulatory guidance. Such reports shall include, at a minimum, conclusions regarding the identification, type, rating, and amount of problem loans and leases. Within thirty (30) days of receipt, the Board shall evaluate these reports and shall ensure that immediate, adequate, and continuing remedial action, if appropriate, is taken upon all findings noted in the report(s).

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<sup>1</sup> The term "criticized" as used in this Article refers to assets rated the equivalent of "doubtful," "substandard," or "special mention" as defined in the "Rating Credit Risk" booklet of the Comptroller's Handbook.

## ARTICLE III

### PROBLEM LOAN WORKOUT PLANS

(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 OCC during any examination.

(2) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to individual workout plans designed to protect the Bank's interest in or eliminate the basis of criticism of assets criticized in the ROE or internally identified by the Bank as criticized as of the effective date of this Agreement. On an ongoing basis, when any asset is criticized in a subsequent Report of Examination, or by any internal or external loan review, or in any list provided to management by the OCC during any examination, the Board shall adopt, implement, and thereafter ensure Bank adherence to individual workout plans for the criticized asset within thirty (30) days. Each workout plan shall include, at a minimum:

- (a) an identification of the expected sources of repayment;
- (b) an analysis of the borrower's ability to repay the loan based on current and satisfactory credit information, including an appropriate analysis of the guarantors' current financial position where repayment is dependent in whole or in part on the support of a guarantor;
- (c) the current value of supporting collateral and the position of the Bank's lien on such collateral where applicable; and
- (d) action(s) the Bank plans to take to protect its interest in, or eliminate the basis of criticism of, the asset, including timeframes for implementing and evaluating the effectiveness of those actions.

(3) Upon adoption, a copy of the workout plans for all criticized assets equal to or exceeding one hundred thousand dollars (\$100,000) shall be forwarded to the Assistant Deputy Comptroller.

(4) 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 one hundred thousand dollars (\$100,000);
- (b) management's adherence to the workout plans adopted pursuant to this Article;
- (c) the status and effectiveness of the plans; and
- (d) the need to revise the plans or take alternative action.

(5) A copy of each review conducted pursuant to Paragraph (4) of this Article shall be forwarded to the Assistant Deputy Comptroller on a quarterly basis.

(6) Effective immediately, the Bank may extend credit, directly or indirectly, including renewals and extensions, 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 OCC during any examination, and whose aggregate loans or other extensions of credit from the Bank exceed one hundred thousand dollars (\$100,000), 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 prior to renewing or extending 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 plans adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised.

(7) A copy of the approval of the Board or of the designated committee, obtained pursuant to Paragraph (6) of this Article, shall be maintained in the file of the affected borrower.

#### ARTICLE IV

##### APPRAISAL/EVALUATION

(1) Within sixty (60) days, the Board shall obtain a current appraisal or evaluation, as applicable, of the real estate securing each of the loans listed in the ROE as lacking appropriate appraisal or evaluation.

(2) Within sixty (60) days, the Board shall revise the written policies and procedures governing the Bank's valuation of real estate collateral to ensure the safety and soundness of the Bank's real estate lending activities. The Bank's policies and procedures shall be consistent with the Interagency Appraisal and Evaluation Guidelines, dated December 10, 2010, and at a minimum must include:

- (a) a requirement that the Bank will obtain an appraisal or perform an appropriate evaluation, as applicable, for all real estate related financial transactions, consistent with the standards and requirements in 12 C.F.R. Part 164;
- (b) standards for when the Bank will reevaluate or reappraise real estate collateral to support timely problem loan identification, work-out

strategies, identification of impairment, and impact to the ALLL, with requirements distinguishing when an appraisal, as opposed to an evaluation, will be required under certain circumstances;

- (c) an effective appraisal and evaluation review process, consistent with Section XV of the Interagency Appraisal and Evaluation Guidelines; and
- (d) criteria for obtaining appraisals or performing evaluations for transactions that are not otherwise covered by regulatory requirements.

(3) Upon adoption, the Board shall submit a copy of the policies and procedures required by this Article, or any subsequent amendments or changes to those policies and procedures, to the Assistant Deputy Comptroller for determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall promptly implement and thereafter ensure adherence to the policies and procedures.

## ARTICLE V

### INADEQUATE STAFFING AND TRAINING IN KEY POSITIONS

(1) The Board must ensure that the Bank has competent management in place on a fulltime basis to carry out the Board's policies; ensure compliance with this Agreement and applicable laws, rules, and regulations; manage the day-to-day operations of the Bank; and administer the Bank's loan portfolio in a safe and sound manner.

(2) Within ninety (90) days, the Board shall delineate and assign specific senior executive officer positions to qualified individuals with written defined duties and lines of authority sufficient to cover the scope of duties traditionally assigned to a Chief Executive Officer, Senior Lending Officer, Chief Credit Administrator, and Chief Financial Officer. The



Board shall ensure the duties assigned to each officer are separate and distinct, and shall ensure this division of duties is documented in a written plan. The Board shall assess each of the Bank's current executive officers' experience, other qualifications, and performance compared to the position's duties and lines of authority and make changes if appropriate.

(3) The personnel actions taken in Paragraph (2) to ensure the loan portfolio is administered in a safe and sound manner must be sufficient to control and mitigate the risks in the Bank's commercial or commercial real estate loans.

(4) The Board must submit a copy of the plan required by Paragraph (2), and any subsequent amendments or changes to this plan, to the Assistant Deputy Comptroller for a determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall promptly implement and thereafter ensure adherence to this plan.

## ARTICLE VI

### 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 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/  
Sheila Van Ornum  
Assistant Deputy Comptroller  
Minneapolis Field Office

4/26/2013  
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/  
\_\_\_\_\_  
Gordon Dukerschein

\_\_\_\_\_  
April 26, 2013  
Date

/s/  
\_\_\_\_\_  
Michael W. Kelley

\_\_\_\_\_  
April 26, 2013  
Date

/s/  
\_\_\_\_\_  
Stephen Reisner

\_\_\_\_\_  
4-26-13  
Date

/s/  
\_\_\_\_\_  
Richard Steckel

\_\_\_\_\_  
4/26/13  
Date

/s/  
\_\_\_\_\_  
Rich Summerfield

\_\_\_\_\_  
4-26-13  
Date