

#2013-077

AGREEMENT BY AND BETWEEN
First National Bank
Waupaca, Wisconsin
and
The Comptroller of the Currency

First National Bank, Waupaca, 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 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 or unsound practices and violations of regulations relating to credit administration practices, appraisals and valuations, the allowance for loan and lease loss methodology, information technology, and risk monitoring 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) Unless otherwise informed in writing by the Comptroller through his authorized representatives, all reports, programs 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 Field Office
1700 Golf Road, Suite 800
Schaumburg, IL 60173

ARTICLE II

COMPLIANCE COMMITTEE

(1) Within thirty (30) days of this 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 or controlling shareholder 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 and, in the event of a change of 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 Agreement. The Compliance Committee shall meet at least monthly and shall maintain minutes of its meetings. The Board shall remain responsible for the Bank’s adherence to the provisions of this

Agreement. The appointment of the Compliance Committee shall not in any way affect or relieve the Board's responsibility.

(2) Within forty-five (45) days of the date of this Agreement and quarterly 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 compliance with each Article of this Agreement;
- (b) actions taken to comply with each Article of this Agreement; and
- (c) the results and status of those actions.

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

ARTICLE III

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within forty-five (45) days, the Board shall adopt, implement, and thereafter ensure adherence to written policies and procedures for maintaining an adequate Allowance for Loan and Lease Losses ("ALLL") in accordance with U.S. generally accepted accounting principles ("GAAP"). The ALLL policies and procedures shall be consistent with the guidance set forth in the Federal Financial Institutions Examination Council's "*Interagency Policy Statement on the Allowance for Loan and Lease Losses*" dated December 13, 2006, (OCC Bulletin 2006-47) ("*Interagency Statement*") and shall at a minimum include:

- (a) procedures for determining whether a loan is impaired and measuring the amount of impairment, consistent with GAAP (including FASB ASC 310-10, *Receivables - Overall - Subsequent Measurement – Impairment*);
- (b) procedures for segmenting the loan portfolio and estimating loss on groups of loans that are consistent with GAAP (including FASB ASC 450-20, *Loss Contingencies*);
- (c) documentation of its estimation of credit losses and its analysis of the nine qualitative factors set forth in the Interagency Statement;
- (d) utilization of historical loss calculations that are reflective of the current risk in the portfolio, including year to date losses;
- (e) procedures for validating the ALLL methodology; and
- (f) a process for summarizing and documenting, for the Board’s prior review and approval, the amount to be reported in the Consolidated Reports of Condition and Income (“Call Reports”) for the ALLL.

(2) The Board shall adopt, implement, and thereafter ensure adherence to written policies and procedures to ensure that all official and regulatory reports filed by the Bank accurately reflect an adequate ALLL balance as of the date that such reports are submitted. Any difference between the ALLL balance as determined by the analysis required by this Article and the Bank’s actual ALLL balance shall be remedied through appropriate account adjustments in the quarter it is discovered, prior to the filing of the Call Reports or amendment and refiling of a previously filed Call Report.

ARTICLE IV

APPRAISALS OR EVALUATIONS OF REAL PROPERTY

(1) Within ninety (90) days, the Board shall obtain a current appraisal or evaluation, as applicable, of the real estate securing each of the loans on the list provided to management by OCC examiners or by the Bank's internal loan review.

(2) The appraisals obtained pursuant to paragraph (1) of this Article shall conform to the minimum appraisal standards set forth at 12 C.F.R. § 34.44 and the evaluations shall conform to the guidelines for evaluations set forth in the *Interagency Appraisal and Evaluation Guidelines* dated December 10, 2010.

(3) Within thirty (30) days of receipt of each appraisal or evaluation obtained pursuant to paragraph (1) of this Article, the Board shall reassess the risk rating and accrual status of the loan, as well as the amount of impairment, if any, in accordance with GAAP (including FASB ASC 310-10, *Receivables – Overall – Subsequent Measurement – Impairment*).

(4) The Board must ensure that the appraisal review process is expanded to include a review, and a written determination of appropriateness, of the underlying assumptions supporting the market value.

(5) All such appraisals shall be completed within one hundred twenty (120) days, and certification by the Board attesting to the completion of the appraisals shall be forwarded to the Assistant Deputy Comptroller within one hundred fifty (150) days.

ARTICLE V

CONCENTRATIONS OF CREDIT

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written asset diversification program consistent with OCC Concentration Handbook, OCC Bulletin 2006-46, *CRE Concentrations* and OCC Bulletin 2012-16, *Capital Planning*. The program shall include, but not necessarily be limited to, the following:

- (a) a review of the balance sheet 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 to control and monitor concentrations of credit; and
- (d) an action plan approved by the Board to reduce the risk of any concentration deemed imprudent in 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 (b) of paragraph (1) of this Article and that the analysis demonstrate that the concentration will not subject the Bank to undue credit or interest rate 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 for a prior written determination of no supervisory objection.

ARTICLE VI

TROUBLE DEBT RESTURTURE (TDR) AND NONACCRUAL LOANS

(1) The Board shall immediately reverse or charge off all interest that has been accrued contrary to the requirements contained in the *Instructions for Preparation of Consolidated Reports of Condition and Income* (“Call Report Instructions”) governing nonaccrual loans. Further, the Board shall immediately reverse or charge off that portion of the remaining accrued interest on such loans that, when combined with principal, is not protected by sound collateral values.

(2) Within ninety (90) days, the Board shall adopt and implement written policies and procedures governing the identification, monitoring, reporting, and analysis for TDRs that conform to GAAP and is consistent with OCC Bulletin 2012-10, “*Supervisory Guidance on Accounting and Reporting Requirements*”.

(3) Within ninety (90) days, the Board shall adopt and implement written policies and procedures governing the supervision and control of nonaccrual loans. Such policies and procedures shall:

- (a) be consistent with the accounting requirements contained in the Call Report Instructions;
- (b) address the circumstances under which accrued interest due on a loan may be added to the outstanding principal amount when the loan is renewed or restructured;
- (c) require the monthly presentation to the Board of all loans meeting any of the nonaccrual criteria; and

(d) incorporate procedures for periodically testing the Bank's identification of and accounting for nonaccrual loans and troubled debt restructurings.

(4) Upon adoption, a copy of the written policies and procedures adopted pursuant to this Article shall be forwarded to the Assistant Deputy Comptroller for review and determination of no supervisory objection. Upon receipt of no supervisory objection from the Assistant Deputy Comptroller, the Board shall implement and thereafter ensure Bank adherence to all policies and procedures developed pursuant to this Article.

ARTICLE VII

CREDIT AND COLLATERAL EXCEPTIONS

(1) Within ninety (90) days the Board shall obtain current and satisfactory credit information on all loans lacking such information, including those listed in the Report of Examination dated as of September 30, 2012 (“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 Bank Examiners.

(2) Within ninety (90) 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 Bank Examiners.

(3) If the Board and management are unable to obtain the credit information or collateral documentation required by paragraphs (1) and (2) of this Article within ninety (90) days, the Board and management shall document their efforts to obtain such information or documentation, and maintain documentation of their efforts in the Bank’s files.

(4) Within seventy-five (75) days, the Board shall implement a formal process for tracking credit and collateral exceptions with reporting to the Board.

ARTICLE VIII

CREDIT RISK IDENTIFICATION

(1) Within ninety (90) days, the Board shall establish and thereafter ensure Bank adherence to an effective and on-going credit risk rating system that assures the timely identification and categorization of problem credits. The system shall use a loan grading system consistent with the guidelines set forth in “Rating Credit Risk” booklet of the *Comptroller’s Handbook* and provide for:

- (a) effective monitoring of early problem loan identification to assure the timely identification and rating of loans based on lending officer submission; and
- (b) timely risk rating downgrades when conditions warrant without compromise or delays based on unfounded reliance on guarantors, payment history, borrower character or potential future events.

ARTICLE IX

INFORMATION TECHNOLOGY

(1) The Board shall immediately take all steps necessary to improve the management of the Bank’s Information Technology (“IT”) activities and correct each deficiency cited in the ROE or any subsequent Report of Examination.

(2) Within ninety (90) days, the Board shall implement effective information security process, as described in the “Information Security” booklet of the *FFIEC Information Technology Examination Handbook*.

(3) Within ninety (90), the Board shall develop, implement, and thereafter ensure the Bank adheres to a risk management program consistent with the guidance described in OCC Bulletin 98-3 Technology Risk Management dated February 4, 1998.

(4) Within ninety (90) days, the Bank shall develop and test a formal business continuity plan which, at a minimum, complies with the requirements set forth in the “Business Continuity Planning” booklet of the *FFIEC Information Technology Examination Handbook*.

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

ARTICLE X

LIQUIDITY MANAGEMENT

(1) Within ninety (90) days the Board shall revise, implement, and thereafter ensure adherence to a comprehensive Bank-specific Contingency Funding Plan consistent with the guidelines set forth in the “Liquidity” booklet, L-L, of the *Comptroller’s Handbook* and OCC Bulletin 2010-12, *Interagency Policy Statement on Funding and Liquidity Risk Management*.

The plan shall, among other things, include:

- (a) a statement of the Board’s strategy for maintaining adequate sources of stable funding given the Bank’s anticipated liquidity and funding needs;
- (b) a definition of a liquidity crisis for the Bank;
- (c) an identification of early warning liquidity triggers;

- (d) an explicit quantification of the sources and uses of liquidity in stressed scenarios that correspond to the early warning liquidity triggers;
 - (e) an assessment of risk related to brokered deposit restrictions, runoff, or rollovers as well as core deposit runoff;
 - (f) detailed action plans to identify and obtain sources of liquidity, including loan portfolio sales, investment portfolio liquidation and other lending, to meet projected shortfalls from existing sources;
 - (g) an identification of responsible Bank personnel to declare, manage, and resolve a liquidity crisis;
 - (h) an internal and external communication process, including a process for reporting to the Board, for disseminating relevant information; and
 - (i) a process of regular testing to ensure that the plan is operationally robust.
- (2) Upon adoption of the revised plan required by paragraph (1) of this Article, a copy of the written plan shall be forwarded to the Assistant Deputy Comptroller for a prior determination of no supervisory objection.

ARTICLE XI

CLOSING

(1) Although the Board has agreed to submit certain plans, 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. The Assistant Deputy Comptroller's decision regarding the request is final and not subject to further review.

(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, including ensuring that the Bank has necessary processes, personnel, and control systems;
- (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) Each citation or referenced guidance included in this Agreement includes any subsequent guidance that replaces, supersedes, amends, or revises the cited law, regulation, or guidance.
- (7) 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/

Benjamin Lemanski
Assistant Deputy Comptroller
Chicago Field Office

6/7/2013

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.

<u>/s/</u> Richard G. Johnson	<u>6-7-13</u> Date
<u>/s/</u> Stephen E. Johnson	<u>06/07/2013</u> Date
<u>/s/</u> Roman M. Jungers II	<u>12 June 13</u> Date
<u>/s/</u> James T. Olsen	<u>6-7-13</u> Date
<u>/s/</u> Archie G. Overby	<u>6-7-13</u> Date
<u>/s/</u> Jeffrey M. Petersen	<u>6-7-13</u> Date
<u>/s/</u> Thomas A. Shambeau	<u>6-7-13</u> Date
<u>/s/</u> Donald H. Sorenson	<u>6-7-13</u> Date
<u>/s/</u> Sylvia C. Thoe	<u>6/15/13</u> Date
<u>/s/</u> Gary L. Thoe	<u>6-7-13</u> Date
<u>/s/</u> Robert J. Wagner	<u>6-14-13</u> Date